The Great Recession and Economic Security: Democratizing the Workplace

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Abstract

This article is an introduction to this symposium. How does a great nation avoid another Great Recession or worse? In today's macroeconomic heated debate, conducted in a hyper political context, the answer is either a pure capitalist system with minimal government or a market system with strong government that intervenes with large programs and regulations of capitalist markets. This introduction sets-up the case for the latter.

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Introduction

"All for ourselves, and nothing for other people, seems, in every age of the world, to have been the vile maxim of the masters of mankind" (Smith 1776, p. 448). Even the father of modern capitalism, Adam Smith, understood the dangers of greed and its potential to destroy peoples lives (Rae, 1895). This is why Smith, and the progressive social policies that he supported, in the *Theory of Moral Sentiments* (1759), and *The Wealth of Nations* (1776), must be understood within the context of his economic theories. In fact, Smith's views may have presaged some of the greatest radical thinkers, such as Marx and Engels (*The German Ideology* 1846), and C. Wright Mills (*The Power Elite*, 1956) when he states, "Wherever there is great property, there is great inequality … civil government, so far as it is instituted for the security of property, is in reality instituted for the defense of the rich against the poor, or of those who have some property against those who have none at all" (Smith, 1776, pp. 770, 775).

Smith's policy solution to the excesses of the market are exactly the same as those of the Progressive Era when he states, "The subject of every state ought to contribute toward the support of the government, as nearly as possible, in proportion to their respective abilities, that is in proportion to the revenue which they respectively enjoy under the protection of the state" (Smith, 1776, p. 892). Smith continues, "It is not very unreasonable that the rich should contribute to the public expense, not only in proportion to their revenue, but something more than in that proportion" (Smith, 1776, p. 991). Smith then argues for a defense of a living wage and a labor theory of value (worker's rights to the profits they create) when he states, "It is but equity … that they who feed, clothe and lodge the whole body of the people, should have such a share of the produce of their own labor as to be themselves tolerable well fed, clothed and lodged" (Smith, 1776, p. 32; Ricardo, 1817).

So then if the father of modern capitalism can argue for social policies to help those "left out" or "marginalized" by market strategies, that Smith himself has originated, then why are progressive policies so *verboten* in today's neoliberal climate? I think the answer is that the ideological apparatus at work in the United States and among the global elite, and the propaganda machine that accompanies this apparatus, cannot afford to vet Adam Smith as a liberal or progressive, or perhaps evan in some cases a radical, since this would undermine the neoliberal strategies that have benefitted those same elites, aka the 1%.

From another perspective, it might be helpful to understand some of the complexities of the current Great Recession in terms of Schumpeter's description of capitalism as "creative-destruction " (Schumpeter, 1942). In fact, Schumpeter agrees with the Marxist notion that the accumulation and annihilation of wealth under capitalism, would eventually lead to capitalisms own self-annihilation (Marx & Engels, 1848; Marx, 1857; 1863). Even capitalisms success in GDP growth according to Schumpeter, would not be able to save it from its own internal dynamism for destruction. So to mitigate the negative outcomes of capitalism, or save the system from its own devices, some argue for the implementation ofvarious economic policies and regulations (Smith, 1776; Marshall, 1890; Keynes, 1936; Samuelson, 1946; Rawls, 1970; Stiglitz, 2012; Krugman 2012). Others would argue the opposite to deregulate the economy in order for the economy to "fix" itself (Hayek, 1960; Friedman, 1962;

Nozick, 1974; Gilder, 1981). For these "free market" conservatives or libertarians there is no perceived injustice or illegality if the free market allows CEOs to eviscerate workers' pensions and award themselves generous bonuses. On the other hand, radicalism calls for a democratic economy in which workers have the right to the surplus value they create.

The point of this symposium is to promote some discussion on rethinking and reformulating ideas from the past, specifically those of radical political economy, as possible solutions to both end and avoid another Great Recession. The intention here is not to demonize the market, but rather to suggest that the market is a rational tool that can be "improved" or "remediated" by taking seriously the social critiques offered through radical analysis. Neoclassical (free market) and Keynesian (free market regulation) economic methods are almost always the models of choice for economic analysis and public policy. But they have proven to be inadequate in securing people form the disasterous effects of capitalist development. Our position is that the radical model is the optimal model since it: (1) makes the market more democratically accountable to the majority rather than to elites; (2) guarantees basic economic and human rights to all people; (3) provides an economic remedy to unbidled capitalism and the regulated market absent any guarantees of economic security in the form of living wage work; (4) provides democratic accountabilty to the general public as a "safety net;" (5) provides economic utility at a subsistence level; and (6) fosters socially just enterprise as a rational business model and as such, is a benefit to society (Wolff, 2012; Brown, 2006).

We fully anticipate the neoclassical objections to this position, such as, a democratic economy supported by radical theory will require ever expanding federal government programs for them to exist. We anticipate questions dealing with the redistributionist state that demands an ever-expanding bureaucracy with increasing budgets. Or a serious discussion on why the wealth of some pays for others' economic rights? To these very legitimate questions we have no disagreement with what is implied in these questions. In fact, we would argue that during the second half of the twentieth century, the focus of liberalism changed. Liberals stopped regarding "bigness" in government as a potential impediment to local and individual self rule, and then they went ahead and made their peace with concentrated economic power. The irony here is that neoclassicals have no problem at all with concentrated economic powere and its manifestation in the military industrial complex.

FDR's New Deal and LBJ's Great Society programs were intended as "safety nets" and efforts at "equal opportunity." But neither of these programs sought to include using government to rein in the political influence of big banks and corporations, save for the Glass-Steagall Act. However, that was legislated away. What is needed, to which the Obama administration failed to do, was break up the megaconglomerate financial institutions and corporations that dominate modern economic life … it is a mistake for contemporary liberals (who continue to make their peace with big government and big business) to give up on the old progressive projects of exerting democratic control over economic institutions. One major step in this direction would be to revive the Glass-Steagall Act, reform campaign spending laws, end banking monopolies and conglomorates in the United States by providing greater legislation as in constitutional amendments in these three crucial areas of economic security. This would include serious revision to, or complete abolition of, the Federal Reserve Act of 1913, and formulated by the banking industry itself under the direction of, nonother than, J. P. Morgan.

Krugman the Keynesian

Keynesian economist Paul Krugman has gone on record stating that because of the current economic crisis, mainstream economics (neoclassical and Keynesian schools of thought) has been forced to seriously address the left-wing or radical solutions to the negative externalities of capitalism. He seems to be surprised at where his analysis has led him, when he states, "Aren't we really back to talking about capital versus labor? Isn't that an old-fashioned, almost Marxist sort of discussion, out of date in our modern information economy? Well, that's what many people thought; for the past generation discussions of inequality [within orthodox economics] have focused overwhelmingly not on capital versus labor but on distributional issues between workers … But that may be yesterday's story" (Krugman). And in a related blog entry entitled "Human Versus Physical Capital," Krugman writes, "If you want to understand what's happening to income distribution in the twenty-first century economy, you need to stop talking so much about skills, and start talking much more about profits and who owns the capital. Mea culpa: I myself didn't grasp this until recently. But it's really crucial" (Krugman, December 11, 2012). Thus Krugman admits that he has been forced to reexamine past debates dealing with the logical inconsistencies within capitalist formation: (1) the conflict between labor and capital; and (2) the growth of monopoly power within corporations. But Krugman is not completely convinced that these two causes are the reasons why the U.S. economy is still "deeply depressed" while at the same time "corporate profits are at a record high" (Krugman, 2012).

Krugman is not sold on the idea that these two inherent contradictions within capitalism itself can not be rectified through public policy.

Krugman is most concerned, however, with the dramatic drop in the labor share of GDP. While he attributes some of this drop to a labor-saving innovations in technology, which he refers to somewhat metaphorically as the rise of "robots," Krugman cannot help but return to the labor-capital, monopoly problem as the underlying issue for the drop labor's share of GDP. He states, "I think it's fair to say that the shift of income from labor to capital has not yet made it into our national discourse. Yet that shift is happening – and it has major implications" (Krugman, December 9, 2012). Krugman continues, "If income inequality continues to soar," he writes, we are looking at a "class-warfare future" (Krugman, December 27, 2012).

The other factor to which Krugman attempts an explanation for the Great Recession is the growth of monopoly power in *End This Depression Now* (2012). Following on this theme in "Robots and Robber Barons," Krugman writes, "increasing business concentration could be an important factor in stagnating demand for labor, as corporations use their growing monopoly power to raise prices without passing the gains on to employees" (December 9, 2012). Of course the monopoly thesis is all too familiar to Marxian economists and it appears that Krugman may have been influenced by the "radical" critiques of Michael Kalecki's *Selected Essays* (1971), or from other radical thinkers who identify monopoly power as the single largest factor causing the Great Recession, such as Barry Lynn in *Cornered* (2012), Foster and McChesney's *The Endless Crisis* (2012), who were in turn influenced by Marx's thesis on monopoly found in the

Comminist Manifesto (1848), *Grundrisse* (1857), and *Capital* (1863).

Yet Krugman is not alone among mainstream economists in turning suddenly to growing inequality and monopoly power. Joseph Stiglitz, in *The Price of Inequality* (2012), presents similar arguments to Krugman's. As Stiglitz makes clear, the problem is that in the current economic crisis "the share of wages" in the economy "has actually fallen, while many firms are making good profits" (p. 29). Stiglitz devotes an entire chapter of his book to the "increased monopoly power in the United States" (p. 33), which has been the result, in his view, of neoliberal policies and anti-regulatory environments. Stiglitz argues that this creates a "negative-sum game" (p. 45), whereby the giant corporations gain, while the economy as a whole loses. All of this is consistent with the paradox of rapidly rising profits, stagnant real wages, and persistent unemployment. Thus the "price of inequality."

Of course mainstream economists are far from understanding these problems in their full historical context, specifically how monopoly power is endemic to capitalist development. For Stiglitz, in *The Price of Inequality*, the issue is simply one of the revival of effective antitrust laws, government regulation of the economy, and progressive income tax. However, structural problems such as increasing class inequality and monopoly power as inherent tendencies within the capitalist system itself are understood simply as negative externalities. As such, externalities for liberals are able to "fixed" through public policy. Yet, there seems to be no real insight by Keynesians such as Krugman (2012), Thurow (1984), and Stiglitz (2012), and neoclassical economists like Hayek, 1960), Friedman (1962), and Gilder (1980), that the conflict between labor and capital, which extends to the class bias of the capitalist state, is itself the very structure that promotes these contradictions and eventual economic hardships on people (Mills, 1956; 1958; Miliband, 1969; Domhoff, 1970; 1990; Ostrom, 1990; 2010).

This symposium on "The Great Recession and Economic Security" in *Global Virtue Ethics Review* is a response to the recent economic collapse of the United States and world markets. While signs of a recovery are slowly starting to emerge, the pressing concern is that the marginal recovery will not be enough and a repeat of the same economic disaster could happen again, that is, if nothing is learned from the Great Recession. Nevertheless, the effects of this disaster have been real: reduced income, unemployment, home foreclosures, bankruptcies, evictions, lost pensions, 401Ks depleted, educational debt, bankruptcy, family and marital stress, reports of increased hunger and homelessness, etc. Most Americans hurt by this disaster have "played by the rules" only to be devastated financially by what economists identify as the cause of this Great Recession: the abolition of the Glass-Steagell Act (1933). All of this has reinforced the class analysis in which the rich have become richer, the poor poorer, and the financial status of the middle class stagnant for the past thirty years. Suffice it to say, this trend has had a detrimental impact along the lines of ethnicity, race, gender, and of course, social class (Taylor, Kochhar, Fry, Velasco, & Motel, 2011; Taylor, Fry, Cohn, Livingston, Kochhar, Motel, & Patten, 2011; U.S. Census Bureau, 2010; Bane, 2006; Karoly, 1996; Hibbs & Dennis, 1988).

Generally, the neoclassical and Keynesian discussion of social welfare and welfare economics has been framed today in terms of Pareto efficiency in which the measure of social welfare is based on a situation that is optimal only if no individuals can be made better off without making someone else worse off. A policy outcome is therefore optimal or more efficient if at least one person is made better off and no one is made worse off (Pareto, 1897). The methodology attempts to provide a "rational" model, insulating the model from grounding its policies in subjective moral values. Nevertheless, the two tests for optimal or efficient economic policies – Pareto optimality - seek to discover what would happen if the "winners" were to compensate the "losers." The first is the "Kaldor criterion," which seeks to find the maximum economic point at which the "gainers" are prepared to pay is greater than the minimum amount the "losers" of a particular policy are prepared to accept (Kaldor, 1939). Under the "Hicks criterion," an activity will contribute to Pareto optimality if the maximum amount the "losers" are prepared to offer to the "gainers" in order to prevent the change in policy is less than the minimum amount the gainers are prepared to accept as an incentive or "bribe" to forgo the change (Hicks, 1939). The Hicks compensation test is from the loser's point of view, while the Kaldor compensation test is from the gainers' point of view. If both conditions are satisfied, both gainers and losers will agree that the proposed activity will move the economy toward Pareto optimality. This is referred to as the Kaldor-Hicks efficiency or the Scitovsky criterion (Scitovsky, 1941).

There are numerous approaches to Pareto optimal policies besides Kaldor-Hicks, such as those of Nash and Atkinson (Nash, 1951; Atkinson, 1975). But some theorists argue that rational approaches to social welfare policy ultimately arrive at value judgments according to Arrow (1950, 1951), Kotaro (1980), and Sen (1963, 1982). Moreover, each Pareto optimum corresponds to a different income distribution in the economy. Some may involve great inequalities of income, specifically if it is in a “developing” region of the world. Even under Pareto methods, the policy decision is made, either tacitly or overtly, based on some moral criteria. A utilitarian welfare function, from another vantage point, or a Benthamite pleasure-pain hedonistic calculus or cost-benefit analysis, sums up the utility of each individual in order to obtain society’s overall welfare (Bentham, 1789). Under Bentham’s rules, all people are treated the same, regardless of their initial level of utility. This means that one extra unit of utility for a starving person is not perceived to be of any greater value than an extra unit of utility for a billionaire. Thus the cost and benefit of a given policy is evaluated based on a moral standard that is based on legislation, tradition, or custom. Even the Rawlsian utility function (1970) which counters Pareto optimality, argues on the basis of utility that welfare should be maximized for those members of society that have the least, is greatest. For Rawls the right to social welfare is based on utility since it attempts to improve the position of the society member that is the worst off, all in an effort to provide justice, understood as fairness and social cohesion. Underlying this theory is a set of values which presuppose moral norms.

But has rationality and utility really benefitted our society as a tool for social policy? Shouldn’t society pay more careful attention to the underlying values that the “rationalists” and “utilitarians” operate under? Why not consider the moral norms underlying radical theory and policy?

If Paretian welfare economics, and liberal utilitarian methods, rest on the assumed value judgment that, if a particular change in the economy leaves at least one individual better off and no individual worse off, a type of moral value has been prioritized since social welfare may be said to have increased. Some, such as economists in the tradition of the Austrian and Chicago Schools, also attempt rational methods and seriously doubt whether a “moral” utility function, or social welfare function, is of value. Their reasoning is that it is difficult to aggregate the utilities of various people that have differing standards of the marginal utility of money, such as the wealthy and the poor. Also, the economists of the Austrian School even question the relevance of Pareto optimal allocation measures considering situations where the framework of means and ends is not perfectly known. Neoclassical theory, on the other hand, always assumes that the ends-means framework is perfectly defined (Hayek, 1960). The same holds true for the libertarian argument, based on Nozick’s liberal entitlement position (1974), in which no transfer of wealth can be justified. Yet value assumptions, implicit or explicit in the social welfare function, tend to make welfare economics and social welfare policy a normative and admittedly subjective field (Myrdal, 1984; Klappholz, 1984; Etzione, 1988; Taylor, 1992; 1996; Sandel, 1998; Heying, 1999).

Nonetheless, the social welfare function and its underlying philosophical and ethical foundation, reveals the relative importance of individuals’ choices that comprise a given society. Consequently, liberal and utilitarian approaches to economics and social welfare are questioned, and thus identified as one of the underlying problems with the modern United States economy and its structural foundation (Reid, 2001; Wells, 1996). *It is more than simply a lack of economic regulation, such as the abolition of the Glass-Steagell Act, at the center of this economic collapse. The problem is an exclusive dependence on rationality and utility as the criteria for the operation of markets*. This symposium questions the need for structural economic change and that, perhaps, past remedies might prove to be helpful in a discourse on the importance of our collective economic lives, and a structural change that would transform the economy into a more democratic one, where workers (both industrial and intellectual) are co-owners and stake holders as self-determining autonomous persons that best represent the aspirations of a democratic society.

In this symposium the work of Edward Martin, Colleen Zenger, Matthew Pimentel, Ariana Martin and Jeffrey Martin will examine, arguably, some of the major causes and effects of the current Great Recession. They will attempt this by examining some of the political economy issues that have already been vetted historically by such thinkers and activists as Robert Owen, David Ricardo, and Karl Marx. These “radical” theorists are reinterpreted in light of modern scholarship. Proposed policy strategies based on radical social analysis - which intends to provide some constructive criticism of a market system that limits itself by relying only on neoclassical and Keynesian theories – will be assessed and given major emphasis in this symposium.

The first contribution by Edward Martin and Jeffrey Martin, “Fabianism, Syndicalism, and the Guild Movement: Economic Democracy and Labor Rights,” examines utopian critiques of capitalism and the need for unionism and the democratic control of economic production and distribution of profits. Next, Edward Martin, Ariana Martin, and Jeffrey Martin, in “Social Reform and Worker Cooperatives: Countering Economic Inequality,” examine one of the first radical thinkers to address the situation of exploited labor, Robert Owen. They point out that Owen argued that workers should have a larger share of the profits they create and therefore control of the means of production through cooperatives, social reform, and a democratic economy. In the third article, "Viewing the Great Recession through Radical Economics: Social Class, Inequality, and the Social Safety Net," Edward Martin and Matthew Pimentel analyze the current economic decline in the United States based on Marxist social analysis and the economic utility provided to the economy through social welfare programs. The forth article, "Social Analysis, Social Justice, and the Welfare State: Post Great Recession Social Welfare Policy," Martin and Pimentel use the political economy critiques offered by Ricardo and Marx to analyze the nature of exploitation and the need for social welfare policy based on radical models. In the fifth article, "Progressive Social Theory and Government Growth: The Labor Theory of Value and Property," Edward Martin and Ariana Martin assess government growth through Marxist class analysis and argue for a Marxian labor theory of value and a Lockean labor theory of property. These two apparently diverse positions ground the ownership of surplus value created by workers, whether fabricated products or the physical labor of persons, in the actual act of creating or laboring. Since capital can do nothing unless it is manipulated by labor, and land can yield nothing unless labored upon and cultivated, both Marx and Locke argue that the surplus value of the outcomes of these tasks, is the rightful property of these laborers. Finally Colleen Zenger and Edward Martin in "Libertarianism and the Realities of Governance," discuss the problems with libertarian assumptions in that government policies undermine economic growth and the "free market." The counter position to this, argued by the authors, is that libertarian ideologues ignore the concept of "market failures" in microeconomic theory. Consequently if market failures were better understood, the need for public goods in modern democratic society would make rational sense as an important component in insulating the market from the asymmetrical externalities that negatively impact the lives of people.

Finally, this symposium will demonstrate that economic democracy, based on the philosophical foundations of Peffer's "Radical Rawlsianism," best maintains the integrity of the common good by promoting the principles of subsidiarity, solidarity, and universal human rights on a global dimension. The optimal social, political, and economic priorities of a body politic must have law and polic directed by justice, which in turn must be directed by fundamental human rights, specifically the right to economic self-determination within a democratic structure. The goal here is the prevention of deepening class division which ultimately leads to economic ruin for people and the economy itself.

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