Editor’s Note

It has been my pleasure to be able to publish the Volume XIII of Oeconomicus for the 2013 academic year. As the journal continues in its second decade of publication, a high standard of quality and a commitment to plurality of ideas has been set up over the years by the contributors and editors of previous volumes. Here’s hoping that the ideas and opinions contained in the papers in the current volume are as varied, insightful and stimulating as expected of Oeconomicus.

Maintaining such a high standard required a ruthlessly competitive process of selection of manuscripts. Owing to this, several quality papers had to be left out. However, even though not all submissions could be published, I thank all the authors who sent their manuscripts for this volume.

Without the help of a group of anonymous reviewers I would have had a very hard time selecting the best contributions. In particular, I am grateful to Avi Baranes, Mitch Green, Kalpana Khanal, Payam Sharifi, and George Bateman for their extensive comments, sharp judgment and excellent reviews. I also thank Dr. Ben Young for his advice and guidance throughout the whole process.

The output of this voluntary and collective enterprise is here for you to enjoy.

Sudeep Regmi

Editor
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Endogenous Growth and Technological Change within a Capitalist Economy: Applying Cumulative Causation to Circular Production

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The foundation for theories of circular and cumulative causation can be traced back to Smith (1776) where he writes “As the accumulation of stock must, in the nature of things, be previous to the division of labour, so labour can be more and more subdivided in proportion as stock is previously more and more accumulated.” (pp. 228). This means that economic growth (the accumulation of stock) and technological advances (the division of labor) are both endogenous, concurrent processes; in order for one to occur, the other must precede it. This further implies that economic processes can, and must, be thought of as circular and continuous with change and growth being endogenous to the system. The purpose of this paper is to show that under the framework of cumulative causation, the production process must be thought of as surplus producing and circular in which class and social structure plays an important role in determining growth rates.

The first section of this paper examines the economy as a going concern from the framework of circular and cumulative causation. Input-output models of production are especially useful here in that they show the circular process that exists in a surplus-producing economy as well as how prices and distribution are simultaneously determined. This also allows us to identify the underlying growth rate. The second section examines the role of technological growth within the production process and identifies the impact this has on the notion of scarcity. This section also shows that when path dependency is possible, general equilibrium as an economic theory is flawed. This leads into section three, which examines the role the vested interests play in creating and maintaining these paths. Specifically, we examine the social structures that underlie the production process and how access to the means of production is controlled. Overall, by looking at production in a circular and cumulative framework, we show that the neoclassical notion of equilibrium and self-correcting markets is inherently flawed.

Cumulative Causation within a Circular Production Process

In the framework of cumulative causation, “The operation of markets is conceived as a continuous process in which economic forces interact upon one another in a cumulative way, thus making for changes in one direction to induce supporting changes which push the system further away from its initial position.” (Ricoy 1987, pp. 730-731) In essence, circular and cumulative causation (CCC) is characterized by endogenous growth and technical change, positive feedbacks, historical time, and structural change. The notion of endogeneity has important implications for the production process. First, it means that the rate of growth is determined within the production process. This implies that production occurs in a circular manner. Second, because technological change is also endogenous, it must be a byproduct of the production process and therefore, socially embedded.

CCC considers the economy to be a going concern, by which it is meant that the economy reproduces itself in a continuous manner. The amount of output that is produced must always be enough to both provide sustenance for the community and reproduce the production process. In terms of growth, this means “the ability for a particular industry to expand is partially dependent on its own past success.” (Argyrous & Bamberry 2009, pp. 69) In other words, industry growth is endogenous. This also implies that the ability for the economy to reproduce itself and grow must also be endogenous. This is a very important point; if we want to understand the production process, we must understand it in a way that allows for growth to be determined within the system of production. This automatically excludes neoclassical linear production methods from being used to understand the economy as a circular and cumulative process. In a simplified view, the process of production in neoclassical economics is simply another part of exchange; inputs simply exist in their final forms and are traded based off of relative factor prices determined by their marginal products
and relative scarcity (Bortis 1990). In this manner, labor and capital combine to produce outputs. Growth comes from new technologies and is exogenous to the system (Solow 1956). Contrary to neoclassical economics in which the structure of production and distribution is designed to explain the sphere of exchange, CCC requires the model to describe the industrial and socio-technical relationships and the conditions required for the system to reproduce itself (Forstater & Murray 2009).

Therefore, the production process in a CCC framework must be circular. By this, it is meant that goods used in the production process are themselves produced (Bortis 1990). In this way, output produced in one period affects the output that is produced in subsequent periods. This is shown through the use of input-output models of production. According to Leontief (1985, pp. 19), “Input-output analysis is a method of systematically quantifying the mutual interrelationships among the various sectors of a complex economic system.” Within these models, everything is interrelated; in a simple two-product model, the production of goods A and B requires the use of goods A and B. The purpose of such a model is to “describe the flow of goods and services between all the individual sectors of a national economy over a standard period of time.” (ibid., pp. 19-20) In a surplus producing economy, the input-output table shows the makeup of the resources, goods, and other intermediate inputs that are used combined with labor skills to produce a certain amount of resources, goods, and inputs to be used in production. The amount of output in this model exceeds the amount of inputs, while the labor power used exceeds the amount of output. This last part is due to the fact that it requires multiple labor skills to produce one unit of output. The greater the division of labor, the more skills needed to produce one unit. This will be revisited further on in the analysis.

Picture the following simple corn model in which corn and iron are used to produce corn and iron:

\[ 10c + 5i \rightarrow 10c + 15i \]

\[ 10c + 10i \rightarrow 25c \]

In this model, c refers to the physical quantity of corn, i refers to the physical quantity of iron, and r is the rate of profit. It takes a total of 25 corn and 15 iron to produce 40 corn and 25 iron. The surplus output, therefore, is 15 corn and 10 iron.

How this surplus is distributed has important implications in determining the relative prices and the rate of profit. In the above simple model that only includes base goods (produced goods that are used in the production process of each output), relative prices are determined within the sphere of production and are dependent upon the distribution of the surplus; “Whenever the distribution of the surplus product changes between industries, the price ratios will also change.” (Lichtenstein 1983, pp. 101). At the same time, the distribution of the surplus is dependent upon relative prices. This means that prices and distribution are determined simultaneously.

While the above discussion views the surplus as the base for profit, the surplus is also the base for the rate of growth in the economy (Torrens 1821). “[T]his surplus, or profit... might employ either in setting additional laborers to work, or in purchasing luxuries for immediate enjoyment.” (ibid. pp. 373) In other words, if the entire surplus was used for expansion through the employment of more workers, then the expansion rate for the different sectors in the economy will be equal to the profit rate (Kurz & Salvatori 1997). Growth, therefore, is endogenous to the system and is dependent on the previous production period; it depends on what amount of the surplus product was put back into the production process, and the amount of surplus available in the present period depends on the amount that was purposed towards production in the previous period.

Furthermore, in a circular production method, changes in the scheme of production have important impacts on future production. New technologies and new organizing methods impact how and what output is produced and in what quantities. There are two questions we must now ask ourselves: who determines how production is organized, and what is the effect of new technologies on the production process? The following sections deal with these issues.

**Technological Change and the Lack of Scarcity**

Technology plays two important roles in the production process. First, the discovery of new technologies increases the productivity of the current methods of production. Second, and more important, new technologies can alter the inputs used in the scheme of production. This has an important effect, as it essentially means inputs are created. For example, coal and oil were not considered useful resources until the technology to refine them was developed and their use replaced the use of other forms of energy. Within a cumulative causation framework, this technological development is considered to be endogenous. Indeed, the process can be seen as “demand – production – research & development” (Ricoy 1987, pp. 232), where the R&D step is designed to improve and generate new technologies.

This leads us to the question: what is technology and how does it influence the production process? Technology is, simply put, the stock of the community's knowledge...
(Veblen 1908). It is, according to Ayers (1953), an aspect of human behavior. "Technology is doing – a mode of doing, perhaps, but one that runs through the whole gamut of human activities." (pp. 282) In other words, technology cannot be thought of as separate from society. In fact, it is better to say that technology is a fundamental part of human life; as individuals interact with their environment and with each other, they learn and share this knowledge with each other. As this communal knowledge grows, we learn how to use various resources, thus making them useful to us. In this way, resources do not simply exist in their final form. They are socially constructed when society learns how to use them. This means that resources are not fixed; they vary with the total amount of human knowledge. Essentially, one can argue that this knowledge is the only real resource; all others are defined by it (De Gregori 1987). This has important implications on the production process, as it means resources are not actually scarce, as scarcity implies there is a fixed limit to the availability of a resource. Furthermore, it means that the production process and anything else that uses technology cannot be thought of as separate from society as a whole, including the economy. Because resources are socially constructed through society’s knowledge of how to use them, they are only limited by the technology available (Alperovitz & Daly 2008). Once technology advances, it may be possible to produce more with less, new resources may be created that make previous resources obsolete, or new production methods become possible that leads to a combination of the two.

Viewing technology in this manner leads to two important points. First, technology is endogenous to the system. Additions to the community’s stock of knowledge are dependent upon the stock that currently exists. In other words, the knowledge that exists at any point in time is dependent on the knowledge that precedes it; understanding calculus, for example, requires an understanding of basic mathematics. This leads to the cumulative process described by Smith (1776); as production and accumulation of the surplus occurs, new knowledge is developed, which creates technological advances and increases productivity, further increasing the surplus. These technological advances are aimed at increasing productivity with regards to a specific output. In this way, “regimes of accumulation often have norms and mores that become locked-in, even when industrial change is required.” (O’Hara 2009, pp. 92) Therefore, the cumulative process behind growth and technological advances can become impeded if the advances are focused on maintaining a certain set of relationships rather than improving efficiency. This will be explored further in the next section.

Secondly, neoclassical notions of equilibrium economics and scarcity are severely flawed. As stated above, endogenous technological advances mean resources are not scarce. Therefore, prices cannot be used as a measure of relative scarcity and must be determined in other ways. Furthermore, the fact that technological growth is endogenous and path-like means that history matters at a fundamental level. “Small events in the past... may have large and disproportionate effects on later developments.” (McCombie & Roberts 2009, pp. 16) It therefore becomes impossible to think about the economy as having an equilibrium point. The existence of paths means “the actual state of the economy cannot be predicted except as a result of the sequence of events in the previous periods which led up to it.” (Kaldor 1972, pp. 1244) General equilibrium theory is therefore flawed due to the fact that continuous endogenous changes and endogenous growth, which are a function of past changes, means the system does not settle. As different sectors expand, they begin to generate demand for each other, which causes those sectors to expand further through technical improvements.

Because technology is the sum of the communal stock of knowledge, and because the current stock of knowledge is based upon the previous stock, improvements in technology are endogenous to the system. Furthermore, because these improvements change the way in which resources are used, it is incorrect to say that resources are scarce. Finally, endogenous changes mean the notion of general equilibrium is flawed, as the system is constantly in a state of flux as new technologies and production methods are uncovered. It is important, however, to recognize that even if resources are not scarce, there exist unmet needs. This is a problem of distribution of the surplus. To understand how distribution is determined, it is necessary to understand the underlying social relationships that exist within the production process. This is the purpose of the next section.

Social Relationships Underlying the Production Process

Underlying the production process in a capitalist system is a set of social relationships. For example, it requires at least two different types of labor skills to produce commodities: an employer and an employee. On a larger level, the system of production can be split into a capitalist class and a working class. The capitalist class receives part of the surplus as profit due to the fact that they are the owners of the means of production while the workers receive wages. Understanding the role the capitalist class plays within the
production process is vital in understanding why paths exist and why there are issues with regards to distribution despite a lack of scarcity.

The previous section discussed the role of path-dependent systems within the development of technology. However, we did not discuss why these paths are maintained. The reason inefficient technology and organizing structures are used in advanced economies (ones in which better technology exists) is due to the fact that they benefit the vested interests in some manner. Veblen (1923) showed that the modern enterprise is divided between those who own the means of the production and those who control it. Production is undertaken with an eye towards the greatest return to the owners. In the circular production model, this means maximizing rate of profit (r in the above model). With this being the goal, it is a possibility that the scheme that produces the most profit does not provide for full employment. As long as this scheme is profitable to the capitalists, there is no reason for it to change outside of a workers’ revolt. Consider the following cumulative process: production → profit → production as owners attempt to maximize their profits. It may be that the state of the economy is such that it is more profitable for the following to occur: less production → profit → less production. In this framework, more of the surplus is kept as profit than goes back into production, thus creating unemployment.

This is important for several reasons. First, it shows that the ability for the system to reproduce itself lies with the will of the vested interests. If those who own the means of production decide, for one reason or another, to alter the scheme of production, the system may not reproduce itself. Therefore, the owners control access to the provisioning process through their ownership of the resources and investment goods needed for production. The means of production, however, are socially created through improvements in technology. Recall that technology is itself a result of the common stock of knowledge, and what we end up with is a system in which the capitalist class controls the ability for society to use its own technology (McCormick 2002). It may be that the technology can be used in different ways to increase output, but if this goes against the will of the owner, it will not happen.

This leads to the second point: the vested interests are the ones in charge of creating and maintaining paths in technological growth. If production is allowed to occur because it is profitable for the owners, the use of new technological innovations also largely depends on what is profitable for the vested interests. It is unlikely an enterprise will alter its use of the produced means of production if such a change will be extremely costly or will not bring profits, even if it would be more efficient. Therefore, it is expected that research and development will be taken with an aim to improve the existing technology as a way to increase profit for the capitalists. The existence of paths can be thought of as the normal workings of the capitalist system, for better or for worse. It is possible to switch paths, but this is left in the hands of the capitalists.

Understanding the production process requires an understanding of the social relationships that underlie it. This section has focused on examining how the separation between the owners and controllers of the means of production leads to a system in which society is not free to use the technology that it developed. These social structures do not exist in nature; they are created by society. There is no reason that the capitalist structure should be the only one. However, if those in charge of the creation of the system have a vested interest in maintaining the capitalist system, then it will endure. This can be seen in a way in which profit → reason to reproduce system → profit. Neoclassical economics ignores these relationships, choosing instead to focus on the individual agent in the sphere of exchange. For this reason, it cannot accurately explain the structures and institutions that exist in every aspect of daily life, nor why the present way of doing things should continue.

Conclusion

The purpose of this paper was to understand the social provisioning process from the framework of cumulative causation. In other words, we showed how endogenous growth and endogenous technological change require production to be circular. This is because such a process takes place through historical time, includes the issue of positive feedbacks, and the potential for structural change. In neoclassical linear production models, time is absent. Furthermore, they do not include any underlying structures to the production process that would generate endogenous growth. Instead, we showed that by viewing production as a circular, surplus producing process, endogenous growth becomes possible. This is due to the fact that the distribution of the surplus can either be kept as profit for the capitalist or put back into the production process to generate a larger surplus in the next period.

We have also shown that endogenous technological improvements occur as society’s stock of knowledge increases over time. This is due to the fact that individuals learn through their interactions within the production process, thus creating new, more productive methods. Furthermore, this technological change further increases eco-
nomic growth, and as the economy grows, the environment with which people interact has changed, leading to an increase in knowledge. In this way, it is impossible to attempt to disembend the economy from society, as doing so removes all possibilities of growth and technology. Furthermore, because resources are socially constructed and limited only by the technology of the time, scarcity is not an issue.

Finally, we examined the underlying social structures that exist within a capitalist system and within circular production processes. The possibility for economic growth and technological change comes down to whether or not they are profitable for the owners of the means of production. If it turns out that it is better for the capitalists to produce less or to use less efficient technology than is available, they will do so. This explains how paths get created and maintained; it is not necessarily randomness, but rather the conscious efforts of vested interests to maintain a certain level of profit that prevents the switching to more efficient technology.

None of what has been described above fits within the neoclassical framework. As Young (1928) says, “The counter forces which are continually defeating the forces which make for economic equilibrium are more pervasive and more deeply rooted in the constitution of the economic system than we commonly realize.” (pp. 533) Truly understanding the economic system requires an understanding of social relationships, endogenous growth and technological change, and a rejection of general equilibrium models. By understanding production as a surplus-producing circular process, the economy can be represented as a cumulative process in which changes induce positive feedbacks based on underlying social structures.

References


What the Mexican Revolution Can Teach Us About Economic Development

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Introduction

There are two views on obstacles to development. On the one hand, there are economists who think that developing countries are constrained by their lack of capital and income for development. On the other hand, there is an alternative view which holds that developing countries are constrained in their ability to effectively mobilize their resources. The latter was the view of economic development which Adam Smith, Schumpeter, and Alfred Chandler expressed. Also, many early pioneers of economic development subscribed to the latter, internal “desde dentro” approach. These economists believed that developing countries were constrained in their ability to generate sufficient internal incomes to support effective demand for the full utilization of resources. They were also skeptical that developing countries required foreign investment to grow. Recently neoliberal movements have called for policies that make developing countries more attractive to foreign investment.

I will place this debate within the historical context of the period prior to and during the Mexican revolution. I will show that the party of Porfirio Diaz promoted policies for foreign investment at the expense of most popular resources. These intellectuals, called the “cientificos” believed that Mexico could not develop using its own resources and rather needed foreign capital to develop. The extreme misery this process brought to Mexico caused a popular response which culminated in the Mexican revolution. One of the main leaders of the revolution, Emiliano Zapata asserted that the problem was not the lack of wealth but rather its poor distribution and lack of full utilization. He was sceptical that foreign capital was necessary for development. Zapata envisioned an active state that provided a job to those who lacked one, encouraged the establishment of centers of production, and gave everyone the free right to exploit the land. The Mexican revolution and its leaders can provide some useful insights for development economists.

Two Views on Obstacles to Development

There are two alternative views on the optimal path for the economic development of developing countries. On the one hand there is the view that developing countries lack the income, capital, and financial resources for economic development. Therefore, the key to the successful development of developing countries is the ability to attract capital from developed countries. This view was consolidated in the policy recommendations of the Washington consensus. On the other hand there is the view that the main limitation facing developing countries is their inability to effectively mobilize national resources for their effective utilization (Kregel 2009). According to this alternative perspective, the problem is not lack of resources but rather the ineffective use of resources. Throughout this paper, we will use the term “desde dentro” or inside growth to refer to the later view.

Kregel (2004) explains that the inside growth view was in fact the one which Adam Smith described in his masterpiece The Wealth of Nations. Smith’s book refers to the period before the Industrial Revolution and yet many scholars erroneously insist that what lead to the industrial was a rapid increase in the rate of fixed capital accumulation. Adam Smith pointed out technical progress as the key to the success of the Industrial Revolution rather than the accumulation of fixed capital equipment. It is interesting to note that Smith made little reference to lack of resources as an impediment to development. Smith rather concentrated his attention on the division of labor which represents new methods of organizing production. When Adam Smith defended the free market, he was really defending the ability of society to introduce new methods of production without the interference of the guilds or the royal crown.

According to Schumpeter (1960), it is not the lack of capitalist’s accumulated savings that posed an impediment to innovation, because banks allow entrepreneurs to command resources for creative destruction through the creation of credit. Chandler’s classic Scale and Scope describes the
process of economic development in terms of improved managerial organization in the operation of the railways. This improvement was later extended to the structure of corporate organizations and allowed these organizations to gain first mover advantages. Kregel (2004) points out that Chandler does not consider the development of financial institutions and the accumulation of capital to be a necessary condition for the process of economic development.

The “desde dentro” perspective of economic development is congruent with that of the early pioneers of economic development that asserted that the main obstacle to the economic development of developing countries lies in the inability to effectively utilize and mobilize existing resources. As Kregel (2009) points out, Gunnar Myrdal, Paul Rosenstein-Rodan, Ragnar Nurkse, and W. Arthur Lewis all underlined the presence of underutilized or unemployed resources under the term “disguised unemployment.” They asserted that the mobilization of national resources would create the accumulation of capital necessary for the transfer of resources from the agricultural to the industrial sector where resources would obtain higher returns. Thus the difficulty was not the deficient supply of resources but rather generating the demand necessary to support this transfer and generation of additional resources.

This view was countered by Myrdal, Prebisch and Singer who underscored the difficulties of this previously mentioned approach because the terms of trade tend to be unfavorable to developing countries. According to this countering view, relying on the export of agricultural goods would deprive developing countries from technological gains. This would prevent developing countries from generating increases in real incomes that could support increased domestic demand for the industrial goods produced domestically. The common characteristic of both approaches is that both understood that the main problem of developing countries was the lack of sufficient demand caused by insufficient domestic incomes, rather than insufficient incomes due to low incomes on the supply side.

Hirschman and Singer also insisted that the problem was not scarcity of factors of production but rather the lack of wealth-producing capacity. Similarly to Adam Smith, Hirschman explained that the main obstacle to economic development is the inability to implement new methods of organization that would favor technical progress. According to Hirschman there may be obstacles emerging from the way the society is organized that may resist change. Thus the difficulty lies in getting over obstacles to the reorganization of productive forces or what Schumpeter termed creative destruction.

“If backwardness is due to insufficient number and speed of development decisions and to inadequate performance of developmental tasks, then the fundamental problems of development consist in generating and energizing human action in a certain direction. This finding is at variance with much of the existing literature on development, which has largely concentrated on identifying various obstacles to economic progress (including) ... lack of saving” (Hirschman 1958 as quoted in Kregel 2004).

Similarly, Singer asserted that the problem is not insufficient wealth, but rather the deficient ability of developing countries to produce wealth.

Kregel (2009) points out that the theorists that focused on internal resources for the creation of wealth also asserted that it was not necessary to rely on external funds for economic development. According to Nurkse, “it seems unlikely that direct investment alone can become anything like an adequate source of international finance for economic development” (1954, 754). This position is similar to that taken by Prebisch in his Economic Commission for Latin American (ECLA) report and in his Secretary General’s Report to the first UNCTAD conference.

According to Kregel (2008) the breakdown of the Bretton Woods system caused problems to the domestic development strategy mainly because of the increased globalization of financial flows. External borrowing led to a debt crisis, hyperinflation, and the “lost decade” of the 1980s. The Brady Plan called for the implementation of policies that would make Latin American countries attractive to foreign capital flows to allow for the repayment of debt balances. These policies were set in the Washington consensus and detailed by Williamson (1989) as the solution for developing countries. Neoliberal policies were being implemented in Latin America before the Washington consensus was formalized. In Mexico, neoliberal policies were implemented by Carlos Salinas in the late 1980s and early 1990s including the reprivatization of public enterprises and the call for an increase in the role of foreign investment. In Argentina the Consejo Economico Argentino created a program which called for the reduction of the state’s role in the economy and the liberalization and opening of the economy.

The Case Of The Mexican Revolution: 1880-1920

When Porfirio Diaz rose to power in 1876, Mexicans were tired of foreign invasions, political uncertainty, and instability. Porfirio Diaz ruled Mexico with an iron fist bringing peace and stability to a Mexican society that was in need of it (Womack 1968, p. 42). The period during which Porfirio Diaz was president came to be known as the “paz porfiriana” (porfirian peace). The strong stability of his regime attracted a great amount of foreign investment. Although the process of penetration of foreign capital had its
beginnings in the loss of half of the Mexican territory to the United States in 1848, this process was intensified by the construction of railways that entered areas which were previously inaccessible to modern transportation systems (Garza 1981, Womack 1968, p. 15, 42, Krauze 1987, p. 26). By 1910, 73% of capital investment in Mexico came from foreign countries (Garza 1981).

This increase in foreign investment and capitalist penetration into the Mexican cities and the Mexican countryside were supported and facilitated by an intellectual group called the “cientificos” (scientists). The father of cientifico thought was Gabino Barreda who was a student of Augusto Comte during his time in Paris and later introduced positivism to Mexico (Breymann 1954). The cientificos thought that most popular resources should be sacrificed in the name of industrial growth and development including living standards of the poor, democracy, government overseeing of development, and social investment (Fehrenbach 1973, p. 476). For the cientificos, the modern sugar plantations were the only forward-looking institutions and mode of production (Womack 1968, p. 44). Between 1880 and 1900, the traditional ranchos, villages, and even villagers began to disappear (Womack 1968 p. 45). The sugar plantations underwent severe transformations and become small-cities which housed their own police, powerhouses, hospitals, churches as well as in-house carpenters blacksmiths, electricians and mechanics (Womack 1968, p. 43). The cientificos believed that all other kinds of communities existed only as resources for the modern, innovative, and productive sugar plantations (Womack 1968, p. 44).

The cientificos did not believe that Mexico could develop on its own and they argued that it needed foreign capital to provide the infrastructure upon which national development could be carried out later (Fehrenbach 1973). The cientificos did not believe that Mexico could rely on internal resources to generate growth and investment; it needed foreign capital and skills to allow for the construction of much needed transportation systems, fixed investment, and public infrastructure. In the long run, the cientificos maintained, Mexico could emancipate economically and no longer need foreign capital investment. Although it was true that Mexico needed more investment, the cientificos were shortsighted and unable to understand the impoverishment in which the vast majority of Mexicans lived (Womack p. 46, Fehrenbach 1973). Mexicans experienced a temporary setback in their previous level of living. Between 1902 and 1912 real incomes of agricultural workers declined rapidly because nominal wages remained constant while basic goods became more expensive (Womack 1968, p. 45, 48, Garza 1981).

Foreign industries had begun to penetrate Mexico at a time when its own industrial development was quite low. Rather than benefiting Mexico in any substantial way, penetration of these industries only worked to the advantage of foreign interests and Mexican upper-class company sponsors and/or representatives who usually prospered handsomely from most of these ventures and investments. Thus, cheap labor, non-governmental interference in economic affairs, and other Mexican “natural resources” were among the more salient factors attracting industry into Mexico (Garza, 1981, p. 293). Real incomes of agricultural workers declined rapidly. The economic growth policy followed by the Diaz administration was based on the export of commodities, mainly sugar. The problem with Mexico was not a lack of resources but rather an inability to effectively mobilize those resources. A historical authority on the Mexican Revolution, T.R. Fehrenbach explains this matter.

Throughout the central plateau, many haciendas made no attempt to utilize all their croplands. The owners felt no urge, and there was not real profit in doing so. Millions of hectares of potential corn and wheat fields lay vacant, while millions of the poor struggled against actual starvation. In 1900, when the Mexican population was probably what it had been in Motecuhzoma’s empire, Mexico obviously produced far less foodstuffs than the country had four centuries earlier (Fehrenbach 1983, p. 466). At the same time, the economy was opened to the foreign sector, customs duties were lowered, and exports increased more than seven hundred percent between 1870 and 1910 (Fehrenbach 1983, p. 469). Mexico was finally running a trade surplus. The beef, coffee, tobacco, fruit, and sugar were exported and little was left for Mexicans to consume. The profits from these sales never trickled down to the vast majority of Mexicans. In fact, profits almost never returned to Mexico. Still, the minister of finance thought that Mexico experienced a net gain. “Limantour figured that if Mexico got back only ten centavos on the peso this was still a bargain, because it was ten centavos the treasury otherwise would never see” (Fehrenbach 1983, p. 472). However, there was a huge capital drain and most profits were never reinvested in Mexico. Mexico also became extremely dependent on the United States for economic matters.

The leaders of the Mexican revolution had strong differences in their political economy, but they all shared the belief that Mexico could rely on its own resources for economic growth. Emiliano Zapata was the most radical revolutionary leader who never accepted any deal that did not include the expropriation and redistribution of capitalist wealth along with a complete transformation of the structure of the national government and institutions.
Venustiano Carranza was one of the largest landholders of one of the largest states in Mexico. Zapata’s slogan was “the land is for he who works it” while Carranza’s was “constitution and reforms.” While Zapata wanted redistribution of wealth, Carranza wanted to restore order in Mexico and therefore continue capitalist relations of production with minor reforms. However, all leaders in the Mexican revolution shared the idea that Mexico should base its economic development on the utilization of national resources rather than depend on developed countries for resources, including capital.

According to Zapata, Mexico’s problem was not lack of wealth but rather the inability to fully utilize its resources. Zapata’s agenda was not against absentee foreign ownership but rather against capitalist exploitation in general. However, he believed Mexico was extremely rich in natural resources and needed to fully utilize those resources rather than rely on foreign investment. He thought that the redistribution of wealth was crucial to the full utilization of Mexican resources.

Mexico is extremely rich. Its wealth, although virgin, which means still unexploited, consists of agriculture and mining; but this wealth, this infinite source of gold, which belongs to more than fifteen million inhabitants, is concentrated in the hands of a few thousand capitalists and a great number of them are not Mexicans. Because of great and disastrous selfishness, the hacendado, landholder, and miner exploit that minute part of the land, the hill and the plain, taking advantage of its numerous products and keeping most of their properties entirely virgin, while there is indescribable misery in all of Mexico (Zapata [1912] 1999, p. 129, author’s translation).

Emiliano Zapata did not believe that Mexico needed foreign capital to grow and prosper. A relatively unheard of character, Antenor Sala, addressed Zapata in an attempt to convince him to adopt the “Sala System.” Sala tells Zapata that the Sala System provides the capital required for the huge task of the full utilization of the expropriated land. Sala warns Zapata that if the Sala System is not implemented, it will be impossible to find capital “anywhere in the world.” According to Sala any solution for the nation must take into account “the foreign capital that must be attracted for the nation’s civilization and progress.” Zapata replied to Sala by asserting that his policy did not require such big disbursements of capital but rather the exploitation of Mexico’s agricultural resources (Zapata [1913] p. 177).

Three years later Zapata begins his Manifest to the People by noting that his rivals had made commitments to foreign parties in order to secure investments. He asserted that, contrastingly, his administration had never appealed to a foreign party for investment or pecuniary resources. In the middle of the document, Zapata explains his policy for the economic development of Mexico:

To unite the Mexican people through a generous policy, that gives guarantees to the farmers and laborers as well as the merchants, entrepreneurs and men of industry; grant facilities to all those who want to improve their future and expand the boundaries of their knowledge and activities; to grant a job to those who today lack one; encourage the establishment of new industries, great centers of production, powerful machineries that emancipate the country from foreign economic dominance; call on everyone to the free exploitation of the land and our natural resources; diminish the misery of households and strive for the intellectual improvement of the workers creating greater possibilities for them, such are the purposes that motivate us in this new stage that will guide us, to the realization of noble ideals, sustained without dismay throughout six years, with the greatest sacrifices (Zapata [1917] 1999, p. 261, author’s translation).

The rest of the document describes the creation of credits for mining and agricultural enterprises. Zapata also describes some policies for regulating foreign investment in Mexico within the same manifest. Zapata was not an illiterate farmer with a gun; he was a political economist that understood the needs of Mexico. As soon as Zapata gained control of the state of Morelos in 1914, he focused on fixing the looted sugar mills. The ministry of agriculture directed laborers and mill repairs and by March 1915, four sugar mills in the state of Morelos were in full operations (Womack 1968, p. 235). Soon after, three more mills were operating. The Zapatista government of the state of Morelos distributed among the municipalities 500,000 pesos as credit to finance the buying of seeds and tools (Warmann 1976, p. 102).

Zapata restored the ejido, which is Mexico’s ancient communal form of property, which Marx described as the Asiatic mode of production. This allowed anyone willing and able to work the land to contribute to the material production for the community. Although Zapata showed great sympathy for the Russian Revolution, he did not show sympathy for Marxism. He thought that distribution should be left to the farmers rather than a centralized party.

In the spring of 1915, after the harvest, Mexico City was at a severe risk of starvation. Meanwhile the commoners in the state of Morelos—the state under Zapata’s administration—enjoyed much better standards of living and purchasing power than before the outbreak of the revolution in 1910 and, to the surprise of many, than their counterparts in Mexico City (Womack 1968, p. 241, Millon 1969, p. 53). The
Morelian farmers experienced an unexpected motivation because of the unprecedented prosperity (Warmann 1976, p. 102).

Carranza came to the realization that Mexico needed to emancipate itself from foreign investment through a different avenue than Zapata. Carranza realized that Mexico could not rely on foreign capital after World War I when the national economy surprised him with the productivity of the mining, oil extraction, and other producer goods industries even during the worst episodes of the Mexican revolution. Paradoxically, he also realized that, simultaneously, during the World War I, he could not even obtain raw materials from the world markets (Paz 2006, p. 76). Luis Cabrera points out that Carranza felt powerless when he realized that he was at the mercy of foreign producers and markets. Paz asserts that it is likely that these events led Carranza to concentrate on improving the national agricultural and industrial production in order to fulfill the needs of the national market. Although a wealthy landholder, Carranza was a nationalist and he favored the government ownership of utilities and public services companies as well the extensive performance of public works by the government.

Conclusion

There are two views on what the obstacles to economic development are. On the one hand, there are economists who believe that developing countries are constrained by the lack of the supply of capital and that foreign capital must be supplied to developing countries. On the other hand there are economists who believe that the problem of development is the problem of allowing for the organization of production in the most efficient way. The problem, according to this latter inside growth or “desde dentro” view, is to fully utilize the available resources. Prominent economists through history have argued for the inside growth view, including some pioneers of economic development. However, in recent years there has been an increased movement towards neoliberal policies which are in line with the supply side view.

This paper has put this debate in the historical context of the period prior to and during the Mexican revolution. It was discussed that the introduction of Comte’s positivism to Mexico led to the introduction of policies that sacrificed social resources in order to achieve greater levels of foreign investment. This led to extreme poverty and misery which gave place to the Mexican revolution. Emiliano Zapata’s political economy provides an alternative to the positivist policies of the Diaz administration. Zapata argued that the problem of Mexico was not a lack of wealth but the poor distribution of that wealth. He also argued that all resources had to be fully utilized. To this end he proposed to give a job to those who lacked one, to create centers for manufacture, and to give everyone willing and able the right to work the land freely in association with other farmers. He was skeptical that foreign capital would help development and rather proposed the imposition of regulations on foreign companies. The Mexican revolution and its leaders have some useful lessons to teach to development economists.

References


Smith, Marx and Kropotkin on the Labor Process

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In the morning when thou risest unwillingly let this thought be present – I am rising to the work of a human being. Why, then, am I dissatisfied if I am going to do the things for which I exist and for which I was brought into the world?
-Marcus Aurelius¹

John Henry said to his Captain,
“A man is nothing but a man,
But before I let your steam drill beat me down,
I’d die with a hammer in my hand, Lord, Lord,
I’d die with a hammer in my hand.”
-Anonymous²

The great narrative in the Western tradition, in many regards, concerns itself with the effect of work on the human condition. At times labor is viewed as the expression of human desire to impress upon the natural world the individual will to survive, to carve out of the wild a testament to our ingenuity and tenacity. The triumph of labor over idleness provides the basis for a Hegelian ideal of the virtuous worker who “depends entirely upon his diligence, conduct, and intelligence for the supply of his wants” (2003, pg. 354). Meanwhile, there is a strand of thought that sees labor as the price of mankind’s descent from Eden. One such luminary, Lucretius (2003, pg. 29), laments that as Man moves further from the ancient myth of a golden age of abundance, our efforts to sustain civilization requires that we “dull the edges of our ploughshares” against a “mean and stingy” earth. Rousseau (2003, pg. 348) adds further to the conception of labor as the material consequence of a world that has fallen from its idyllic state of natural abundance, suggesting “the produce of the earth furnished [man] with all he needed, and instinct told him how to use it.” Such free abundance awaits a world where, “singing and dancing, the true offspring of love and leisure, became the amusement, or rather the occupation of men and woman assembled together with nothing else to do” (2003, pg. 350).

Clearly there is a tradition in Western thought to view labor as an activity that stands in contravention to the free pursuit of human potential. Political economy emerges within this tradition, facing the task of understanding the labor process as the chief condition against which the social relations to production are set.

This essay strives to make clear three conceptions of the labor process as advanced by Adam Smith, Karl Marx and Peter Kropotkin. Beginning with Adam Smith, this inquiry establishes the social context in which our analysis of the labor process shall proceed. The advent of the division of labor emerges as a double edged sword; at once, immense gains to productivity serve to enrich the wealth of nations, while creating a process under which the individual is reduced to a life of routine, mind-numbing tasks. It is shown that the careful reader of Smith must cautiously approach the razor’s edge dividing the purely economic from the alienating social aspect of the division of labor. Next, we turn to Marx where he wields the sword, slicing through the false appearance of equality in exchange between the “free” laborer and the capitalist employing her labor power. Marx develops the labor process in capitalist production, emphasizing both alienation and exploitation as its essential features. Finally, we turn to Kropotkin where he buries the sword altogether, insisting that transcending the alienating aspects of the labor process requires integration over division of labor. He strives to show how this is not only socially desirable, but also technologically feasible.

Smith’s Division of Labor: Enriching the Nation by Taxing the Human Spirit

Smith, in his Inquiry into the Nature and Causes of the Wealth of Nations, [1776] establishes that wealth and prosperity accrue not from trade per se, but through the division of labor. By dividing the manufacturing process into discrete stages and charging the individual laborer with specialization of each task society becomes more productive. Bringing production together under one roof, and dividing up the labor

¹ Book V, Meditations, Marcus Aurelius
process accordingly, Smith (2003, pp. 5-6) argues three advantages attribute to the productivity increase. First, through routine and habit, specialization allows one to increase their manual dexterity in relation to the labor process. Second, performing a solitary task precludes the need to move about the workshop. Whoever draws the wire in Smith’s pin factory need only do so at a single location, minimizing time wasted by moving between stations. Finally, Smith offers the conjecture that when an individual is faced with performing a routine task, after some time they learn to innovate and improve upon the process. Smith reasons: Men are much more likely to discover easier and readier methods of attaining any object, when the whole attention of their minds is directed towards that single object, than when it is dissipated among a great variety of things. In consequence to the division of labor, the whole of every man’s attention comes naturally to be directed towards some one very simple object. It is naturally expected, therefore, that some one or other of those who are employed in each particular branch of labour should soon find out easier and readier methods of performing their own particular work, wherever the nature of it admits such improvement (ibid).

Here Smith takes one of two conflicting positions on the labor process in relation to innovation. In this case, we suppose that the individual engaged in routine production will develop some process whereby her labor may be attenuated, ultimately resulting in an increase in productivity writ large. Yet, elsewhere Smith takes a much different tone, admitting that such work has an incapacitating effect on the mind, challenging the notion that one can be capable of engaging in process innovation. In addition, Heilbroner (1973) shows that Smith finds innovation at its best when work is varied, exemplary of those “barbarous societies” where the division of labor remains in infancy. We shall return to this issue later, but for now let us proceed in our task of linking the division of labor with the development of an alienating labor process.

For Smith, the division of labor emerges from a natural “propensity to truck, barter, and exchange one thing for another.” This essential feature of human nature develops in consequence to the fact that aside from all other species, Homo sapiens possess the dual character of reason and speech, and its reliance upon the community for mutual survival. The annual fund from which the community derives its subsistence depends upon both the quantity and quality of labor applied to production (2003, pg. 1). Moreover, Smith (2003, pg. 6) recognizes the social aspect of production by suggesting that even the wool coat worn by a simple day laborer requires the “joint labour of a great multitude of workmen.” Continuing his example of social production beyond the coat, Smith illustrates the extent to which the individual relies upon the community in his system of perfect liberty.

However, we are reminded that human exceptionalism comes with a price; our sustenance derives not from the benevolence from our neighbors, but through a mutual self-interest. “Give me that which I want, and you shall have this which you want,” as Smith suggests, establishes the lines of communication necessary for social provisioning. To satisfy our want of material possessions, “we address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but to their advantages” (2003, pg. 8). This Enlightenment conception of human nature, that Man lives under the governance of Bentham, allows Smith to reduce the division of labor to human nature. That is, production for exchange requires that we specialize and meet in the market to appeal to our mutual self-regard.

Embedded within Smith’s division of labor is the notion of progress. Heilbroner (1973, pg. 245) brings to the fore Smith’s treatment of the division of labor as central to the progressive attainment of a fully commercialized society. To maximize the annual fund in which society draws upon for its “necessaries and conveniences,” requires the market to expand, facilitating further division of labor. Yet, Heilbroner presents us with an unsettling paradox: The price of progress establishes a labor process that taxes the psychological and intellectual development of the individual. Nowhere do we see a clearer statement of the alienating effect of the division of labor:

In the progress of the division of labour, the employment of the far greater part of those who live by labour, that is, of the great body of the people, comes to be confined to a few very simple operations, frequently to one or two...The man whose whole life is spent in performing a few simple operations, of which the effects are perhaps always the same, or very nearly the same, has no occasion to exert his understanding or to exercise his invention in finding out expedients for removing difficulties which never occur. He naturally loses, therefore, the habit of such exertion, and generally becomes as stupid and ignorant as it is possible for a human creature to become. (2003, pg. 382)

Smith continues to emphasize that progress degrades the labor process, stripping the individual of the very traits which define us as human:
[Dexterity] at his own particular trade seems in this manner, to be acquired at the expense of his intellectual, social and martial virtues. But in every improved and civilized society this is the state into which the laboring poor, that is, the great body of the people, must necessarily fall, unless government takes some pains to prevent it. (ibid)

In sum, we see in Smith a sense of hopelessness. On the one hand, the division of labor promotes the expansion of social production, enabling civilization to attain its highest level of development. On the other hand, the same process reduces the individual to a state of menial drudgery. Alienation becomes the price of progress. Let us turn to Marx’s penetration of the labor process, wherein he highlights not only an alienating labor process, but lays bare its exploitative aspects.

The Marxian Labor Process as Alienating and Exploitative

Marx in Capital [1867] emphasizes both the historical and social contingency of production. Specific to each exist an institutional framework that establishes the necessary relations between the laborer, capital, and the appropriator of the resultant product. Under capitalism, these relations are such that generally the individual does not own the means of production. The worker sells her labor power in exchange for a wage that reflects a socially established minimum standard of living, which is just sufficient to reproduce her immediate dependents and herself. Exploitation emerges when the owner of the capital employed in the production process realizes the surplus value created, as she produces for him in excess of the value needed to pay her wages. Marx (1983, pg. 176) notes the contract between the laborer and the capitalist reflects the free exchange of equivalence, prima facie. However, once we scratch beneath the thin veneer of abstraction employed by “Free-trader Vulgaris,” for whom the sphere of circulation exhibits “Freedom, Equality, Property and Bentham,” we begin to see the capitalist labor process in its full light. As the capitalist takes the laborer by the hand, leading him into the “hidden abode of production,” let us follow and observe the labor process as it functions within the factory.

Given the set of social relations that define capitalism as the predominant mode of production, the realization of labor power in the process of production is alienated from the laborer. Labor power in its commodity form, once advanced to the capitalist and set in motion by the confines of the factory in the labor process, produces commodities for which the realization of exchange value becomes the sole objective. As compared to the labor process in general, where humans apply tool and technique to achieve some given end, Marx emphasizes its specific characteristics under the capitalist social relations (1983, pp. 177-185). First, the labor process proceeds under the direct control of the capitalist. Marx (1983, pg. 178) asserts that at “the end of every labour - process we get a result that already existed in the imagination before he erects it.” Humans act deliberately. Yet, the laborer engaged in production is not inspired through her own creativity, but through the desire of the shop-owner to extract surplus values and realize them in exchange. Second, that which is produced does not belong to those who produced them. Once the worker sells her labor power, its productive capacity and all that results henceforth, become the property of the capitalist.

Marx shares Smith’s concern over the alienating aspects of the division of labor. However, Marx makes clear that degrading and alienating work and the progressive division of labor are inextricably linked. The dehumanizing effect of the capital-labor relation in this regard becomes central to his analysis; the reformist tone in Smith’s prescription to ameliorate the ills associated with the marriage between man and machine fall short. Marx’s view of the systemic degradation inherent in the capitalist labor process appears succinctly below:

Within the capitalist system all methods for raising the social productiveness of labour are brought about at the cost of the individual labourer; all means for the development of production transform themselves into means of domination over, and exploitation of, the producers; they mutilate the laborer into a fragment of a man, degrade him to the level of an appendage of a machine, destroy every remnant of charm in his work and turn it into a hated toil; they estrange from him the intellectual potentialities of the labour-process (1983, pg. 645)

Thus, we see in Marx, a sense that consequences arising from the division of labor extend beyond increased productivity, and hence the wealth of nations. Rather, it is the logical conclusion of a set of social relations that subsumes the object of production to the act in itself. Capital, then, realizes its value in expansion and in the process inverts the relationship between the producer and the means by which she performs her task. The very process of accumulation reproduces the conditions such that, “it is no longer the laborer that employs the means of production, but the means of production that employ the laborer” (1983, pg. 310).

Marx sees the capitalist labor process as antagonistic to human development. As opposed to a society that organiz-
es production around the goal of producing goods chiefly for their use-values, where technology serves labor and frees her to pursue the full range of human possibility, personified capital “conquers the world of social wealth” and places under its boot “the mass of human beings exploited by him” through an insatiable drive to accumulate (1983, pg. 592).

Critical of bourgeois praise of extension of the market through the accretion of capital, Marx (1983, pg. 593) cries, “Accumulate, accumulate! That is Moses and the prophets!” The insistence on the part of Senior, and the rest of the bourgeois apologists, that accumulation embodies an air of saintly and pious caution, that parsimony and abstinence provide the right to lay claim to the product of social labor, moves Marx to label them as sycophantic, vulgar economists. In spite of the godliness imputed on accumulation simply for the sake of accumulation, Marx (1983, pg. 191) reminds us “the way to Hell is paved with good intentions.”

Before we turn our attention to our “Anarchist Prince”, Peter Kropotkin, let us pause to reflect upon our discussion of Marx in relation to the labor process. The main thrust behind Marx's critique of capitalism lies in the revolutionary nature of this method of organizing production to dispossess the individual of her labor power, to recreate her as a wage slave, and to use an ever expanding and segmented labor process to control her life. For Marx, the emergence of capitalism is wrought with violence, if not in the most corporeal meaning of the word, at least in terms of its deleterious effect on the fabric of our social lives. Throughout Capital, Marx describes the story of capitalism's ascent as the destruction of a social order that enabled the producer to control the labor process. Inextricably tied to the process of remaking society in capital's image, is the division of labor, which as Smith suggests early on in the Wealth is limited by the extent of the market. Thus, capital accumulation as at once a process whereby the individual factory owner may fully exploit the alienating labor process, which he has direct control over, but also a continuous process of reproducing the social relations that ensures his ongoing privilege to make claims on the social dividend.

The Integration of Labor as Transcendental to the Capitalist Labor Process

Kropotkin, like Smith and Marx, sees the division of labor as exerting a negative effect on the free development of the individual. In Fields, Factories, and Workshops Tomorrow[^1], he proposes instead that we envision an integrative labor process that frees the individual from the oppressive yoke of degrading, and alienating work. Examining the extension of the division of labor Kropotkin laments:

Skilled artisanship is being swept away as a survival of a past condemned to disappear. The artist who formerly found aesthetic enjoyment in the work of his hands is substituted by the human slave of an iron slave. Nay, even the agricultural labourer, who formerly used to find a relief from the hardships of his life in the home of his ancestors – the future home of his children – in his love of the field and in a keen intercourse with nature, even he has been doomed to disappear for the sake of the division of labour (1974, pg. 24).

Against an ideology which favors the pursuit of profits over other indicators of progress and human development, Kropotkin (1974, pg. 25) endeavors to illustrate that a) not only does the division of labor reflect economic theory as it is situated in 19th century thought, implying that each epoch in human history requires a new way of thinking, but also b) the tremendous gain in productivity according to the division of labor is not without cost:

Precisely in proportion as the work required from the individual in modern production becomes simpler and easier to be learned, and, therefore, also more monotonous and wearisome – the requirements of the individual for varying his work, for exercising all his capacities, become more and more prominent. Humanity perceives that there is no advantage for the community in riveting a human being for all his life to a given spot, in a workshop or a mine, no gain in depriving him of such work as would bring him into free intercourse with nature, make of him a conscious part of the grand whole, a partner in the highest enjoyments of science and art, of free work and creation.

Kropotkin shares Smith’s fear that society loses the benefit of the creative individual if we allow the division of labor to proceed unfettered. And following Marx, Kropotkin emphasizes the importance of transcending any mode of production which relies upon a labor process that strips the individual of their human essence. To be free requires that we release ourselves from the bondage of wage slavery, of dominance of machine over man, and turn our tools to account in such a way that “permits those who are now the beasts of burden of humanity to raise their backs and to become at last men” (1974, pg. 70).

[^1]: Colin Ward adds 'Tomorrow' to the title the present edition of Kropotkin’s original work, Fields, Factories and Workshops first published in 1899, from a collection of articles published between 1888–90. The addition to the title is due to the prophetic nature of the book, as suggested by Ward in the preface.
To transcend these negative social effects requires that we integrate rather than divide labor. Kropotkin argues in favor of decentralizing production and situating both industrial and agricultural production at the regional level. More specifically, through the use of intensive horticulture (such as soil improvement, growing in greenhouses, etc.) we can free ourselves from a large part of the labor time necessary to provide ourselves with sustenance. Furthermore, by colo-locating workshops with intensive gardening operations, we may divide the working day between both industrial and agriculture work. For Kropotkin (1974 pg. 152), this decouples the worker from the machine used in the production process, and transforms the factory from “curse of the village” and places it under its service.

Ward notes (1974, pg. 11) that Kropotkin [1899] seeks to articulate that there exists no technical justification for the division of labor, and hence the tendency for industry and agriculture to grow in scale. Additionally, Kropotkin approaches the book as a revolutionary manual of sorts, in which those seeking to throw off the fetters of global capitalism may learn how to wean themselves from dependence on imported food; much of the book is devoted to specific examples of localized, intensive food production. Finally, Kropotkin seeks to disabuse us of the erroneous belief that “dehumanization of labor is the price we must pay for a modern industrial society.”

Conclusion
The preceding analysis has sought to examine the labor process through the lens of Adam Smith, Karl Marx, and Peter Kropotkin. A common thread emerges from each of these intellectuals, in that capitalism creates the conditions under which the individual engaged in production loses himself to the machine. For Smith the division of labor provides a wellspring of productivity gains that flow from efficiency through specialization. However, paradoxically, progressive expansion of the division of labor, that supplies an ever growing surplus and the possibility of greater standards of living, carries with it a plague upon society in that those who produce offer these advantages in exchange for their own humanity. Marx encapsulates this process as systemic to the nature of capitalist production, suggesting the division of labor itself serves the ultimate goal of accumulation for its own sake. Capitalism, as the manifestation of an alienating and exploitative set of social relations, impedes the free development of the individual, subsuming the laborer to the process of production itself. Under capitalism, Marx endeavors to show, labor loses control of produc-

Kropotkin reframes the labor process by rejecting the notion that we are left with no alternative to the division of labor. Instead, he argues in favor of a labor process that promotes humanity, by bringing our system of production back under the service of those who actually perform the work. Kropotkin’s vision is truly revolutionary: by integrating a wider array of human capabilities in the task of making our daily bread, we might actually live our lives. Especially prescient is his recognition that the world need not wait for future technology to deliver us from the drudgery of wage labor; we have the tools today to produce enough food to feed our immediate communities, as well as engage in a variety of activities that provide us with the means of carrying out our social lives. All that is necessary is that we turn our back on Moses and the prophets.

References
Unemployment as an Instituted Problem of Capitalist Economy and Policies to Resolve Unemployment from a Post Keynesian Perspective

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Introduction

Unemployment is one of the most talked about issues in economics. It is defined as the failure to obtain employment that earns wages or salaries paid in money. According to Forstater (2003) it has a dire impact on the jobless person and is also associated with tremendous social and economic costs for society as a whole. Economists such as Sen (1999) have identified poverty not merely with inequality but also with unemployment. Sen also supports the right to work because unemployment has far-reaching consequences beyond the loss of income.

Modern day economic theories on unemployment have been developed in several directions. Economic orthodoxy treats unemployment as a form of choice which can be derived from an optimizing behavior of an agent. According to Moreton (1994, p.449) “one of the dysfunctional aspects of orthodox economics is that there is a failure, perhaps a refusal, to recognize and attach appropriate importance to the significant loss of quality of life experienced by those who become unemployed within market-dominated economies”.

The neoclassical theory focuses on the idea that market systems possess an inherent tendency to full employment. It emphasizes on the market clearing function of wage flexibility and posits that the substitutability of labor and capital, combined with flexible wages and interest rates, is sufficient to remove any involuntary unemployment in the economy. Economic orthodoxy also sees existing unemployment in the economy as voluntary unemployment and has tried to come up with various reasons for the existence of unemployment. One type of orthodox model treats unemployment as a result of the inter-temporal substitution of leisure for work, another as a choice of the length of time devoted to search for a job, while another introduces the concept of wage contracts in order to explain the phenomenon of unemployment. We can view these developments as an outcome of the dissatisfaction with the notion of ‘involuntary unemployment,’ as interpreted in Keynesian models (Cornwall and Cornwall 1997).

In The General Theory of Employment, Interest and Money, Keynes (1936) rejected Say’s Law and demonstrated the possibility and the likelihood that market systems do not tend to fully utilize resources, even under competitive conditions, due to insufficient effective demand. He showed that involuntary unemployment does not depend on real wage inflexibility and that it would persist even if real wages were to fall via “a small rise in the price of wage-goods relatively to the money-wage,” because the “aggregate supply of labor willing to work for the current money-wage...would be greater than the existing volume of employment” (Keynes 1936, p.15). In chapter nineteen of the General Theory, Keynes further elaborated that a policy of wage flexibility would aggravate unemployment because of negative feedback on the aggregate effective demand. He argued that aggregate investment does not depend on savings but is governed by the complex of expectations of both investors and lenders, which may be highly volatile and unstable. Actually, investment is the independent variable that determines aggregate demand and thus aggregate output and employment via the relatively stable propensity to consume and the multiplier’s feedback effects (Forstater 2001).

Furthermore, the most important point to be understood in Keynes’s theory is that unemployment is not

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1 “The classical economists had rejected any theory of labor market clearing and had always recognized the importance of the “reserve army of the unemployed” to discipline labor. Further, David Ricardo had famously worried that labor-saving capital might cause ubiquitous labor redundancy, Thomas Malthus had developed a (somewhat illegitimate) theory of a tendency for markets to face insufficient demand, and Karl Marx’s two departments approach offered a variety of reasons to suspect that capitalism would not generate full employment. Still, it was Keynes who provided the clearest explanation of the problem: firms produce only the quantity of output they expect to sell and it would be highly unlikely that this would happen to coincide with full employment” (Wray 2009,p.2).

2 Also see Forstater (2003); and Iacobacci and Seccareccia (1999)
caused by faulty operation of the labor market such as sticky wages, lazy workers or low levels of training and education. Rather, it is the existence of a preference for highly liquid assets such as money, which tends to force the economy to achieve equilibrium before reaching full employment. Keynes, like Marx and Ricardo did not see unemployment as a simple “market failure” but he argued that unemployment results from insufficient effective demand and the problem of unemployment can only be solved by creating more jobs. Creating more jobs also requires higher demand for the output generated by the additional workers. In other words, the capitalist economies tend to operate with excess capacity and unemployment. It is therefore unlikely for a capitalist economy to attain full employment on its own. Therefore, the problem of unemployment can only be solved by well-formulated policy, which is focused to raise aggregate demand, and hence to make more jobs available in the economy (Wray 2009).

The second section of this paper will discuss in detail how Keynes addressed the issue of unemployment in chapter 17 of General Theory and what were his policy prescriptions to resolve unemployment. The third section will briefly discuss the Keynesian and Post Keynesian position on existence of unemployment and their policy prescriptions to reach full employment. The fourth section will delve into details of the Employment of Last Resort (ELR) or the Government Job Guarantee proposal. The fifth section will discuss if there exists any barrier to full employment, or in other words if the government can afford full employment. The last section will conclude the paper.

Keynes, Liquidity Preference Theory of Interest Rate and Unemployment

Keynes’s best exposition of theory of interest rate can be found in chapter 17 of GT and his 1937 article Alternative Theories of the Rate of Interest. The main difference between Keynes’s liquidity preference theory of interest rate and the loanable funds theory of interest essentially boils down to a distinction between the economics of full employment and the economics of unemployment. In Keynes’s view the loanable funds theory of interest rate was flawed because it treated saving and investment as the determinants of the system and the rate of interest as a determinant, while the truth is that savings and investments are the determinates of the system, and the rate of interest is a determinant. Keynes emphasized that because saving depends upon income and income depends upon investment, it was impossible to conceive of an independent shift in either schedule (Bell 2003, p.242). In chapter 17 of General Theory and his 1937 article Keynes argued that the rate of interest couldn’t be determined by the equalization of the supply of and demand for savings. For Keynes, the rate of interest is a monetary phenomenon in the special sense that it is the owner-rate of interest on money itself. That is, it equalizes the advantages of holding actual cash and a deferred claim on cash. Therefore, it is precisely the liquidity-premium on cash ruling in the market that determines the rate of interest. In Keynes’s system, investment and saving are equalized ex post in the aggregate level not by the rate of interest but by the aggregate income. It is because investment is governed by the prospective yields of entrepreneurs through the marginal efficiency of capital and it is highly fluctuating as it depends on animal spirits. After planned investment is determined, it would determine the volume of effective demand and output by way of the multiplier effect. Finally, saving is determined since it is “the excess of income over consumption” (Keynes 1936, p. 62).

In chapter 17, Keynes emphasized a monetary determination of interest rates, which he considered “is nothing more than the percentage excess of a sum of money contracted for forward delivery, e.g. a year hence, over what we may call the ‘spot’ or cash price of the sum thus contracted for forward delivery” (GT, p.222). This implies that for every kind of capital asset there must be an analogue of the rate of interest on money. “Thus for every durable commodity we have a rate of interest in terms of itself, a wheat rate of interest, a copper rate of interest, a house-rate of interest, even a steel-plant-rate of interest” (GT p.222-223). Each of these own rates can be stated in terms of money, which is the “greatest of the own-rates of interest”, hence, “rules the roost” because of the special properties of money (GT p.223).

Keynes’s LP theory of interest rate is theory of value for asset pricing. LP determines the whole price system—the

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1 In the GT, Keynes defined liquidity preference as the desire to hold liquid assets, which exists because of uncertainty about the future. Keynes emphasized that one exercises liquidity preference with regard to a stock of savings (Keynes 1936, p.194). “By doing so, he separated the decision to save from the decision regarding the form in which savings are to be held. The former would be determined primarily by income, the latter primarily by liquidity preference” (Wray 1994, p.247).


Hugh Townsend (1937) was one of the first economists to correctly interpret Keynes’s liquidity preference (LP) theory of interest as a theory of value. In other words, how assets that can be carried through time are valued. Townsend contrasts Keynes’s theory of value with the marginalist theory and argues that Keynes theory is more complete. Townsend pointed out that Keynes’s theory of interest rate is independent of the money supply in the economy and instead is based on the liquidity premium. Keynes’s LP theory can be extended beyond monetary assets to encompass durable assets. Durable assets also have a value that attaches to them for future exchange which is independent of their present value. This value, based on future exchange, is determined by expectations. In equilibrium, the price of new assets and existing ones must be equal if the assets under consideration are qualitatively the same. In other words, for Townsend, interest rate movements had less to do with changes in the money supply.
whole structure of interest rates on assets. The expected return on holding any asset measured in monetary terms is q-c+ r l+a. Where q is the asset’s expected yield, c is carrying costs, l is liquidity, and a is expected price appreciation. The composition of returns varies depending upon the type of asset. The return to illiquid assets is q-c, while return to holding highly liquid assets will have a return comprised mainly of return to liquidity, l. The total return from assets can be used to calculate marginal efficiency for each asset, including money. In equilibrium prices of all assets adjust so that the expected returns (marginal efficiencies) are equalized. Thus the own-rate approach leads directly to the determination of demand prices for assets—where an asset can be physical capital, other commodities, or money-denominated financial assets, in other words, anything which can be carried through time.

Producible assets are supplied up to the point where the supply price equals the demand price. According to Keynes (GT p.228) “those assets of which the normal supply-price is less than the demand-price will be newly produced; and these will be those assets of which the marginal efficiency would be greater than the interest rate”. Keynes argued that, as the quantity of most types of assets is increased, own rates fall which also lowers demand prices. When demand prices fall below supply prices, no more will be produced. However, this is not true for money due to its special properties.

The essential properties of money identified by Keynes (GT Ch 17) include a negligible elasticity of production; a negligible elasticity of substitution and low carrying costs. Since carrying costs are low, an increase in the volume of money will not raise total carrying costs; holding liquidity constant, the return to money (l-c) will not fall significantly as the quantity of money increases. Since wage and debt contracts are written in money terms, holding money always increase one’s ability to meet contractual obligations; thus money always provides a positive return (l) regardless of the quantity held as long as nominal wages are relatively sticky (Wray 1994). Given a low elasticity of substitution as the exchange value of money rises there is no tendency to substitute some other factor for it. “Not only is it impossible to turn more labor on to producing money when its labor-price rises, but money is a bottomless sink for purchasing power, when the demand for it increases, since there is no value for it at which demand is diverted as in the case of other rent-factors—so as to slop over into a demand for other things.” (GT Ch 17, p.229). Finally, given a low elasticity of production, as liquidity preference rises, there is no tendency to move to full employment merely by allocating more labor to the production of money because money could not be “grown like crop or manufactured like a motor-car”.

According to Wray (1991, 1992b) liquidity preference can be interpreted as a theory of value for assets. If two assets have the same stream of expected returns, divergence of their demand prices will be uniquely determined by differences of liquidity. Given q-c+ r l+a, the degree of liquidity preference will determine demand prices for all assets. This, in turn will go into the determination of the levels of employment and output through impact on the levels of production of producible assets. Changing views about the future affect the demand prices of assets through impact on q’s and on the liquidity preference. When LP rises, the perceived value of l rises relative to that of q, this causes all asset prices to adjust so that the marginal efficiencies are again equalized. The most liquid asset, high-powered money (HPM), has a return that consists entirely of l (its carrying cost and yield are zero). This sets the minimum to be achieved by all assets, that is the reason why money rate of interest “rules the roost” (GT p.223). In order for any asset to be newly produced its expected return must exceed the l from HPM. That is, Keynes’s theory of liquidity preference is a psychological theory of asset prices (Kregel 1988). Changing expectations about the future have a significant role on the marginal efficiencies of various kinds of assets. When people are optimistic about the future economic performance the return on capital assets or the qs will rise. In that case, capital assets will be produced, that is entrepreneurs will invest more and hence multiplier impact can be seen in the economy. This will also cause the adjustment in asset prices. Whereas, when people become pessimistic they will shift their portfolio preference from illiquid to liquid assets. That is, they will not invest in capital assets and hence unemployment originates.

According to Keynes (GT p.230) “Elasticity of production means the response of the quantity of labor applied to producing it to a rise in the quantity of labor which a unit of it will command. Money that is to say, cannot be readily produced—labor can not be turned on at will by entrepreneurs to produce money in increasing quantities as its price rises in terms of the wage-unit.” “If money could be grown like a crop or manufactured like a motor-car, depressions would be avoided or mitigated because, if the price of other assets was tending to fall in terms of money, more labor would be diverted into the production of money” (ibid p.231).

According to Keynes (GT p.231) “Elasticity of production means the response of the quantity of labor applied to producing it to a rise in the quantity of labor which a unit of it will command. Money that is to say, cannot be readily produced—labor can not be turned on at will by entrepreneurs to produce money in increasing quantities as its price rises in terms of the wage-unit.” “If money could be grown like a crop or manufactured like a motor-car, depressions would be avoided or mitigated because, if the price of other assets was tending to fall in terms of money, more labor would be diverted into the production of money” (ibid p.231).

If a producible asset’s marginal efficiency falls back into line with the marginal efficiency of money, it is produced up to the point that its marginal efficiency falls back in line with money’s. Md is low demand for finance (loans). The idea of LP Keynes is talking is Md for hoard which is a stock concept.

6 This can happen due to a number of reasons but it is not due to diminishing physical returns.

8 According to Keynes (GT Ch 17) include a negligible elasticity of production; a negligible elasticity of substitution and low carrying costs.

9 The idea of LP Keynes is talking is Md for hoard which is a stock concept.
In short, as Keynes argued, in the real world, it is the desire for liquidity and the existence of assets whose return from liquidity exceeds carrying costs that prevent capitalist economies from achieving full employment. Actually, there is nothing “more anti-social than the fetish of liquidity” because “there is no such thing as liquidity of investment for the community as a whole” (Keynes, GT p.155). Furthermore, Keynes goes on to argue that the main cause of unemployment in the capitalist economy is people’s irrational love for money. In his own words

Unemployment develops, that is to say, because people want the moon; men cannot be employed when the object of desire (i.e money) is something which cannot be produced and the demand for which cannot be readily choked off. There is no remedy but to persuade the public that green cheese is practically the same thing and to have a green cheese factory (i.e. a central bank) under public control (Keynes GT p.235).

Policies to Resolve Unemployment

Effective demand and structural change problems are the two issues that the policies to address unemployment must recognize. Even though, Keynes’s impact on postwar policy was as great as his impact on theory it is questionable whether much of the policy that was called Keynesian really had strong roots in Keynes’s General Theory. Unfortunately, “Keynesian” policy was eventually reduced to simplistic metaphors such as “pump-priming” and “fine-tuning”, which would keep aggregate demand at just the right level to maintain full employment (Wray 2007, p.6). Most post war policies usually consisted of measures to promote savings and investment. Promoting saving was inconsistent with Keynes and was based on the neoclassical loanable funds view that saving finances investment.

Traditional Keynesian policies directed to stimulate aggregate demand by stimulating the private sector to full employment using fiscal and monetary policies may address the aggregate demand problem but not the structural change problem. Actually attempting to maintain full employment by stimulating private investment would shift the distribution of income toward owners of capital. This would worsen inequality and thereby lower the society’s propensity to consume. Keynes in Chapter 24 of the General Theory addressed this problem. Minsky’s (1992) Financial Instability Hypothesis also raises similar concerns. Over time economy naturally evolves from one with a ‘robust’ financial structure in which hedge positions dominate, toward a ‘fragile’ financial structure dominated by speculative and even Ponzi positions. This transition occurs over the course of an economic boom that is led by investment spending. During this period, income flows are leveraged by debt and the ratio of safe assets to liabilities rises, which encourages the adoption of risker positions. Eventually, either a high rise in cost of financing or a low income below expectation, leads to defaults on payment commitments. In these circumstances speculative and Ponzi positions replace hedge positions and the economy becomes vulnerable towards any one of several possible triggers that can set off a financial crisis. As a consequence, a potential for Fisher-type debt deflation increases, bankruptcies snowball through the economy. This also raises interest rates while reducing access to credit and spending. The recession proceeds until an expansionary fiscal policy and a central bank acting as a lender of last resort steps in to limit the scope of the recession.

Wray (2007a, p.8) argues that growth led by investment can also have both inflationary and exchange rate implications. In contrast to the orthodox theories Keynes argued that “semi inflation” could arise long before full employment is reached. Giving a number of explanation including bottlenecks, structural problems and oligopoly pricing of output and unionized labor, many of Keynes’s followers argue that most of the real world experience with inflation occurs in conditions of insufficient aggregate demand. However, as argued by Bresser and Carlos (2007) an increase of demand due to private investment spending might actually be more inflationary than an increase attributed to government spending because of worsening trade balance and depreciating currency.

Some Post Keynesians have focused more on income distribution policies to deal with unemployment, whereas, others have tried to promote public works and the ‘socialization of investment’. The latter approach, if designed correctly, may be more effective than conventional fiscal stimulus in dealing with the structural change problem (Wray 2007a and Forstater 2003). Minsky’s vision of the capitalist economy closely followed that of Keynes. Minsky (1973) endorsed Keynes’s chapter 24 claim that the two outstanding faults of capitalism are its failure to provide for full employment and its tendency to result in an excessively unequal distribution of income. In Minsky’s (1965, 1968, 1973) view, poverty can be

Wray (1993) strengthens this arguments by pointing out that LP is not a theory of money demand but a theory of asset prices. Wray (1992a) gives a framework for asset price determination which allows LP (stock concept) to be clearly distinguished from money demand (flow concept) and argues that this framework is compatible with Keynes’s (1937) insistence that stocks determine the interest rate. It also supports Keynes’s statement in response to Hicks (1936) that an increase of spending need not increase interest rates: increase Md doesn’t necessarily lower asset prices and raise interest rates if banks react by supplying more money.

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8 See Wray (2007a)
9 “Orthodox theory claims that inflation is mostly demand-driven. If expansionary fiscal or monetary policy raises demand above the full-employment level inflation results” (Wray 2007a, p.8).
resolved through a combination of policies that would euthanize the rentier and put in place a modest bias of taxes and transfers in favor of the poor, and maintain tight full employment. Minsky argued that the focus of antipoverty programs would have to be tilted towards jobs creation and not towards transfers and welfare. To ameliorate the fundamental faults of capitalism, Minsky proposed to euthanize the rentier through low interest rate policy, by reducing the importance of the private financial system (Minsky 1973). He believed that this could be achieved by shifting the emphasis away from stimulation of private investment, which relies on external finance, and thus creates financial assets that become part of the rentier economy. Instead, Minsky focused on achievement of full employment through direct job creation, raising employment and wages at the low end of the labor market while checking the growth of wages and prices in the high end.

Wray (1998a, 1998b) summarizes an employment program that will guarantee true, full employment (or zero unemployment) for all. The program is much like that advocated in the early 1980s by Hyman Minsky (1986) and more recently by Warren Mosler (1995, 1997-98), Philip Harvey (1989) and Wendell Gordon (1996). Wray argues that true full employment is not ‘inflationary’ and could even reduce inflationary pressures. Indeed, full employment can be sold as a means to stabilize prices, which is close to the position taken by Minsky and Mosler. Further, the full employment policy would help to reduce economic fluctuations through a powerful built-in automatic stabilizer. The next section will elaborate more on this proposal, which is also known as Employer of Last Resort after Minsky (1986) or Government Job Guarantee after Kregel (1991,1999) and Wray (1998a).

**Government as an Employer of Last Resort**

Minsky (1965, 1968, 1973, 1986) advocated an ELR program that would provide employment to workers that fit their existing skills. He also pointed out many advantages of an ELR program. ELR can slow down undesired urban migration by providing jobs to workers in rural areas. ELR wage can serve as an effective “livable wage” and can be used to raise wage floor. The first component of the ELR proposal is that the federal government can act as the employer of last resort and offer infinitely elastic demand for labor, ensuring that anyone willing to work at the going “livable wage” would be able to get a job (Wray 1998a, Wray 2007b).

According to Wray (1998a) under the ELR program the government simply announces the wage at which it will hire anyone who wants to work in the public sector, and then hires all who seek employment at that wage. This is called the basic public sector employment (BPSE) at the basic public sector wage (BPSW). However, many non-BPSE jobs that are not the component of the ELR that could pay wages above BPSW will still remain in the public sector. The purpose of ELR is not to displace existing public sector employments. The only concern of ELR is to ensure that all those ready, willing and able to work at the BPSW wage will be able to obtain a job at that wage. This is defined as a state of full employment or zero unemployment. ELR policy is intended to reduce or eliminate much social spending that is currently targeted to the unemployed. If unemployment benefits of people are replaced with government employment, all the disadvantages of unemployment compensation would be eliminated.

With a fixed price, BPSW is perfectly stable and it also sets a wage floor for labor. With the implementation of ELR the jobs that pay lower than BPSW will experience a one-time increases of wages. This brings in the possibility of one-time jump in some product prices because employers will be forced to cover the high cost as a result of increased wages through a combination of higher product prices, greater labor productivity and lower realized profits. “However, this one time jump no matter how large it is –is not inflation nor can it be accelerating inflation” (ibid p.131).

Wray (1998a) also argues that with the implementation of ELR other wages are also likely to rise because with the achievement of full employment, the threat of unemployment is removed, thereby providing more bargaining power to the workers to demand for higher wages. Essentially, BPSW determines the wage for the lowest productivity group, that is, the pool of unskilled and semi-skilled workers during periods of normal demand, whereas, more productive workers will find jobs in private sectors (ibid
14 In Hyman Minsky’s words: “The policy problem is to develop a strategy for full employment that does not lead to instability, inflation, and unemployment. The main instrument of such a policy is the creation of an infinitely elastic demand for labor at a floor or minimum wage that does not depend upon long run and short run profit expectations of business. Since only government can divorce the offering of employment from the profitability of hiring workers, the infinitely elastic demand for labor must be created by government” (Minsky 1986, p.308)
15 Some disadvantage of unemployment benefits are many of the unemployed are not covered, creates incentive problems by providing limited benefits to people for not working (Wray 1998a, P.127)
16 Economists define inflation as a continuously rising price level.
17 As Forstater (1998 p.559) and Wray (1998a) argue this is essentially the old Marxist “reserve army of the unemployed” argument with the workers moving between private sector and discretionary public sector employment, rather than between employment and unemployment. “As the private sector demand for labor increases, the discretionary public sector pool will presumably shrink, and as the private sector demand for labor falls, the discretionary public sector pool will presumably rise.”
p.132). Assuming, there is a loose relationship between wages and productivity it is possible to raise individual wages after ELR policy is adopted. Nevertheless, as workers have the alternative to BPSE, the employers also have the opportunity of hiring workers from BPSE pool. Wray (1998a p.132) recognizes this as a primary “price stabilization” feature of the ELR program. The ELR pool can be used by the government as a “buffer stock” to stabilize the price of non-BPSE labor as long as workers in the ELR pool are substitute for non-BPSE labor.

With ELR the workers not employed in private sector have an alternative opportunity to find work, therefore their productivity would not depreciate quickly. In fact, they might develop improved job skills by participating in the ELR program. True full employment with an ELR program would not be more inflationary than the current system because the current system pays unemployed labor for not working and allows labor to depreciate and in some cases unemployed labor might develop behaviors, which might act as barriers to private sector employment. Whereas, with ELR labor is paid for working, this leads to production of real goods and services and thereby increasing aggregate supply and placing downward pressures on prices, rather than causing inflation. Additionally, it is possible that ELR will generate deflationary pressure instead of inflationary pressure because ELR will reduce private and social spending associated with crime, which will lower overall aggregate demand. However, reducing taxes and/or increasing non-ELR government spending can mitigate this. In other words, ELR policy in action will make greater government spending more viable thereby avoiding deflation.

The ELR policy approach is different from “Keynesian” demand management policies since “the buffer stock aspects of ELR generate “loose” labor markets even as they ensure full employment” (ibid p.134). Whereas, the Keynesian demand enhancing policies designed to “prime the pump” could lead to “tight” labor markets due to bottlenecks in some productive sectors which could enhance the entire wage structure so that inflation would be generated long before full employment is reached.

Can the Government Afford ELR Program?

The most significant contribution of Abba Lerner (1943,1947) to economic literature is the principal of “functional finance” which opposes the orthodox notion of “sound finance.” From a functional finance perspective, “money is the creature of the state.” Money is created when the government spends, and is destroyed when the government levies taxes. The government does not need to “borrow” its own money from the public; rather it only “borrows” in order to withdraw excess money from the system and to give savers an alternative interest-bearing asset (bonds). Similarly, the government does not need to tax its population in order to finance expenditures; rather the government needs the public to demand its currency to give it a value. Hence, there can be no financial constraint on the monopoly-issuer of money, that is, the state. A sovereign state can make anything generally acceptable and call it “money”, as long as the state “is willing to accept the proposed money in payments of taxes and other obligations to itself” (Lerner 1947:313).20

From this perspective, the government can offer to hire all unemployed workers at any price it chooses, allowing the government deficit to float as high as necessary to ensure that unemployment is eliminated. Therefore, all the worries about the deficit and the national debt become meaningless when compared to their function, which is financing full employment. The employer of last resort program can act as an automatic stabilizer to keep the rate of aggregate spending in the economy “neither greater nor less than that rate which at the current prices would buy all the goods and services that it is possible to produce.” If the rate of spending is too high, inflation will develop; and if it’s too low, there will be unemployment (Lerner 1943:39).

Conclusion

Keynes envisioned capitalism as a “monetary production economy” with advanced credit instruments where production is for profit. There are highly organized markets for investment, and firms are characterized by the separation of ownership and management. According to Keynes aggregate investment does not depend upon savings but is ruled by the complex of expectations of both investors and lenders. He considers the major problems of modern capitalism to be “failure to provide full employment” and ‘its arbitrary and inequitable distribution of wealth and incomes’ (1936, p. 372). He also identified special properties of money and total spending in the economy is neither more nor less than that which is sufficient to purchase the full employment level of output at current prices. If this means there is a deficit, greater borrowing, “printing money,” etc., then these things in themselves are neither good nor bad, they are simply the means to the desired ends of full employment and price stability (1943, p. 354).

20 Also see Wray 1998a and Bell 2000.

21 It is important to note that “if the currency issued by the government were backed by” and made convertible into a precious metal of relatively fixed supply, then the ELR proposal would become impossible to implement during times of crisis. The government would fear that if it were to hire all the unemployed and allow its deficit to float, then there would always be a run on its currency as the public attempted to convert government money to, say, gold” (Wray 1998a, p.138).
people’s desire for money hoard as the main reason for exis-
tence of unemployment in the economy.

Keynes recognized that the working of free market mecha-
anism does not ensure full employment and equitable
distribution of wealth. Instead, he recommended government
intervention in right amount and right direction to
solve these problems. Keynes also showed that there is nev-
er any financial constraint to aggregate economic activity.
This view was best understood by Abba Lerner, who advo-
cated the idea of ‘functional finance’.

Traditional Keynesian policies based on demand man-
agement might help some, but they will be unlikely to pro-
duce true full employment, and to the extent that they suc-
cceed in providing higher levels of employment in the private
sector, they may be inflationary (Forstater 2001). The Gov-
ernment as Employer of Last Resort (ELR) program is an
alternative to demand management and is consistent with a
Keynesian analysis of the macroeconomy and the principles
of functional finance. As long as there are any unemployed
workers, this is an evidence that aggregate demand is too
low. As workers get hired into public service, government
spending increases, and continues to increase until full em-
ployment. Such a program thus serves as a powerful auto-
matic stabilizer ensuring that aggregate demand is always
at the full employment level. As private sector demand de-
clines (rises), the public service sector grows (shrinks),
maintaining a constant level of full employment by varying
the ratio of private to public employment.

In sum, ELR is the best policy proposal that can increase
effective demand without bringing on structural rigidity
and that can eliminate unemployment while finding some
institutional mechanism for dealing with the functionality
question.

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tember.
Eminent Domain: An Austrian Critique

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Roughly fourteen years ago municipal authorities in New London, CT consented to leveling private property around the future site of a pharmaceutical facility. The intent was to free up space to construct complementary dwellings and offices around the new structure. Years later, the U.S. Supreme Court determined the decision of New London officials was consistent with the United States’ legal architecture, citing that the project was “part of a ‘comprehensive redevelopment plan’ that would provide ‘appreciable benefits to the community’” (Root, 2010). The legal justification for this act was grounded in the principle of eminent domain.

The Takings Clause of the Fifth Amendment to the U.S. Constitution, which qualifies eminent domain, stipulates “...nor shall private property be taken for public use, without just compensation.” This Clause, which has been regarded as something of an equivocque, is such that eminent domain was destined to be a contentious issue in American politics. It was inevitable that this component of the Fifth Amendment would raise two obvious questions, both rooted in semantic ambiguity. First, how does a particular piece of property have to be used for such use to constitute “public use”? Second, what level of compensation is to be considered “just compensation”? While some instances in which eminent domain has been used by the authorities have been less detrimental than others, this twofold difficulty presents itself in every case. As will be shown, no clear-cut answers to the “public use” and “just compensation” questions exist.

Eminent domain has been criticized by academics and laypeople across the politico-economic spectrum. Some have focused their attention merely on the more egregious cases, such as Kelo v. City of New London, mentioned above. Others have been more encompassing in their animadversions of the practice, insisting that the government has a heavy burden of proof if it wishes to justly exploit the principle. In this author’s experience, however, few people contend that eminent domain is necessarily inherently unjust.

The Austrian school of economics has a rich tradition of producing illuminative insights that have provided a strong intellectual justification for freedom, economic liberalism, and private property. The purpose of this paper is to present some of these insights and apply them to eminent domain, in the process demonstrating that it is irreconcilable with individual rights and the principles that govern a free society. In particular, three Austrian contributions to economic thought will be considered, namely that “only individuals choose,” “utility and costs are subjective,” and “private property in the means of production is a necessary condition for rational economic calculation” (Boettke, 2008).

Individual Choice, Public Use, and Public Property

At the outset of his magnum opus, Man, Economy, and State, Murray Rothbard (2004, p. 2-3) eloquently provides our foundation:

The first truth to be discovered about human action is that it can be undertaken only by individual “actors.” Only individuals have ends and can act to attain them. There are no such things as ends of or actions by “groups,” “collectives,” or “States,” which do not take place as actions by various specific individuals. “Societies” or “groups” have no independent existence aside from the actions of their individual members.

Rothbard’s assertion is quite enlightening; while on a superficial level it does not seem controversial, he is in fact criticizing a very common practice: speaking of collectives as if they were individuals. The extent to which this error has infiltrated our language is evidenced in part by the “public use” criterion of the Takings Clause.

If groups do not act, precisely what does the stipulation concerning “public use” require? Each individual citizen can be viewed as a member of the public; accordingly, seizing property that is owned and used by one individual or group for the benefit of another individual or group, both partially comprising the public, seems to be a self-defeating endeavor. It would appear that eminent domain necessitates government officials to arbitrarily declare that certain people are to be considered detached, alien elements of society, nonmembers of the public. In other words, it seems the public is simply comprised of those favored by governmental authorities. This author anticipates two rebuttals to this argument, discussed below.
Some would likely employ a counterargument rooted in rudimentary arithmetic. That is, to determine which party is to be truly counted as a part of the public, simply ascertain which of the two is larger. If, for example, the property of a single individual was seized to build a road, bridge, school, or office, which many people would presumably use, such seizure is consistent with the State’s right to use eminent domain and is appropriate. Implicit in this counterargument is the acceptance of interpersonal utility comparisons as valid. Given that the goal of government is to maximize social welfare, goes the argument, harming one person to improve the quality of many peoples’ lives seems perfectly reasonable.

However, there are serious flaws in such reasoning. First of all, there is no possible way any external party could determine the costs of the seizure to the victim, which is required for one to definitively state that they are exceeded by the gains to the beneficiaries (Pasour, 1978). E.C. Pasour (1978, p. 327) has a strong grasp of this notion:

This cost as it influences choice is based on the decision-maker’s anticipations and cannot be discovered by another person. That is, no one else is capable of accurately assessing the value of the sacrificed alternative by the decision maker. Thus, as recognized and emphasized by the Austrians, the opportunity cost of any activity is inherently subjective.

Given this subjectivity, it becomes quite problematic for any external party to definitively declare that the beneficiaries’ gains from a governmental action exceed the victims’ costs.

In addition to the impossibility of measuring total utility, interpersonal utility comparisons cannot be made, which means one cannot plausibly state that the loss of one is justified by the satisfaction of the many (Rothbard, 1956). That such comparisons can be made is a fundamental assumption in much of mainstream welfare economics. Ludwig von Mises understood that “value judgments a man pronounces about another man’s satisfaction do assert anything about this other man’s satisfaction” a critique he made in his magnum opus, Human Action (Mises, 1998, p. 244). To put it succinctly, “there is no method which would allow us to measure the state of satisfaction attained by various individuals” (Mises, 1998, p. 243). Clearly, if anybody is negatively impacted by an action of government, it is not possible to truthfully demonstrate that this impact was offset by the gains of others.

Another anticipated rebuttal concerns the categorization of the relevant property. Some may contend that, because public property is owned and controlled by the people for the public good, governmental utilization of eminent domain is appropriate if the goal is to replace private property with public property. In light of the Austrian premise that only individuals act, it is reasonable to question exactly what the term “public property” means. While this term supposedly refers to property financed and owned by the taxpaying citizenry, the truth is that, while certainly financed by the public, “the ‘public’ owns no part of the property” (Rothbard, 2004, p. 1277). If ownership is defined as “the ultimate control and direction of a resource,” it becomes essentially impossible for one to “appropriate for his own individual use his aliquot part of ‘public’ property” (Rothbard, 2004, p. 1277). This critique of eminent domain is not wholly rooted in the difficulties of public ownership, however. The truth of this dubious assertion, “eminent domain is justified when private property must be cleared for the construction of public property,” can be tested through empirical analysis.

The primary means by which to nullify this assertion is to simply refer to past court cases. Let us analyze Kelo v. City of New London for purposes of illustration. In a 5-4 opinion, the U.S. Supreme Court upheld the use of eminent domain, a case in which the city “would replace existing private homes in good condition with private office space and parking lots” (Meese et al., 2005, p. 344, italics added). Obviously seized property does not have to be converted into public property for eminent domain to be legally used. What is particularly instructive in this case is the opinion of one of the dissenting judges, Sandra Day O’Connor, who held that “taking of a private property for the benefit of another private party does not constitute public use, unless there is a direct public benefit, such as the elimination of a blighted area” (Meese et al., 2005, p. 344, italics added). That is, upon first glance the decision may appear to be an anomaly, a close case that under similar circumstances could go the other way in the future. In reality, at least one dissenting member of the court believed that one private party benefitting from government’s forcible confiscation of another’s private party’s property is acceptable. It is therefore unambiguous that property for the “public use” is not necessarily tantamount to public property.

The details above do not address another fundamental issue: “public property” is not by necessity any more conducive to individual well-being than private property, and may even be less so. Rothbard states that “government ownership means simply that the ruling officialdom owns the property” (Rothbard, 2004, p. 1277). He (2004, p. 1278-9) further expounds on one potential pitfall of public ownership:

It is curious that almost all writers parrot the notions that private owners, possessing time preference, must take the “short view,” while only government officials can take the “long view” and allocate property to ad-
vance the “general welfare.” The truth is exactly the reverse. The private individual, secure in his property and in his capital resource, can take the long view, for he wants to maintain the capital value of his resource. It is the government official who must take and run, who must plunder the property while he is still in command.

Against the backdrop of both a reasoned analysis and empirical evidence, it would appear that there are no objective criteria by which one can determine if a new project will be for “public use.” In other words, such determinations are arbitrary within the context of the relevant legal framework. Unfortunately, this framework is sufficiently ambiguous to allow for highly questionable governmental actions, such as in New London. The victims of eminent domain might take comfort in the fact that they will receive “just compensation,” but this stipulation only leads to further questions.

What Constitutes Just Compensation?

The qualification that “just compensation” must be provided to the owners of seized property may appear to render eminent domain proper to the uninquisitive observer. If the victim is justly compensated, goes the argument, there is nothing about eminent domain that is inconsistent with property rights. Taken at face value, this author sees no problem with this assertion; the appropriate level of compensation must be determined by some means, however. So what are the means by which one can establish the just level of compensation?

It is important to be cognizant of a well-known neoclassical critique of this stipulation, which stems from the concept of consumer surplus. Consumer surplus can be defined as “the area under the demand curve and above the price line,” the demand curve being a marginal willingness to pay curve (Just et al., 2004, p. 100). “Just compensation is the fair market value of the property taken,” cites one academic (Rams, 1973, p. 26). To contend that “just compensation” is the market value of the property taken is to ignore the discrepancy between the value an individual places on his property, and the market value of that property. People maintain their property because, whether consciously or not, the value they place on it exceeds the market value. The former dropping below the latter would function as an incentive to voluntarily offer the property for sale in the marketplace. In the event that the value attached to the property is exactly equal to the market value, the owner would be indifferent between keeping it and selling it. Subjective valuation is stressed by the Austrians, exemplified by Rothbard’s contention that “it is clear that the determinants of price are only the subjective utilities of individuals in valuing given conditions and alternatives” (Rothbard, 2004, p. 343). He (2004, p. 343) goes on to emphasize that “there are no ‘objective’ or ‘real’ costs that determine, or are coordinate in, determining price.” Correspondingly, efforts to determine “just compensation” in any manner that does not take into account the owner’s subjective valuation of his property, are invalid.

Those unfamiliar with the concept of demonstrated preference may counter by maintaining that this difficulty can be overcome by simply asking the property owner how much he values his property. To incorporate this practice into eminent domain would be highly impractical, as the owner would presumably overstate this value considerably, hoping to realize greater compensation. Government would find it extremely difficult, if not outright impossible, to honor these statements with commensurate compensation. Setting this consideration aside for the moment, there are relevant statements with demonstrated preference. This will facilitate the development of a more robust critique than the neoclassical one presented above.

“The concept of demonstrated preference is simply this: that actual choice reveals, or demonstrates, a man’s preferences; i.e., that his preferences are deductible from what he has chosen in action” (Rothbard, 1956, p. 225). It follows from this that the level of compensation an individual would prefer to his property cannot be ascertained until he actually gives up his property for that compensation. Notice also that demonstrated preference renders meaningless the notion of indifference. “If a person is really indifferent between two alternatives,” says Rothbard, “then he cannot and will not choose between them. Indifference is therefore never relevant for action and cannot be demonstrated in action” (Rothbard, 1956, p. 237). Accordingly, if a person attaches a value to his property that is equal to the market value of that property, but nevertheless abstains from selling it, he is not truly indifferent. In this case he prefers the property to the cash.

In light of these reflections, what can reasonably be said about a just level of compensation? Simple: the government can offer a property owner a certain amount of money for his property. If the owner accepts and sells his property to the authorities, the level of compensation is just. If he does not voluntarily sell, the amount should not be considered such. Subsequent governmental confiscation of the property for that amount should be regarded as unjustifiable. Of course, eminent domain does not consist of government merely offering money for a particular piece of property. It by definition entails the forcible taking of property.

Moreover, even if the authorities acquiesced and decided to carry out eminent domain on a purely voluntary basis, one is confronted with the issue of the source of govern-
ment funds. That is, where does government get the money to offer property owners compensation for its public seizures? The answer is taxation, which is in essence a “coerced levy,” realized by means of “coercion and violence” (Rothbard, 1978, p. 57). Unless the State obtains its revenue solely through noncoercive means, which would consist of the citizenry demonstrating its preference for it by paying taxes with no, in the words of Rothbard (1978, p. 57), “direct threat of confiscation or imprisonment,” even eminent domain on a voluntary basis is unjust. Naturally, if an organization gains its income noncoercively, and it subsequently uses that income to make an offer to buy a certain property from its owner, we are left with two parties bargaining and trading for mutual gain. We are left with the purely free market, in which there is no place for eminent domain.

**Security of Private Property and Rational Economic Calculation**

Placing eminent domain under a scrutinizing light pushes one to conclude that its exercise cannot be predicted based on objective criteria, but is rather exploited by public officials in a fairly arbitrary manner. This was recognized over a century ago:

The term “public use,” as used in connection with the right of eminent domain, is not easily defined. The legislature has no power to take the property of one individual and pass it over to another, unless the use to which it is to be applied is for the public benefit. The question of public use is a judicial one and must be determined by the courts (Pocantico Water-Works Co. v. Bird).

The judiciary is ultimately responsible for the interpretation of the two stipulations by which eminent domain is legally qualified. While this is arguably a marginal improvement over leaving its exercise completely subject to the whims of legislative and executive officials, it remains incontrovertible that this openness to interpretation effectively frustrates the efforts of firms and households to engage in the long-term planning necessary to realize their preferred state of affairs. Rothbard's (2004, p. 279) appreciation of the inextricable relationship between one's planning and one's attainment of a desired end is instructive:

His actions in general, and his action in exchange in particular, are always the result of certain expectations on his part, expectations of the most satisfactory course that he could follow. He always follows the route that he expects will yield him the most highly ranked available end at a certain future time (which might in some cases be so near as to be almost immediate) and therefore a psychic profit from the action.

Upon reflection it becomes quite obvious that, unless economic actors have an impossibly thorough understand-
ecessary condition for rational economic calculation” (Boettke, 2008). To the degree that eminent domain, which is inconsistent with private property rights, is exercised, this “rational economic calculation” is undermined. This may be why one journalist, reflecting upon the phenomenon in New London, has concluded that “economic development that relies on the strong arm of government will never be the kind to create sustainable growth” (WSJ.com, 2009).

Concluding Remarks and Considered Recommendation

Perhaps the most unsettling aspect of _Kelo v. City of New London_ is the recently publicized fact that the project never materialized (Root, 2010). While unrelated to principled criticism of the city’s decision, this certainly augmented the egregiousness of the circumstances. The event did have the positive effect of motivating people to question whether eminent domain is consistent with an individual’s right to property. Whether consciously or not, these inquisitive critics were probably contemplating some of the Austrian ideas this paper has touched on. The insights that individuals act, value is subjective, and private property is an economic necessity, form the intellectual foundation of a scaring indictment of eminent domain. In the past, some had likely taken comfort in the constitutional qualifications that governed eminent domain. However strong this comfort once was, it surely began to deteriorate when the New London authorities initiated efforts to confiscate private property on behalf of another private party. This author has endeavored to show that the Takings Clause is sufficient property on behalf of another private party. This author has endeavored to show that the Takings Clause is sufficient for economic actors to draft and carry out their respective plans to attain desired ends.

The terms “public use” and “just compensation” are open to judicial interpretation. Some instances in which eminent domain is exercised are indeed more unjust than others. Because this component of the Fifth Amendment is characterized by equivocal language, it is practically impossible for economic actors to be truly knowledgeable of the relevant legal architecture. Among other problems, this has made it difficult for economic actors to draft and carry out their respective plans to attain desired ends.

Upon consideration of the pertinent facts it is the opinion of this author that, given the existence of a State with such a power, eminent domain should be exercised on a purely voluntary basis. The government, if it is to respect and uphold an individual’s right to property, would ideally only be legally permitted to make an offer to buy a particular piece of property at a given price. It is inevitable that some, if not most, attempts to use this authority would prove unsuccessful. The irreconcilability of property rights with eminent domain is clear, however:

The government itself is the original holder of the “right of eminent domain,” and the fact that the government can despoil any property holder at will is evidence that, in current society, the right to private property is only flimsily established. Certainly no one can say that the inviolability of private property is protected by the government (Rothbard, 2004, p. 1140).

The strongest refutation of eminent domain may be that if all people had the right to exercise it, “civilization would soon revert to barbarism, and the standards of living of the barbarian would prevail” (Rothbard, 2004, p. 1140). Austrian sympathizer Ayn Rand often stressed the inextricable relationship between “an objective code of rules” and a peaceful, civilized society (Rand, 1967, p. 381). As elaborated hereinbefore, eminent domain as currently exercised is inconsistent with both and should be radically reformed or abandoned outright.

References


Book Review

Aristotle, Adam Smith, and Karl Marx: On Some Issues in 21st Century Political Economy

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The history of economic thought is an area of research and study with limitless boundaries. At least that is the impression one has upon reading Spencer Pack’s awe-inducing book on the connection between Aristotle, Adam Smith and Karl Marx. Although one may walk away believing the purpose of this well cited and researched book as trying to help readers understand the connection between these thinkers, the real purpose is instead to help us get back to conceptualizing the economy and economics as a study in and of administration. Hence the book should best be seen as the work of a dissident expressing his heterodox views and helping readers to understand why he has that worldview.

In fact, Pack gives us his own conclusion right from the very beginning: that the history of economic thought is a tool in the box of the economist, and in order to have a more accurate conception of the economy and government we must return to reason. Pack does not use this word yet, but as it will be seen this is in fact one of the two major concepts he elaborates upon throughout the book. Pack himself divides these two major concepts into six separate concepts: exchange value, money, capital; character, government, and change. Pack distinctly separates these concepts into two camps through his discreet use of the semicolon. As we will see, this is because they are related. Yet more importantly, Pack’s emphasis on reason opens up a can of worms that big thinkers in the modern era avoid like the plague, and that is the understanding of where ideas come from and for what purpose those ideas originally arose. As Pack states, only then can we know what these system builders can teach us for today’s societies and peoples. Hence to understand whether Pack is successful in this endeavor will require analysis of the respective points he makes about each thinker. From there a small critique and discussion can commence.

In starting with Aristotle, Pack lays out the foundational stone for what will later be compared to Smithian and Marxist thought. It was in fact Aristotle that made the original distinction between value in use and value in exchange, as he laid out the normative position that it is use and not possession that constitutes wealth. When it comes to possessions, Aristotle makes a clear distinction between natural and unnatural ways of acquiring them. For Aristotle, an unnatural or bad method of acquiring possessions is through the use of money to acquire more money. As Aristotle notes, coinage probably arose to serve as the medium of exchange, and eventually maintained its value not through its size and weight but through stamps1. Yet it becomes assumed that coins are the objects through which one attains wealth, and hence people accumulate money. So to Aristotle, acquiring wealth through exchange is not natural, or good. It is through this that Pack notes Aristotle developed his concept of justice, where the unjust act of one person who wants too much in exchange hurts another. In order to deal with the problem of injustice, Aristotle needed to find what made goods commensurable so that equal exchange occurs. Since all things are measured by money, for Aristotle money is what makes all things commensurate.

Yet it is the search for this commensurability that will also lead to a flattening of life, where everything has a price and nothing is unique or priceless. It is here that Aristotle argues against a chrematistic society, which is one interested in the end of accumulating more money and hence is unnatural. This behavior is in fact a derangement of the natural, which Aristotle labels a contrary. For Aristotle the needs of the soul are more important than the needs of the body. In fact, the needs of the body should be subservient to the needs of the soul. As Pack notes, it is good, best, and natural for the soul to use its reason to rule over and guide the body, yet lower animals and children basically obey their passions. Hence in noting this, Pack makes a forerunner to his arguments later, in that reason is what distinguishes people from lower animals. Yet in a chrematistic society people become ruled by their passions, which

1 In reading this one finds the humorous yet sigh-inducing parallel to discussions in society today, with Fox News recently claiming (in the discussion of the Platinum Coin Option) that there isn’t enough platinum in the world for Obama to mint a $1 Trillion coin. That Aristotle knew better some 2,000 years ago is really a sign of the times, in some respects. Yet for Aristotle change was circular, in that the same (bad or good) ideas recur continuously.
will overwhelm and rule their wisdom and reason. Hence human excellence for Aristotle and Pack involves reason, and because excellence implies choice and if economics is concerned with the theory of choice, then for Pack Aristotle is very much concerned with economics.

When it comes to the state, Aristotle believed in change. That is, change involves the life, death, and subsequent life of something new. He called changes contradictions, as opposed to contraries which are simply movements. Yet Aristotle was interested in understanding how states changed into their contraries, that is, how good governments became corrupt governments. The creation of government is rooted in friendship, as “people will form a state to help develop their potentialities” and hence “the end of the state is the good life”, the end being related to Aristotle’s final cause (Pack, 2010). Hence the state exists for the good life, to help people flourish and realize their potentials. In order to maintain that state, Pack notes that Aristotle stresses the mean, as too much of one thing can move one into a contrary. Hence “the purpose of the government for Aristotle is to nurture...the character and capacities of its citizens. This is...most easily accomplished where there is a large, strong middle class” (Pack, 2010).

Adam Smith, according to Pack, read his Aristotle and articulated further the difference between value in use and value in exchange. In doing so he like Aristotle wondered what made goods commensurable. What measures exchange value for Smith resides in labor and hence has what is referred to as a labor theory of value. As Pack notes, if labor creates exchange value then it is in some sense exchange value itself. When it comes to money, Smith like Aristotle points out that people come to believe that wealth resides in coins or metal objects rather than what is produced by labor and the land. Yet as opposed to Aristotle Smith presents exchange value as perfectly natural, or as Smith defines it, normal. Where for Aristotle wage labor was unnatural it has become natural for Smith. In addition, it is perfectly natural to lend money for interest. When it comes to money, Smith like Aristotle believed the state helped people to flourish and hence was always necessary. Yet Smith’s enthusiasm was not to be denied as he goes again to noting the advancing of society through time, unlike Aristotle. That is, he believed in historical evolution and development. Where change for Aristotle went in circles, unintended human action actually creates “unidirectional historical change” for Smith. It was the disappearance of feudal relationships and the death of the Dodo bird that Pack notes drove Smith to make this argument of unidirectional change.

In perhaps what is then a reappearance of Aristotle’s circular change, Karl Marx comes into the picture and once again notes the distinction between use value and exchange value. In giving the idea of economic determinism a strong voice, Marx points out that use value “lies outside the sphere of investigation of political economy”. As to the question of what makes goods commensurable, Marx answers that it is abstract general labor, and that as exchange values all commodities are quantities of congealed labor time. What makes goods commensurate is labor in the abstract or human labor power. Labor power is measured by labor time. Human labor power becomes actualized and embodied in commodities. Hence the exchange value of a good is determined “by the amount of labor time expended in its production”. The final cause for Marx in a capitalist society is to produce surplus value. For Marx, the universal equivalent for “universal labor time” becomes embodied in money. Unlike Aristotle, however, and perhaps like Smith, Pack notes that for Marx it is the “existence of money itself which will generate the goal, the desire, to accumulate it” (Pack, 2010), whereas with Aristotle there was a proper way to use money.

Yet where Aristotle was simply focusing on the use of money, Pack notes that Marx was focusing on production as well, which he noted was the process through which more value was created, and depends on the mode of production itself. Pack states: “Marx finds the ability to produce more value, surplus value, in the sale and purchase of labor-power”. For Marx, in the capitalist mode of production we are “governed by the products of (our) own hands”. Yet when it comes to the capitalists’ character, he is “fanati-
cally intent on the valorization of value” and as a capitalist he is only capital personified (Pack, 2010). Although concerned with production, Marx ultimately attributes character problems to the existence of money, which wrecks their character. Marx goes on to repeat the type of character problems associated with the development of capitalism that Smith himself mentioned.

Like in Smith, Marx believed in historical change. Hence that change moves by contradictions and not by contraries. And because of the fact that he believed in historical change, Marx rebelled against Smith’s use of the word natural. Pack notes that Marx “insisted that the world we live in is a social, not natural world. Hence political economy deals with social issues, not natural issues”. Capital itself is a social relation, as it is self-expanding value/dead labor sucking up living labor’s life-force. Yet when referring to the mode of production, he referred to a natural law of capitalist production. As Pack carefully notes, Marx wanted conscious, rational change as opposed to “unconscious change or spontaneous revolution” (Pack, 2010).

So Marx wanted to change the natural, spontaneous system into a system determined by human consciousness and reason. Again, Pack notes that Marx believed that we “now have a social formation in which the process of production has mastery over man, instead of the opposite”, and hence only reason can save us. Even the state comes to be captured under capitalism, creating and legitimizing the valorization process under state auspices. Yet despite this, the post-capitalist society Marx has in mind is ultimately envisioned on Aristotle’s original distinction, that everything has both a use value and an exchange value. In this the workers revolt against the system and use the production processes that exist for purposes of use and not exchange.

Pack brings us then to Marx’s opinion on religion. In stating that famous line where Marx calls religion the “opium of the people”, Pack notes that it has two meanings. On the one hand it gives us “a buzz”, but “on the other hand...it can ease your pain, but also put you to sleep, dull your senses and your brain”. The point is that “Marx wants to replace religion, this opiate of the people, with science”. After all, he viewed his own work as scientific as he “used his reason to uncover and grasp a hold of the truth” (Pack, 2010). In all, Pack notes that what makes Marx's work so long and complex was his devotion to the Aristotelian concern with all four causes, that is, Aristotelian logic, of efficient causes, formal causes, material causes, and final causes.

Finally, Pack brings the discussion of the various great thinkers together in his discussion of 21st century. He notes that Piero Sraffa, after nearly 100 years, brought the subject of commensurability back to the table. To Sraffa, all commodities produce value, which then need to be exchanged for other commodities. In fact, Pack notes, they “must be exchanged for the system to successfully reproduce itself: be that system a theoretical mathematical model, or the capitalist system itself”. This is an interesting interjection in that Sraffa looks at the system from a standpoint of circular production, which by some stretch of the imagination is similar to Aristotle’s circular history (even if Sraffa isn’t writing from the perspective of justice as Aristotle is).

From here Pack, following his analysis that he laid out for himself and the reader, courageously begins to engage 21st century issues regarding money. Speaking from his (Pack’s) own critical perspective, each reader will come away with a different perspective of this section given their respective knowledge on money and the global economy. Speaking from the position of someone who understands monetary operations, bringing in the ideas of monetarists and quantity theorists in assuming that the US government borrowing money could jack up interest rates is simply incorrect, as short term and even long term interest rates (if they so wanted) are controlled by the Central Bank. Even so, this is simply a fall footnote and only benefits Pack’s interesting analysis.

From here Pack differentiates again between Aristotle on the one hand Smith and Marx on the other regarding capital. For the latter capital is not simply acquiring more money; it produces more wealth and value. From here Pack enters a discussion of the so-called transformation problem and once again interjects with Sraffa. At first blush this seems rather bizarre, but Pack interjects with it in order to critique general equilibrium models, arguing that Sraffa’s system can make sense of variations in output and of recessions, while general equilibrium models cannot.

In his chapter and capital and character, Pack eventually returns to Aristotle’s emphasis on wisdom that he (Pack) initially outlined in the beginning of his book. That is, “humans should consume goods ultimately for the life of the mind, for reason, to develop human excellences and potentialities. We need to control our appetities, passions and desires...Passions dominate our reason.” Smith, like Aristotle, “emphasized education, habits and actual experiences in the formation of workers’ character.” In returning to change and government, Pack notes how for Marx “Reason then will replace the Smithian unintended consequences of human action. In another sense we will then be back to Aristotle, where change, especially for the better, is a result of reason realizing itself in the world”. Finally, when bringing religion back into the fold, Pack first states that the “decline of Marxist-inspired governments at the close of the 20th century can also be interpreted at a certain level as a failure of reason”. Pack continues,

The higher tribunal before which every form of existence must justify itself is human reason itself. Therefore, “when, for instance, we speak of the determination of man, and say that the determination is reason, we imply that the external conditions in which man lives do not agree with what man properly is, that his state of existence is not reasonable and that it is man’s task to make it so”...So, reason is revolutionary (Pack, 2010).

Au contraire, is it revolutionary, or simply necessary? Pack notes (multiple times throughout the text) that “there are indeed grounds to think that economic theory itself is returning, and must to some extent return, to its pre-modern concern with administrative issues” (Pack, 2010). That it is best to think of it as necessary rather than revolutionary will be elaborated upon next.
It is here that Pack raises the fundamental issue and question he raises to his readers. How do we return to a world guided by reason? How can science guide us forward without the religious mysticism that both Smith and Marx spoke out against? Yet notably absent from the discussion is any sense of what reason really means. In order to understand this issue thoroughly, one needs to return to the 17th century, a truly revolutionary time for both science and religion. During that period one notices many references to reason. In referencing Spinoza at the end of his book called Ethics, Catherine Wilson notes in passing that “The enlightened subject perceives that the traditional apparatus of theology and ethics is superstitious delusion and yet maintains his commitment to virtue. Reason can determine the rules and find the grounds for appropriate conduct even if death ends personal experience” (my emphasis) (Wilson, 2008). So here it matters to us not that Spinoza discussed religion as delusion, it is rather that this word virtue seems to be connected to religion, and in turn connected to the word reason.

Let us recall that Pack connects the concepts of character and government as in a sense talking about the same issue. Before the issue of virtue and reason can be elaborated upon, it will be useful to take one step back and look at the Hobbesian project. Thomas Hobbes, being a student of Lucretian and Epicurean atomism, despised Aristotle. As Hobbes states, “I believe that scarce any thing can be more absurdly said in natural Philosophy, than that which now is called Aristotles Metaphysiques; nor more repugnant to Government, than much of that hee hath said in his Politiques; nor more ignorantly, than a great part of his Ethiques” (Wilson, 2008). As Wilson notes, Hobbes’ originality consisted in his substitution of the question What is the function of the ruler and what powers enable him or it to fulfill that function? for the question Who should the ruler be? (author’s emphasis)...The ancients, in Hobbes’ view, had failed to theorize any stable basis for government, and their political behavior was reprehensible” (Wilson, 2008).

Hobbes’ world was one where self-interest dominated, and only through a sovereign leader, the Leviathan, can one have a “safe environment for human industry”. It must be stated as well that Hobbes was against incorporeal, metaphysical reasoning as abstracted to the ruler of the state (that is to say, religious connotations and reasoning). As Wilson well states, “the Lucretian account of the formation of the state upon which Hobbes as well as able to draw began with solitary humans existing in a state of nature and ended with the imposition of law and order...the historical emergence of a social contract (was made) narratively compelling, and provided the rationale for obedience to authority that rested on the desire for peace”. (Wilson, 2008) Ultimately, Hobbes tried to arouse the “mundane fear for their persons, as opposed to the transcendential fear for their souls in his readers”. In doing so, Hobbes boasted of having derived “the Rights of Sovereigne Power, and the duty of Subjects hitherto, from the Principles of Nature onely; such as Experience has found true, or Consent...has made so”. Hobbes stated, following his Epicurean philosophy, that all humans desire “Ease and sensuell Delight”, and that “this desire to be free from pain is the only possible ground for political authority”. In Hobbes view, “virtue for virtue’s sake was as inane a creed...as knowledge for the sake of knowledge, or rules by the natural rulers” (Wilson, 2008).

Yet as Wilson noted, Hobbes articulation of the state of nature are not the laws of nature of “Pauline Christianity and St. Thomas Aquinas...They are not descriptions of behavior that is typical of the species, often observed in other living creatures, that correspond to an innate disposition. Reminiscent of heterodox critiques of the orthodox economics literature, Thomas Tenison made an interesting remark of Hobbes, Object(ing) to the hypothesis of the state of nature without government, maintaining that, while speculative astronomical hypotheses concerning the stars were matters of indifference, insofar as nothing in human life depended on their truth, “fancied Schemes and Models of Polity” threaten “the Temporal and Eternal safety of mankind...Hypotheses, framed by imagination, and not by reason assisted with Memory, touching the past state of the World, [are] as exceedingly dangerous as they are absurd” (Wilson, 2008).

Here we have perhaps one of the most magnificent statements one can possibly cross. Tenison objects not only to Hobbes’ atheistic conception of the sovereign, but also for purposes of science objects to a priori, deductive reasoning as a method of analysis. Here we have perhaps the first criticism in more modern times of the hedonic analysis initiated with such force by Thomas Hobbes. Reminiscent of Aristotle, John Edwards maintained that “the rules of righteousness are no imaginary and precarious things, nor do they depend upon humane Institution and Arbitrement, but they are Real and True in themselves, they are Solid and Substantial, there being an Intrinsick Goodness and Excellency in them” (my emphasis). Finally, Leibniz, in his critique of Hobbes, notes that “I for one would prefer to measure moral worth and reason by the unchanging rule of reason which God has undertaken to uphold”.

What does this form of reason, filled with all sorts of religious connotations, ultimately lead to? Leibniz ultimately stated that “religious skepticism (a la Hobbes) should not be freely promulgated and that censorship was necessary”. Herein lies the problem for the modern scientist like Pack who wishes to return to what he calls reason. If reason was, for centuries, connected to the idea of virtue, or having character traits of goodness, obedience, and chastity, then the ideas of Marx and many others in pushing for a return to reason through the advance of science alone has no historical basis. Pack mentions of course that Marx believed he had grasped the truth and was perhaps too self-confident in his assertions, but didn’t take away from his (Pack’s) belief that Marx was onto something.

Even worse, one can make the argument that 18th century thought from Bernard Mandeville, Francis Hutchison, 1 Even if, as some argue, he used Aristotelian logic. See Marco Sgarbi’s “The Aristotelian Tradition and the Rise of British Empiricism” for evidence of that viewpoint.
David Hume, and ultimately Adam Smith destroyed the old order that Aristotle and the religious ancients like St. Augustine pronounced in their conceptions of character and the state (Brown & Morris, 2012). This was through the Humean and Smithian conception of human nature as ultimately being fine, and that (as Pack notes) it is sympathy (or what we today call empathy) that controlled our passions and made us sociable creatures; “fallen reason was ultimately incapable of providing for a guide to action” (Harrison, 2008). Peter Harrison argues that 17th century science was woven into ideas of the fall of man and that the idea that the rise of science was somehow separate from religion is categorically untrue. Authors like Francis Bacon thought of science (and more importantly induction) as the means through which we can perhaps recover some of the lost knowledge when Adam ate the forbidden fruit. The references to the fall of man during the period are all too common for the modern scientist to ignore. As Harrison notes, Alasdair MacIntyre has argued that the this new conception of the depravity of reason, promoted by Protestants and Jansenists, accounts for the abject failure of eighteenth century moral philosophy...for it was heir to a newly impoverished reason that was totally inadequate for the task of constructing a coherent moral philosophy (Harrison, 2008).

Although Pack does not make a wider reference to the discussion on reason, religion, and science, his argument that a return to reason is the best way forward seems entirely justified. In addition, the return to reason also suggests (as Pack states) that the post-modern world will perhaps once again enter the pre-modern world. Of course to state such a thing with certainty would make the mistake that Karl Marx made. However, such a return of course raises larger questions that this review and Pack’s book has only touched upon. Spencer Pack’s aim may have only been to show us the way, to tell us what we need to focus on and to guide our studies from that point of departure. That is, his Aristotelian conception of circular change does not deny that to have change there must be purposeful action. As a PhD student with an emphasis on Public Administration, I personally have found his book to be the most enlightening, thoughtful, and well-researched books I have perhaps ever read. The book was ultimately successful in touching upon the six conceptual areas it strove to focus on. Like Pack, I can only hope that I live to see the day when we as human beings can come to recognize our shared interdependence and create the kind of society where all of our children can and live the kind of lives we want for them...the kind of life where money is no longer an object, and where use value takes precedence over exchange value.

References

First Annual Conference for Interdisciplinary Social Science

UMKC

Welcoming Dr. Andrej Grubacic

Taking Back Our Cities

This is a conference designed to celebrate the intellectual achievements and discoveries being made in Interdisciplinary research at UMKC. We are specifically looking for paper submissions exploring the themes of urban activism, methodology, and space and place based analysis, in order to discover alternative socially and ecologically friendly genres de vie. Now accepting paper submissions until February 28th. Send all inquiries and submissions to SCCConference@umkc.edu.

April 26-27, 2013
Call for Papers and Proposals

1st UMKC Conference for Interdisciplinary Social Science

The Big Questions

What does it mean to be interdisciplinary?
What does an interdisciplinary education provide?
How does one teach interdisciplinary social science?
Where is the common ground between/among disciplines?

Conference Objectives and the Invitation for Papers: One of the objectives for developing an annual conference for interdisciplinary social science is to provide a forum for expanding the dialogue across our campus to address the “Big Questions” as well as to discover potential relationships between our departments and to find opportunities for “cross-pollination” with existing local, regional, and international partnerships. While it is billed as a conference for interdisciplinary social science, it is not meant to exclude the natural sciences or the humanities. Quite the contrary, we see the social sciences as a potentially mediating framework for connecting these three major divisions of human inquiry, and we encourage participation by all schools and disciplines. By selecting the topic of urban change and specifically the relationship between scholarship and activism, we hope to enhance UMKC’s commitment to its responsibilities as an urban campus. To accomplish these goals, we would like to invite papers discussing change (or stagnation) in our urban environments. This subject matter is broadly framed intentionally to provide inclusiveness, while at the same time providing the specificity required for the generation of productive dialogue and networking opportunities.

Roundtable Proposals: In addition to inviting papers for the conference, we would also like to invite suggestions for roundtable discussions to be led by faculty, students, or community organizers to address theoretical issues facing interdisciplinary education and research in urban development, as well as the process of putting theory into practice. We hope that these discussions will provide an enhanced experience not always encountered at conferences, and provide greater freedom to explore new ideas and approaches.

Volunteers: At this time we are also looking for volunteers to contribute in a variety of roles, including (but not necessarily limited to): logistics, paper readers, moderators, and promotions.

Procedure and Deadlines: Please submit paper and roundtable proposals to SSCConference@umkc.edu. The deadline for Roundtable discussion is January 31st and papers should be submitted no later than February 28th. All inquiries or expressions of volunteer interest may also be addressed to the email address above.