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# Comment on Khan, Li and Weisbrot (Thomas Weisskopf Festschrift Conference Paper)

James K Boyce, *University of Massachusetts - Amherst*

POLITICAL ECONOMY RESEARCH INSTITUTE
PERI
University of Massachusetts Amherst

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Gordon Hall
418 North Pleasant Street
Amherst, MA 01002

Phone: 413.545.6355
Fax: 413.577.0261
peri@econs.umass.edu
www.peri.umass.edu

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# PREFACE

This working paper is one of a collection of papers, most of which were prepared for and presented at a festschrift conference to honor the life's work of Professor Thomas Weisskopf of the University of Michigan, Ann Arbor. The conference took place on September 30 - October 1, 2011 at the Political Economy Research Institute, University of Massachusetts, Amherst. The full collection of papers will be published by Elgar Edward Publishing in February 2013 as a festschrift volume titled, *Capitalism on Trial: Explorations in the Tradition of Thomas E. Weisskopf*. The volume's editors are Jeannette Wicks-Lim and Robert Pollin of PERI.

Since the early 1970s, Tom Weisskopf has been challenging the foundations of mainstream economics and, still more fundamentally, the nature and logic of capitalism. That is, Weisskopf began putting capitalism on trial over 40 years ago. He rapidly established himself as a major contributor within the newly emerging field of radical economics and has remained a giant in the field ever since. The hallmarks of his work are his powerful commitments to both egalitarianism as a moral imperative and rigorous research standards as a means.

We chose the themes and contributors for this working paper series, and the upcoming festschrift, to reflect the main areas of work on which Tom Weisskopf has focused, with the aim of extending research in these areas in productive new directions. The series is divided into eight sections, including closing reflections by our honoree himself, Professor Weisskopf. Each section except for the last includes comments by discussants as well as the papers themselves.

The eight sections are as follows:

1. Reflections on Thomas Weisskopf's Contributions to Political Economy
2. Issues in Developing Economies
3. Power Dynamics in Capitalism
4. Trends in U.S. Labor Markets
5. Discrimination and the Role of Affirmative Action Policies
6. Macroeconomic Issues in the United States
7. Applications of Marxist Economic Theory
8. Reflections by Thomas Weisskopf

This working paper is 4 of 4 included in Section 2.

*- Jeannette Wicks-Lim and Robert Pollin*

# *Comment on Khan, Li & Weisbrot*

James K. Boyce

## TAKING THE STATE SERIOUSLY

When it comes to the state, an odd schizophrenia afflicts the American public on both the right and left of the political spectrum. The right mistrusts the state in theory but loves it in practice. The left loves the state in theory but mistrusts it in practice.

The right's love affair with the state is most ardent in the case of the military, the U.S. government's biggest single component, but it extends to other creations of 'big government,' too, including nuclear power, the death penalty, the war on drugs, border fences, and prisons. The left's mistrust of the state is evident when it decries imperialism, militarism, corporate welfare, infringements on civil liberties, and the co-optation of politicians by moneyed interests.

The chapters in this volume by Sharukh Khan, Minqi Li, and Mark Weisbrot invite us to think more deeply about the nature of actually existing states, drawing in particular on experiences in the developing countries of the global South.

## MILITARY-INDUSTRIAL COMPLEX, SOUTHERN-STYLE

Khan focuses on Pakistan, a state that now in many ways exemplifies the military-industrial complex against which U.S. President Dwight D. Eisenhower warned in his 1961 farewell address:

> In the councils of government, we must guard against the acquisition of unwarranted influence, whether sought or unsought, by the military-industrial complex. The potential for the disastrous rise of misplaced power exists and will persist.

After describing the dominance of the military in the Pakistani state and economy, Khan compares Pakistan and China in terms of the managerial capacities of their respective governments. In analyzing state capacities it can be useful to distinguish between the ability to do something and willingness to do it. The Pakistani state, as Khan points out, displays considerable ability when it comes to defending and advancing the interests of the military officer corps. The fact that the state has done so little to improve the lot of the Pakistani people springs not from an inherent ability deficit, but rather from an unwillingness to deploy resources to that end.

Why are some states willing to invest in the broad-based well being of their citizenry, while others put the interests of political elites ahead of the interests of the people? Why, in other words, do some states succeed while others fail in meeting the challenges of economic development? The answer, I believe, lies in the distribution of power.

Khan (p. 113) hints at this when he writes that 'a take-off can create opportunities for [re]distribution and pressures for it,' as 'people fight for a larger share of the larger pie (worker strikes in China) or the state engages in distribution because of the likely social conflict and other constraints to growth if they do not.'

This brings to mind the hypothesis on the distribution of power that Simon Kuznets advanced nearly half a century ago:

> One may argue that not only the welfare equivalents but also the power equivalents of the same relative income show a much wider range when the underlying average income is low than when it is high; and this means that as time goes on, the spread in economic power will perpetuate and widen still further the underlying income differentials. (Kuznets 1963, p. 49)

If economics were simply the story of a vicious circle in which disparities in income and power perpetually reinforce each other, it would be a dismal science indeed. But history and politics play crucial roles, too, as Kuznets himself recognized in concluding that the study of economic development requires 'a shift from market economics to political and social economy' (Kuznets 1955, p. 28).

What circumstances can explain the differences between the willingness of the states in Pakistan and China to serve the people? Here I will mention only two factors. First, in China the 1949 revolution and subsequent land reform resulted in a profound redistribution of wealth, which brought about a far more democratic distribution of power in the countryside, notwithstanding the quite undemocratic features of the communist regime. In Pakistan, by contrast, the landed oligarchy survived the political transformations wrought by partition and independence in 1947. Second, China experienced relatively little external intervention after the revolution. Indeed the country was virtually isolated from the 'free world' for more than two decades. In Pakistan, by contrast, the military's rise to political dominance was aided and abetted by large injections of U.S. economic and military assistance, notably in the early 1970s, when Pakistan's government was rewarded for facilitating Henry Kissinger's gambit to play the 'China card' against the Soviet Union, and above all after the Soviet invasion of Afghanistan in 1979. While differences in agrarian structure and foreign involvement do not tell the whole story, they are important strands in the two countries' starkly divergent postwar trajectories.

## STATE VERSUS MARKET, OR DEMOCRACY VERSUS OLIGARCHY?

In his paper Li advances an argument for socialism, framed in terms of the state-versus-market dichotomy that defined the political left and right in the 20th century. Capitalism is identified with the dominance of the market and private ownership of the means of production; socialism is identified with central planning and state ownership of the means of production. He predicts that socialism will be on the agenda in the 21st century, as the world grapples with financial instability, global class conflict, and the crisis of global ecological sustainability.

The state-versus-market framework conflates three dimensions of difference into one. Two are explicit in Li's account, while the third is implicit. The first is the difference between private and public ownership, theoretical poles between which in practice there is a wide continuum. Not only do real-world economies have a mix of private, public, and common property rights, but also the bundle of sticks that comprise these rights – such as the rights to access, extract, manage, exclude, and sell – can be and often are unbundled, with different sticks held by individuals, firms, communities, and the state (Cole 2002).

The second dimension is the difference between the market and central planning as mechanisms for resource allocation. Again, this is a continuum rather than a binary distinction. Markets play a role in the most 'socialist' of regimes, and state planning plays a role in the most 'capitalist'. This is no accident, since both market allocation and state planning have practical advantages that cannot easily be tossed aside for the sake of ideological purity.

The third dimension is the distribution of wealth and power. The poles on this spectrum can be called democracy and oligarchy, where these terms are understood to refer not simply to the presence or absence of formal institutions such as free elections, free speech and freedom of assembly, but more fundamentally to the distribution of power across the population. Power and wealth are closely correlated, although the relationship between the two is an interesting topic in its own right (MacEwan, this volume). Although Li does not explicitly include this in his definition of socialism, on the political left most people believe that public ownership and state planning go hand-in-hand with a more egalitarian distribution of wealth and power. On the political right, most believe the opposite.

These three dimensions of difference – allocation, ownership, and distribution – are not necessarily congruent. As an illustration, consider the Regional Greenhouse Gas Initiative (RGGI) launched in the northeastern U.S. states in 2008, in which state governments auction off to power plants a limited number of emission permits with the total number of set by a cap. This is an example of what is often dubbed a 'market-based incentive' approach to environmental regulation, as opposed to conventional 'command-and-control' regulations. The labels 'market-based' and 'command-and-control' invoke the rhetoric of the market-versus-state dichotomy, so RGGI might be seen as a move towards the 'capitalist' end of the allocation spectrum. Under command-and-control regulations, however, pollution that is legal is *free*: polluters pay nothing to use our air and water as sinks for wastes. Under RGGI, prior regulations are now coupled with the requirement that polluters must pay the government to pollute by purchasing permits. RGGI thereby extends public ownership, transferring property rights from polluters to the public, and in this sense it might be seen as a move towards the 'socialist' end of the ownership spectrum. Finally, whether RGGI moves towards the democratic or oligarchic end of the distributional spectrum depends on who bears the final cost of the permits and who gets the money. On the cost side, the effect is likely to be regressive as permit prices are passed through to consumers, but on the benefit side, the recycling of auction revenues to the public via rebates, energy efficiency programs, and public goods can be strongly progressive (Boyce and Riddle 2010).

In making the environmental case for socialism, Li argues that under capitalism firms must relentlessly accumulate capital, resulting in 'uncontrolled growth that in the long run inevitably leads to ecological catastrophes' (Li, p. 1). I do not wish to belittle the environmental damage that has been wrought by capitalism worldwide. But in assessing this argument, it is important to add two caveats. First, investment in human capital and natural capital is capital accumulation, too, although it is not always adequately recognized as such in actually existing capitalist (or, for that matter, socialist) economies. Second, the historical evidence does not clearly show that capitalist economies have grown faster than socialist economies or been more environmentally destructive per unit output.

I think that a compelling case can be made that environmental quality depends on how the economy is organized, and that the environmental challenges of the coming century will require profound changes in our economies. But the connection cannot be reduced to a simple capitalism=economic growth=ecological collapse equation. It rests instead on the relationship between the distribution of wealth and power and the magnitude of environmental degradation. In an oligarchy, the wealthy and powerful can reap most of the benefits from environmentally degrading activities while displacing the costs onto others. In a democracy, those who bear environmental costs have greater power to constrain the actions of those who benefit from environmental degradation.

If this is true, then the balances between market and state allocation and between public and private ownership may be less important than the distribution of wealth and power. To put matters bluntly, without a democratic distribution of wealth and power, no amount of state planning or public ownership will suffice to protect the environment.

## NEOLIBERALISM AS STATE FAILURE

To say that the state-versus-market dichotomy less important than the democracy-oligarchy dichotomy is not to say that it is unimportant. On the contrary, the balance between state and market as mechanisms for resource allocation, as well as that between public and private ownership, can have important consequences for efficiency, equity, sustainability, and democracy itself.

In his contribution to this volume, Weisbrot documents the distinct slowdown in economic performance around the world in 1980-2000, the heyday of the policy mix known as 'neoliberalism.' These policies – centered on free trade, deregulation, and privatization – led to sharp turns towards market allocation and private ownership. Some countries, such as the United States, also moved towards the oligarchic end of the distribution spectrum (Hacker and Pierson 2010).

In much of the world, economic growth fell by half or more compared to the two prior decades. A more inclusive measure of economic performance – for example, one that does not count a shift from unpaid care labor performed in the home to wage employment outside the home as a pure gain in national income – would show an even steeper decline. Growth recovered in many countries after 2000, a change that Weisbrot attributes in part to moves away from neoliberal policies.

The economic failure of neoliberalism was rooted in a specific type of state failure: the inability of the downsized state to meet the challenges of economic development. Neoclassical political economy, which provided the intellectual framework for the neoliberal policy agenda, focused on a different type of state failure: the domination of the state by 'rent-seeking' pressure groups that pursue their self-interest at the expense of both efficiency and equity (Krueger 1974; Becker 1983). The neoliberal prescription was to minimize this failure by minimizing the size of the state.

An alternative prescription is to democratize the distribution of power, so as to minimize the ability of some people – the 'one percent' – to wield disproportionate influence on the state at the expense of everyone else (Boyce 2007). As a remedy to state failure, the democratic solution has several advantages over the neoliberal solution. First, there is an irreducible need for a state, even if its role is pared to a bare minimum of enforcing property rights and providing crucial public goods, and without a democratic distribution of power these functions will still be afflicted by rent-seeking. Second, states can do some things better than markets. For example, high transaction costs often pose an insuperable barrier to private solutions to negative externalities (Coase 1960); similarly, states may be better placed to channel investment to uses that generate large positive externalities (Griffin and Enos 1970). Third, without a democratic distribution of wealth and power, markets, too ,will yield inequitable outcomes and fail to operate efficiently due to unchecked market power. Last, but not least, democracy has intrinsic as well as instrumental value: it is an end-in-itself, as well as a means to economic ends (Sen 1999).

Taking the state seriously means taking both market failure and state failure seriously. It means thinking not only about the right degree of state control over the means of production and resource allocation, but also about the core issue of control over the state itself. This means engaging with the historic struggle to build and sustain real democracy.

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