

Letter to the Central High Guys: Political Economy and Politics

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I graduated from Philadelphia's Central High School in 1960 in the 214th class. One of the great pleasures of my life has been my ongoing contact with a group of Central alumni, which in recent years has taken the form of an email list. In even more recent years the Central High guys (until 1983, Central had only male students) have been agitated, along with many of their fellow-citizens, by surprising and often alarming events in U.S. national politics, particularly the unwelcome and unexpected (apparently even to himself) election of Donald Trump as president. The email list is full of questions about just how the country got to this point, just what "this point" actually is, and what, if anything, might be done to avoid further deterioration or possibly reverse it.

Some of these issues touch directly on political economic questions I have spent a good deal of my professional life (teaching and publishing in the field of economics at various institutions, most recently at the New School for Social Research) investigating and thinking about, and about which I have views that I don't see widely disseminated in public media. Explaining the background and source of my thinking requires a lot more space than an email, so I have decided to explain my thinking in the form of an extended letter to the Central High guys. The focus of this discussion is political economy, because that is the angle I have given most attention to. I feel less confident in my opinions on various other important aspects of the U.S. political situation, particularly the role of revived racism and sexism in national political discourse, and will say less about those questions, not in the least to minimize their significance.

Unintended consequences

Running through any serious discussion of political economy is the theme, a favorite of the eighteenth-century enlightenment, of "unintended consequences". This tragicomic extrapolation of the ideas of human blindness and limitation in Greek drama emphasizes the idea that when human beings think they are

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doing one thing, they are invariably doing a number of other things at the same time. Some of these “other things” are bound to turn out to be quite different from what the actor thinks they are doing, and some of them destructive to the actor’s main conscious purpose. (Whether this pickle leads to tragedy or comedy depends a lot on the tone and temper of the teller of the tale.) While the “main” object of an actor’s efforts is likely to be the most salient to the actor, it is often the unintended consequences of the actor’s efforts that turn out to be most important to their fellow human beings. Henry Ford’s fixation on providing cheap motive power based on the internal combustion engine indirectly leads to urbanization, suburban sprawl, and global warming.

One poignant set of examples of unintended consequences arise in situations where many essentially identical actors pursue essentially identical goals, but in which each actor’s efforts foster or interfere with the efforts of the others. In these situations the incentives to the actors as individuals can easily be at variance with their social interests. If any actor could decide the level of the action knowing that all actors (including themselves) would be compelled to choose that level of the action, they would choose a “socially coordinated” level that would serve everyone’s interest. But if the individual actor, even knowing what the socially coordinated level of the action is, has to choose a level of the action taking the actions of others as given, private incentives in general lead to too high or too low a level of the action. This is the “prisoners’ dilemma” or “tragedy of the commons” of modern game theory.

Deep background: socialism and the mixed economy

Political economy, particularly in the writings of Adam Smith, David Ricardo, and, in the role of a critical reviser, Karl Marx, has a lot of insight (mostly lost or distorted in the insipid “economics” curriculum of the present day) into just what constitutes the dilemma of modern social life. At the risk of trying your patience, let me begin with these insights.

I like to think of Adam Smith’s justly famous vision of the division of labor in terms of a metaphor of a wheel consisting of a hub and spokes. Each “producer” in Smith’s general language (maybe an individual hunter in the forest, maybe a guild workshop, maybe an enormous capitalist corporation) faces the choice of diversifying production (like Robinson Crusoe) at the hub, and producing all of their needs on their own, or specializing in the production of a narrow range of products in one of the spokes. The irony of this choice lies in the fact that a team of specialized producers can produce much more per producer than each of them can by diversifying. Specialization and the division of labor (which Smith sees as an effectively unbounded process limited only by growth in the number of specialized producers) offer a bonanza of material reward.

This fairy-tale promise of riches comes with a fairy-tale catch. The producers who specialize wind up with a lot more of whatever product they specialize in

than they can possibly use themselves, and in desperate need of a whole range of other products both to reproduce themselves as human beings and as inputs to their specialized production. The producers face a “social coordination” problem, first, in distributing themselves in a more or less viable way along the spokes of the wheel to provide at least a roughly balanced composition of the total product, and, second, in distributing the (large) output of the division of labor among its producers.

Since it plays some role in the thinking of many people about this problem, it is worth spending a moment considering a “spontaneous socialist” solution to this social coordination problem. This socialism would work in the following way: each producer would choose a branch of production in such a way as to lead to a balanced composition of product, produce at the high level made possible by the specialized division of labor, and then give an equal fraction of their product unconditionally to other producers. If everyone behaved in this way, each producer would get the full benefit of the social division of labor by collecting a proportion of the output of each spoke of the wheel. The rules of spontaneous socialism are reasonably simple and could be implemented largely through decentralized choices of individual producers. In the spontaneous socialist system products would be costless, not because there was no cost of human effort in producing them, but because each producer had a sufficient surplus to provide for the needs of others.

Spontaneous socialism, however, is not really spontaneous because of the temptation to each producer to cheat the system by not producing their share of the total output, counting on the transfers from other producers to sustain their standard of living. While this could work for any one shirking producer, it obviously will lead to the collapse of the system if a large proportion of the producers fall into temptation. Spontaneous socialism is somewhat like the Garden of Eden of social production, in which we catch a glimpse of a world of plenty based on cooperation and distribution of products according to need.

Smith and Marx, as is characteristic of the political economy tradition, regard individual variations in talent and productivity as secondary issues in understanding the social division of labor (in sharp contrast to modern economics). From this point of view human beings are potentially adaptable to any role in the division of labor, though the process of adaptation may involve training and experience that occupy a large part of any individual human life. Smith briefly but eloquently sums up this point of view by contrasting the “porter” (a menial servant of a college) with a “philosopher” (a professor), and observing that when they were children neither their parents nor playfellows saw all that much difference between them. Training, experience, and life choices of the kind young people make in modern society, Smith argues, gradually shapes the behavior and capabilities of the two to the point that the philosopher scarcely recognizes their essential similarity. This classical view of human beings as equal in potential underlies the Declaration of Independence and the radical implications of enlightenment thinking. But the porter and the philosopher, after all, have very different standards of living and different stations of life. The tension between their potential equality and their concrete differences is an inescapable aspect

of the experience of modern social life.

Adam Smith does not even mention spontaneous socialism or any variant of it in his discussion of the division of labor. He assumes from the outset that distribution of the large output of the division of labor will take place through *quid pro quo* exchange of the products (or in his language “truck and barter”). As Marx, following Smith, puts it, the product ceases to be a “use value” to its producer, who has too much of it, but, because other producers need it, it becomes an “exchange value”, or, in Marx’s terms, a “commodity”, that is, a product in a system organized by the exchange of products as private property. For Smith the exchange of products as commodities is a natural and beneficent phenomenon, in which Smith sees the operation of an “invisible hand” guiding individual decisions to social ends. Marx, on the other hand, regards commodity production as “irrational” because it mediates the fundamentally cooperative social division of labor through antagonistic relations of private exchange.

Both Marx and Smith explain, neither perhaps completely clearly, that the process of exchange of products of the social division of labor as commodities will rapidly lead to the emergence of money. Rather than direct exchange of each producer’s surplus product through a matching of needs with other producers in a system of barter, all producers accept one produced commodity in exchange for their product whether they need it or not. The money commodity (gold, for example) represents pure exchange value, even if, like gold, it also has a residual use value (for example as a conductor in electronic circuits or to repair decayed teeth).

The emergence of money greatly amplifies the unintended consequences of production through a specialized division of labor organized through commodity exchange. While any accumulation of products as private property can represent a source of wealth and power, there are inherent limitations to the magnitude of accumulation of particular non-money commodities. But there is no effective limitation to the accumulation of money itself. As a result, the distribution of wealth in a commodity-producing society becomes subject to statistical-dynamic laws akin to those governing the distribution of energy in confined gases. The exact operation of these statistical-dynamic laws is a fascinating scientific issue in its own right, but would take this discussion too far afield. Suffice it to say that, despite the widespread impression that the result of random interactions will lead to roughly uniform outcomes, it turns out that in systems with constraints such as monetary economies (or confined gases) random interaction leads to highly skewed outcomes, in which a small number of the producers (or molecules) have very high relative wealth (or energy) and the large majority of producers a relatively low wealth.

Because the statistical-dynamic factors at work are so pervasive and powerful, it is very difficult to avoid sharp inequality as an unintended consequence of the specialized division of labor organized through decentralized exchange. A perennial fantasy of enthusiastic apologists for the virtues of the division of labor is the notion that somehow you might have commodity production and exchange in a roughly egalitarian society. But, like the nasty side-effects of some medical treatments, inequality tags along with the material advantages of

the specialized division of labor, thereby framing the typical dilemma of modern social life, abundance due to high and rising productivity coexisting with constantly reproduced want and unmet human needs.

Marx takes Adam Smith's story a crucial further step in explaining the emergence of social classes from the specialized division of labor organized through the exchange of products as commodities. The division of labor leads to an enormous increase in the scale of production, and in the scale of the means of production, tools, equipment, factories, vehicles and the like, required to realize the productive advantages of specialization. The "producers" on the spokes of the wheel, Marx argues, become capitalist firms, in which the direct producers are hired as wage laborers to work with means of production owned by the wealthy. Wage laborers exchange their potential labor for a money wage. The capitalist system, however, works by extracting a high level of labor effort from workers. The typical wage worker exerts a larger effort than the equivalent of the money wage, resulting in a pool of unpaid labor effort capitalist firms extract in production. A widespread and very effective method of incentivizing high levels of work effort is to pay each worker somewhat more than the worker can expect to earn in alternative employment, and threatening the worker with dismissal if the employer detects an unsatisfactory level of effort.

The dominance of capitalist firms based on wage labor has far-reaching consequences for modern society, consequences that are at the root of much of the political and economic conflict characteristic of these societies.

While each capitalist firm contributes to the pool of unpaid labor effort by exploiting its workers, the firm cannot directly appropriate that unpaid labor effort, which is embodied in the particular product the firm produces. Competition among firms can change prices of commodities with the consequence that one firm may appropriate in the form of money profit the unpaid labor effort extracted by some other firm. Marx argues that profit, rents, interest, and other forms of property income are all counterparts of unpaid labor exploited somewhere in the whole system of capitalist commodity production, different forms of what he calls "surplus value". Looked at from the point of view of exploitation in production, the counterpart of surplus value appropriated by capitalist firms (and others, such as resource owners) is the pool of unpaid labor effort extracted from workers somewhere in the system of specialized production.

An extreme case is the owner of a productive resource such as petroleum reserves, or particularly fertile land, who can appropriate a money rent by threatening to exclude capitalist producers from access to the resource. The rent is a counterpart to unpaid labor extracted somewhere in the system, but the resource owner may not exploit labor directly at all. A similar competitive phenomenon underlies the incomes of capitalist firms based on intellectual property or monopoly control of advertising, such as Google or Facebook.

Marx sees the origin of social class divisions in the inherently antagonistic relation of workers and capitalist employers over the extraction of unpaid labor effort in production. This antagonism is the perennial background for the most varied political spectacles of capitalist society. At the level of the "system as a whole", class division between workers and capitalists is a contest over the

standard of living of workers and their working conditions to determine the division of value between wages and surplus value.

This level of class conflict tends to remain invisible to individual workers and capitalist firms, for whom the rate of exploitation is a part of the social environment beyond immediate control. At the level of the individual employee of an individual firm, working conditions and wages are negotiable and controllable jointly by the employee and the firm, whose interests are not always opposed. In general it is to the employer's advantage to have workers expend more effort for less monetary compensation, but there are many exceptions to this rule, situations where it is advantageous to employers to give workers more autonomy in controlling their own effort, or even to pay workers more than absolutely necessary in order to keep them from quitting. The "power of the sack", that is, the effectiveness of the threat to fire workers for under-performance, probably the most efficient promoter of high labor effort in capitalist economies, ultimately depends on employers paying workers more than this minimum in order to give them an interest in keeping their jobs.

The social division of labor organized as capitalist commodity production is a fairy-tale mixture of blessing and curse. The division of labor, combined with the powerful incentives capitalist production creates to extract high levels of worker effort, leads to levels of worker productivity that are astonishingly high in historical perspective. Industrial and post-industrial capitalist economies offer unprecedented levels of material wealth on average. But the curse that comes with this gift is the antagonistic relations of production and distribution, which inexorably depresses the life chances of a large part of the population. There is plenty of wealth, but it is so badly distributed that there are also constant unmet human needs on an equally gigantic scale. The standard of living a person without special skills (for example, in fields such as performance, sports, or writing and other creative endeavors) can sustain outside the social division of labor through diversified production using freely available resources, steadily erodes. The low-productivity peasant or family farm operating close to subsistence becomes increasingly difficult to maintain, and the alternative is increasingly the urban street.

The setting for politics in industrial and post-industrial capitalist societies is their dependence on vigorous capitalist exploitation to maintain levels of income and innovate, linked to the fact that capitalism itself systematically produces and reproduces enormous social problems. The society gets richer in terms of statistical measures like gross domestic product (GDP) that measures real (inflation-adjusted) incomes, but it makes little progress in eliminating extremes of human suffering, or addressing the statistical measures of inequality in the distribution of income and wealth that reflect pathological social dynamics.

What is to be done?

The dilemma of capitalist-commodity production has become familiar over the two and a half centuries since the industrial revolution first took hold.

We can distinguish several broad categories of philosophical (or ideological?) response to the management of political economic issues in modern capitalist societies. Various strands of revolutionary socialist thinking propose to replace the capitalist-commodity system of production altogether with some other institutional framework for maintenance of the social division of labor. More romantic responses to the dilemmas of capitalist-commodity production reject the social division of labor altogether in favor of a return to diversified subsistence production. Various forms of classical liberalism (including currently influential “neoliberalism”) start from the premise that there are no real alternatives to capitalist-commodity production, and the best human beings can do is to follow the logic of commodity production rigorously to maximize its advantages. At the fringe of classical liberalism lurk various racist and nationalist visions of exclusive societies in which the benefits of capitalist-commodity production accrue more or less equally within a favored racial or national elite, with the bad side-effects absorbed by oppressed inferiors. Somewhere in the middle lie a range of “social democratic” politics that hope to mobilize the material wealth of capitalist society through social and political institutions to mitigate the social damage capitalism wreaks.

Revolutionary system change

Marx’s politics of proletarian revolution followed quite consistently from his analysis of capitalist exploitation as a class phenomenon. Marx saw little point in reforming production as long as society continued to rely on monetary exchange for the distribution of products. Because capitalist exploitation in his view operated at the level of the system as a whole, the remedy was a wholesale overturning of commodity production at the level of the system as a whole. The only vehicle Marx could see to accomplish this kind of change was for wage workers (the proletariat) to organize themselves to overthrow capitalist economic relations through political means.

The history of the Soviet experiment in the twentieth century provides something of an object lesson in the political economy of this centralized type of socialism. While Tsarist Russia was far from the ideal setting for Marx’s proletarian revolution (for one thing having only a tiny proletariat even by 1917), the problems the Bolsheviks and Stalinists faced and the historical outcome of their extraordinary political initiative point to more general weaknesses of the model of socialism they espoused.

One advantage of Adam Smith’s vision of the regulation of commodity production through the free movement of labor and capital in response to price incentives is its decentralized and “spontaneous” character. No particular decision of workers or capitalists really makes much difference to the overall rough equilibration of social resources to social needs. Everyone has considerable freedom (though much less freedom than they might perceive) to make their own decisions as to what training or experience to seek, or where to invest their money. The social outcome is highly constrained, but achieved through subtle changes in economic incentives through prices and opportunities that are largely

invisible to individuals. Smith's commodity production has a large "bottom-up" component in the language of modern systems theory.

Marx's proposed wholesale political control of allocation decisions shifts to a predominantly "top-down" vision of control of social production. Despite the vigorous protests of classical liberals such as von Mises and Hayek as to the very feasibility of top-down control of social systems on a large scale, it is pretty clear that such systems can operate effectively, though perhaps only for limited periods. When capitalist societies went to total war with each other in the twentieth century, for example, they organized their military effort on a top-down basis. But top-down organization of social production focuses responsibility for successes and failures (which are both inevitable) on the political institutions that organize production. It is not surprising that this leads to rigid, unresponsive, and fragile political structures that have a hard time reproducing themselves indefinitely. While Russian peasants fighting their way out of the stultifying political stagnation of Tsarist autocracy might be willing to sacrifice civil liberties and rights they never had to begin with to win immediate social and economic gains, it is hard to see how top-down centralized control over the division of labor can provide the levels of personal autonomy rich societies take for granted.

The actual history of the Soviet experiment was much more complex than this cartoon sketch suggests. The Soviet regime never succeeded very well in effectively centralizing control of its emerging division of labor to begin with, and the chaos of widespread social disruption involved in rapid industrialization and urbanization provided much more latitude for personal development than the system was designed to provide (along with very severe penalties for deviance). While it is widely accepted dogma among Western social scientists that the Soviet system collapsed due to economic failure, there is a plausible counter-argument that the system was viable as a production system, but that the nomenklatura that controlled its means of production realized they would be much better rewarded as capitalist entrepreneurs.

In any case, there does not seem to be much enthusiasm for the idea of a centralized, top-down institutional overhaul of the social division of labor, even among extreme fringes of left-wing critics of capitalism. Are there any decentralized alternatives to Adam Smith's commodity system of production that would mitigate the social damage of capitalism?

Early socialists, often effectively industrial entrepreneurs as well as social engineers, such as Owen, Saint-Simon, and Fourier, proposed to head off the ills of modern capitalist life by reorganizing production itself to avoid wage labor. Various versions of worker-cooperatives have coexisted on a limited scale with capitalist-commodity production from the time of the industrial revolution. In many cases these cooperative forms have been successful in narrowly economic terms, with higher productivity of labor and lower costs of supervision than competing capitalist firms. One advantage (and disadvantage) of worker cooperative alternatives to capitalist organization of production is that worker-cooperatives rely on monetary exchange of products as commodities to distribute their products. This is an advantage insofar as it requires much less

institutional reorganization of production than top-down central planning, and retains many of the attractive decentralized, bottom-up features of commodity production.

Worker cooperatives, however, also have built-in structural problems that prevent them from becoming dominant in modern production. Worker coops operating on a large scale need access to more capital than the workers themselves are likely to possess, and have to depend on borrowing to finance their investments. The same statistical-dynamic laws that produce income inequality in capitalist commodity production operate in worker-coop commodity production, leading to many of the same problems (as the Yugoslav experiment in worker-cooperative organized commodity production indeed experienced). The advantages of the worker coop version of commodity production in retaining the familiar framework of monetary exchange of products as commodities brings with them many of the disadvantages of capitalist commodity production.

Whether there are other workable institutions to support the specialized division of labor without quid pro quo exchange of products as commodities is something of an open question that leads more to speculation on the order of fantasy fiction than practical ideas for social change. One perennial hope is that one or another technological advance: cheaper transport, or cheaper information processing, for example, might open up new possibilities in this direction, but there is limited concrete human experience to go on. Since we depend on capitalist-commodity production to keep most of us fed, housed, doctored, and so forth, it would be a big gamble to venture the functioning (if dysfunctional) capitalist-commodity system for some alternative and have the alternative fall flat.

The transition from “pre-capitalist” production in Europe in the late middle ages and early modern period to capitalist production is interesting in this regard, since it was in the nature of capitalist-commodity production to be modular, resilient, and scalable, to use the buzzwords of modern systems theory. Capitalist commodity producers could co-exist and compete with guild production and feudal peasant production. Where opportunity presented itself, “bourgeois society”, to use Marx’s language, could consolidate itself at every social level, in production, politics, social relations, intellectual life, and culture. When history turned against capitalist production, it could retreat in an orderly fashion to the niches most favorable to it, and there wait better fortunes. If a form of organization of the division of labor on decentralized socialist lines existed that had this modular and resilient structure, the prospects for a long-term transition away from capitalist commodity production would be brighter, and the politics of socialism considerably simplified.

Another perennial form of revolutionary socialism is the idea of giving up the social division of labor altogether and basing society predominantly on diversified subsistence production. It makes sense to see this path as one way to avoid the ills of capitalist commodity production, since a society of small-scale diversified producers with limited exchange of products could presumably do without money or at least limit the influence of money on the society in general. Such a system of self-sufficient producers would have much lower absolute productivity

and a much lower material standard of living than capitalist commodity production, and would be able to sustain only a small fraction of the current global population. Even given the appeal of this model as also greatly reducing carbon emissions and the threat of catastrophic climate change, it is hard to imagine a transition in this direction that did not involve a catastrophe on the human scale. How, for example, would the human population shrink by an order of magnitude in a few generations without widespread mortality from violence or disease? Given the possibilities of controlling the environmental costs of the social division of labor through management of technical options, there is a real risk in these romantic ideas of abandoning the social division of labor to avoid the ills of capitalism of throwing the baby out with the bath water.

Classical liberalism and neoliberalism

One of the perhaps surprising elements of Marx and Engels' *Communist Manifesto* is its vivid celebration of the positive side of capitalist commodity production. Capitalism has the (temporary) positive role of sweeping away traditional production that condemned humanity essentially to scratching in the dirt with a stick in order to reproduce, and opening up a new social world with historically new opportunities for human development. The fruits of this essentially social change in people's relation to each other brings spectacular unintended consequences in the development of the scale and effectiveness of human production. These consequences are so dramatic that they often obscure the day-to-day changes in human social life from which they spring. At its root commodity production depends on rules of the game that treat everyone alike insofar as they are producers and therefore owners of commodities, or recipients of wage incomes. Capitalist society is based on a kind of procedural egalitarianism, whatever concrete inequality of social and economic outcomes the system actually produces.

Classical liberals (using the term "liberal" in the usual European sense of a supporter of free markets and free trade, as opposed to the American sense of a supporter of government intervention to limit the bad effects of capitalism) bestow their allegiance on these positive aspects of the social division of labor organized through monetary exchange of products as commodities. (Classical liberals tend to be uncomfortable, ambivalent, or even in denial when it comes to thinking through the implications of the capitalist organization of commodity production based on the exploitation of labor.) This allegiance puts classical liberals on the attractive side of many social controversies: classical liberals are inherently strong advocates for civil liberties and civil rights, opponents of slavery and other forms of bound labor, often implicitly libertarian in resisting the imposition of religious and traditional attitudes on civil society, and so forth. Classical liberals are particularly prone to believe in the possibility of commodity production that has not only egalitarian opportunities but also roughly equal outcomes: the persistent failure of these fantasies to realize themselves historically is the typical tragedy of the classical liberal outlook. The classical liberal, however, favors the egalitarian procedural logic of commodity produc-

tion whether or not it actually leads to egalitarian outcomes.

Even given the enormous momentum of social change set in motion by the specialized division of labor, there are always plenty of ways in which real societies fall short of complete consistency with the egalitarian logic of commodity production. As a result classical liberals have an inexhaustible supply of social and political controversies to engage in. In our lifetimes such issues as the military draft, government control of the radio-frequency spectrum, redistributive taxation, the irrationality of organ donation, legal prohibition of consensual sexual behavior, equal access of women and ethnic minorities to the commodity production system, and a host of other similar issues have engaged classical liberals.

For the classical liberal the great issue of issues is government intervention in opposition to the inherent laws of commodity production. On this point classical liberalism has had little luck in the years since the industrial revolution. Classical liberal political parties can sustain themselves as minority and occasionally swing parties in bourgeois democratic systems, but never develop anything close to majority electoral support. The classical liberal has to divert much time and attention from the relatively noble causes connected to commodity egalitarianism to less edifying campaigns against measures like minimum wages, rent control, regulation of financial firms, and the like that strike many citizens as common sense responses to directly perceived social problems.

A chronic weak spot in classical liberalism is its tendency to turn a blind eye to the unequal social and economic outcomes of capitalist commodity production. For one thing, classical liberals ignore the statistical factors that inevitably convert even rigorously complete equality of opportunity into highly unequal outcomes. The attachment of classical liberals to the logic of commodity production tends to dominate their thinking; in fact, it is not easy to come up with workable reforms of commodity production that would redress these inequalities without violating the positive principles classical liberals venerate. This blind spot is closely connected to the difficulty classical liberalism has in understand capitalist commodity production as a historic phenomenon rather than a philosophical ideal-type. Classical liberals like to imagine the institutions of capitalist commodity production as arising in some kind of meta-negotiation behind a “veil of ignorance”, for example, in which disembodied potential members of society negotiate over institutional rules of social interaction without knowing what specific social role they will actually occupy.

“Keynesian” policies to regulate aggregate demand to moderate business cycle fluctuations in output, employment, prices and incomes pose a particularly difficult political problem for classical liberals. From many points of view Keynesian doctrine is compatible with the laws of commodity production. In fact Keynes himself and many of his followers thought his ideas could correct one of the major flaws of capitalist commodity production without infringing the basic principles of decentralized competition: the idea is to regulate the overall level of production in the system while entrusting the determination of allocation of resources among different specific lines of production to competition. Some classical liberals make their peace with Keynesianism as long as it is understood

as a policy of temporary relaxation of budget constraints to respond to business cycle fluctuations. Temporary accommodation, however, often becomes a bad habit, and classical liberals also are open to the temptation of insisting on rigorous austerity in the name of fiscal responsibility.

Good old-fashioned American conservative attitudes overlapped with classical liberal economic philosophy, but usually mixed with repressive socially conservative attitudes that classical liberal thought transcends. Conservatives tend to be more pragmatic than programmatic in their economic views than classical liberals, but they share classical liberal skepticism of any government interference in markets in the name of social improvement or social justice. Conservatives, however, are more willing to recognize the sharp inequalities in both opportunities and outcomes in capitalist commodity production than classical liberals, and are more willing to entertain moderate measures to address them.

This type of conservatism was one pole of traditional American politics, in which social democratically inclined left-wing parties (sometimes confusingly labeled “liberal” in American political terms) had the role of proposing ill-conceived, financially reckless, and badly designed social programs to address inequality and injustice, and fiscally responsible conservatives took on the role of restricting and reforming these initiatives to make them more sustainable. Those were the good old days, I guess.

The middle of the twentieth century was a bad period for classical liberalism. Under the pressure of global economic crisis, two world wars, and massive social changes in industrial capitalist economies, the size and scope of government greatly increased. In this period political and social momentum for some kind of “collectivist” alternative to commodity production (state ownership of means of production, detailed state regulation of behavior at all levels, and pervasive administrative setting of prices and wages, for example) seemed to many classical liberals to constitute an existential threat to the very structure of capitalist commodity production.

Neoliberalism

Under the intellectual leadership of Friedrich Hayek, and with the inspiration of Ayn Rand’s celebration of selfish individualism, the embattled classical liberals organized to re-think and re-formulate liberal doctrine, or, as we say these days, “weaponize” it, in a long-term effort to reverse the tide of “collectivism” they saw as threatening to overwhelm the world. In this effort they predictably had little difficulty in finding financial support from a variety of wealthy individuals and foundations. The whole history of this effort centers on a membership-by-invitation association called the Mont Pelerin Society, which alternatively welcomed and rejected many of the leading lights of “conservative” thinking in the decades after its founding in 1947. The broader effort to revamp classical liberalism as the dominant political ideology of world capitalism spread much farther than the Mont Pelerin Society itself, leading to the publication of influential books (such as Milton Friedman’s *Capitalism and Freedom*, which the MPS viewed as an American complement to Hayek’s *Road to Serfdom*), the

organization of student and professional groups, and the reorganization of news and other media.

The “neoliberal” doctrine that emerged from these sustained efforts shared the core affirmation of the laws of commodity production with classical liberalism: advocating markets in private property as the basic framework for establishing social cooperation, support for free international trade and, in principle free movement of people through migration, regulated only by market forces, hostility to government except in its “minimal” roles as a guarantor of property rights and provide of national defense, execration of taxes as an infringement of basic human rights to property, and a studied indifference to the inequalities of income and wealth systematically reproduced by capitalist-commodity production. Neoliberalism doubled down on the fiscal austerity (advocacy of minimal government spending) that was an implication of classical liberal ideas.

Neoliberalism, however, deviated from classical liberalism in some important respects. Classical liberals, for example, tended to emphasize the importance of competition as a precondition for the socially beneficial function of markets (actually the point at which Adam Smith started). Neoliberalism, after a lengthy debate that led to exit of some key intellectual figures from its core group, chose to de-emphasize the issue of competition in order to avoid the risk of providing an excuse for government intervention in markets. The intellectual argument that carried the neoliberal day was that technological progress would sooner or later dissipate many or most of the advantages of monopolies. The telephone monopoly, for example according to this theory, would eventually face competition from other forms of communication technology, and so efforts to preserve competition through trust-busting government intervention were unnecessary and socially harmful. Most classical liberals were strong advocates of the supposed self-regulating gold standard monetary system, but some versions of neoliberalism allowed for “rule-based” central banks and floating exchange rates as alternatives to the universal money of the gold standard. Classical liberals retained Smith’s advocacy of “productive” as opposed to “unproductive” uses of labor and capital, which relegated finance, for example, to a secondary role in the capitalist economy as an intermediary linking savers and investors. Neoliberalism, strongly influenced by Hayek’s view that markets are information-processing devices that outperform human beings in decision making, celebrates unproductive activities such as speculation on the grounds that they constitute the information-discovery mechanism on which the prosperity of society primarily depends.

I’ll have more to say about neoliberalism as a political force a little later, but at this point it is worth noting some of its key features. Neoliberal thought operates in a self-contained world of abstractions. The messy world of real international financial transactions and regulation, for example, is of less interest to neoliberals than the theoretical possibility of perfect functioning systems like the gold standard or floating exchange rates. This intellectual starting point disables neoliberal ideologues as very effective policy makers or politicians. (The classical liberals had much the same problem: on the occasions when they held office and wielded power the classical liberal intellectuals tended to be

political failures.) Neoliberalism in its pure form is an esoteric philosophical construction unlikely to spread very far in the general population. Neoliberal political philosophy in some of its more brutally honest moments acknowledges this narrowness and the accompanying necessity for the neoliberal movement to divide itself into a leading elite and a popular base.

Neoliberalism also rather predictably sees the current state of society and politics as having degenerated from some past more perfect state of societal self-regulation. Just when this golden age actually might have existed is elusive in neoliberal thinking and writing. The gold standard in its heyday before the Great (First World) War, for example, never actually operated according to the “automatic” rules of Hume’s specie-flow mechanism, but depended on the hegemonic position of the Bank of England to achieve international monetary coordination. Was the American economy in McKinley’s era actually run by principles of competition and social harmony, or was that an era of rampant and violent class conflict over unionization, and brutal slugfests between over-swollen trusts?

Social Democracy

Europe

The socialist parties of Marx’s and Engels’ European worker movements originally called themselves Social Democrats, and their most advanced elements read Marx and started in their thinking from Marxist premises. (Even in backward Russia Lenin’s Bolsheviks were a branch of the Russian Social Democratic Party.) All of these socialists, from the enthusiastic omelet-making Bolsheviks to the pacifist British Fabians, shared the goal of eliminating the social ills of capitalism by the method Marx himself envisaged, namely, social control of the means of production through collective political institutions. In one way or another they all believed in what I’ve called a “top-down” organization of the social division of labor, which parsed out to one or another system of state political control of production.

While socialists had a more or less common goal, they split sharply on the question of the appropriate means and political path to the end of social control of the means of production. The Russian Mensheviks and their more numerous continental counterpart “revisionist” Marxists read Marx to the effect that socialism was historically possible only after the full development of capitalism.

In the Russian context this implied a “class alliance” between the bourgeoisie and the proletarian workers against the traditional Russian ruling class of land- and serf-holders. The idea was to bring Russia into modern times on the path of capitalism, emancipating producers first of all as individual wage workers free from the bonds of serfdom. Somewhere down the road Russia would become a rich capitalist country ripe for the socialization of the means of production through proletarian revolution (or possibly political reform). In the interim the political dependence of a Russian bourgeoisie on an alliance with a proletariat informed by Marx of its historic mission, would somehow keep the class conflict

between workers and capitalists under control. The weak point in this plan turned out to be the failure of a credible, competent, Russian bourgeoisie to emerge to take its historic role of exploiting Russian workers. (This difficulty still underlies Russian post-Soviet politics.) The Menshevik model lives on in the dramatic success of China, where an ideologically revolutionary Leninist party provides the framework for the aggressive and rapid accumulation of capital through commodity production.

In continental Europe and Britain the non-revolutionary politics of reformism and Marxist revisionism pointed originally to the pursuit of political power through constitutional means by worker-based parties. The internationalist aspect of this dream evaporated at the onset of the Great War when social democratic parties enthusiastically and patriotically voted credits to fund the massive expansion of armies and navies. When the post Second World War world began to emerge from the wreckage of the resulting conflicts and social democratic parties in many European countries found themselves in power or sharing power, they pursued a dual policy of extending public ownership of the means of production by nationalizing larger and larger parts of the economy, and providing a social safety net in the form of the a generously funded welfare state to address the ills of capitalist maldistribution of wealth and income directly. The nationalization of the economy tended to start with declining sectors, leaving the state with a portfolio of poorly performing economic assets requiring larger and larger subsidies to avoid massive layoffs. The expansion of the welfare state required large increases in taxation, compromising the profitability of the residual private capitalist sector.

The politics of social democracy, nationalization, regulation, and the welfare state involve both class conflict between workers and capitalists and divisions within each class. Welfare state reforms, as Marx's analysis explains, tend to reduce the costs of reproduction of labor to individual capitalists by socializing the costs. Unemployment insurance, for example, allows employers to adjust to fluctuations in demand for their output by laying off and re-hiring workers. In the absence of a state unemployment benefit, capitalist firms would have to internalize more of these costs either through paying higher wages to allow workers to save enough to tide themselves over spells of unemployment or avoiding layoffs by paying non-producing workers themselves through periods of slack sales. State-sponsored social security, health care and education also socialize major costs of reproduction of labor-power and improve the profitability of capitalist production as a whole. Various sub-categories of capitalist employers see very different balances of costs and benefits from welfare state programs. On the whole the expansion of the welfare state has reflected support of capitalists as a whole or in part as much as it has reflected the political effectiveness of worker political organization. Historically welfare state measures have succeeded politically when they commanded the support of significant portions of the capitalist class.

The same considerations are critical for understanding the politics of regulation and even of nationalization. Large capitalist firms find the burden of complying with regulations much lighter than small firms, for example, and

the strengthening of regulation, whatever effects it may have on consumer and worker safety, health, and satisfaction, tend to tip the scales of competition to larger enterprises. It might seem at first thought that all capitalists would be opposed to nationalization of major sectors of the economy, but the cases of transport and energy provide some immediate examples to the contrary, and there are moments in capital accumulation when state ownership, which can provide needed capital and protection from legal liability becomes an attractive option.

The crisis of European social democracy arrived in the 1980s with the political reaction to mediocre macroeconomic performance, high taxation, and stagnation of nationalized industries in the form of Margaret Thatcher (and Francois Mitterand). The fractions of the capitalist class interested in welfare state measures to reduce costs of production shrank, in part because the easy availability of cheap immigrant labor and opportunities for outsourcing production reduced the dependence of capital on domestic labor-power. Social democratic politicians, themselves stumped by the problem of how to reconcile the nationalization of production with economic and financial viability, tended to drop the nationalization part of the social democratic agenda (hoping to blame conservative parties for any negative results of privatization) in favor of defending the social welfare system.

This strategy has resulted in the gradual but apparently irreversible political strangulation of the European left over the intervening decades since the 1980s. Neoliberal advocates of extreme austerity and privatization eagerly presented themselves as candidates to inherit political power. But neoliberals never managed to consolidate public support for dismantling the popular welfare state and, through their mismanagement of the complexities of modern post-industrial capitalist economies, set the stage for the revival of nationalist and ethnic politics we call populist. One theme of populist politics is the idea of restricting the benefits of welfare state measures to some ethnically or historically defined subset of the population.

American exceptionalism

In the U.S. the same underlying political economic tendencies appeared in a rather different political guise due to the racial, regional, and constitutional features of American democracy. U.S. society in the post-Civil War period was sharply and violently divided by class differences exacerbated by rapid capitalist economic growth, urbanization, and the emergence of powerful monopolies. These divisions made the country close to ungovernable and teetering constantly on the edge of massive civil unrest. Politicians experimented with various recourses: big-navy imperialism, progressive reform, and red-baiting repression turned out to be the most promising ways to manage the underlying social conflicts.

An economic boom engineered by the new institution of the Federal Reserve System after the end of the Great (First World) War in the nineteen-twenties

papered over these class divisions temporarily. (Liaquat Ahamed tells the story of this boom, which foreclosed the prospects for economic stabilization of Europe in his *Lords of Finance*.) But the crisis of the Depression re-energized the underlying unmanageable class issues: the various versions of the New Deal represented souped-up progressive reform measures designed to bring class issues like unionization into the sphere of institutionally confined and legally restricted conflict. Despite Franklin Roosevelt's political genius, however, the country wound up the nineteen-thirties with much the same class conflict problem (not to speak of unaddressed issues of racial oppression) that had confronted Theodore Roosevelt and Woodrow Wilson.

The Second World War, however, wrought fundamental political changes in the U.S. For one thing, military spending provided fiscal stimulus on the scale required to address the stagnation of the Depression and brought about effectively full-employment conditions. In other circumstances this tightening of the labor market might have escalated worker pressure for wage increases and improvements in working conditions to crisis levels, but the war mobilization siphoned away a significant part of the labor force to military service (opening jobs to women for the duration), and the Federal government managed to persuade labor and capital to shelve their differences for the duration. Federal wage and price control resisted pressure for money wage increases, and high rates of corporate income and excess profits taxes convinced labor that capital was also sharing the burdens of the war. In the meantime all incomes were rising and war contractors, who could often exploit loopholes in the tax code, were getting rich. It was a good war for American political economy. The suspension of active class conflict in the execution of the war led to unprecedented increases in American production of war materiel, which expanded so rapidly that it overwhelmed the Axis powers in all theaters and brought conflict to an end in an amazingly short period of time.

American politicians, businessmen, and union leaders, many of whom had vivid memories of the debacle at the end of the Great War, managed to extend the class conflict truce into the post-war period. The inflation of mostly self-defeating Soviet attempts to stave off a revanchist Germany and of an unresolved anti-imperialist movement in China into a supposed existential Communist threat played an important role in selling this "labor-capital accord" to the country. The broad terms of the accord are pretty familiar parts of U.S. economic history for those of us who lived through this period. Until the nineteen-seventies U.S. corporations faced essentially no serious international economic competition, and were in a position to dictate prices both in domestic and international markets. Under the labor-capital accord, corporations accepted unionization of core industries, and agreed to share increases in the value of output with their workers through union contracts. In return, unions generally agreed to give corporations a free hand in the organization of production, particularly in deciding levels of output and employment, even when this resulted in gradual shrinkage of unionized jobs. Federal and state governments provided huge subsidies to education and housing, opening up unprecedented opportunities for average American households.

These policies, based on the labor-capital accord, resulted in a “golden age” (well, perhaps not so golden for Afro-Americans and other racial minorities) for the U.S. economy. The application of technical advances pioneered by the military in the war effort resulted in historically very high rates of growth of U.S. labor productivity, and the terms of the labor-capital accord distributed these gains fairly proportionately between workers and capitalists. Federal and state governments used the burgeoning tax revenues to subsidize house building and high-quality education that households could afford. Measures of inequality in distribution of wealth and income (still highly skewed and concentrated as is usual in capitalist-commodity producing systems) declined to historic lows. The work of Thomas Piketty and many associates (summarized in his *Capital in the Twenty-first Century*) is largely concerned to show that measures of inequality reached a one-time historic low in all the western capitalist countries during the period from 1929 to 1979.

From our conversations I know we all realize that having been born and grown up at this particular moment in American economic history gave us individually and as a group enormous life advantages. Our personal encounter with this moment in American history, however, also raises the risk of distorting our expectations of the social results capitalist-commodity production can deliver.

The labor-capital accord frayed and ultimately collapsed in the nineteen-seventies. Renewed effective international competition, particularly from the recovering German (and other European) and Japanese economies revealed major structural weaknesses in the American corporate business model. American corporate management had escaped any effective supervision by stockholders in the labor-capital accord period, and answered only to the capricious pressures of politics. (Think of the unusual moment when John Kennedy personally intervened to reverse a price increase in a steel industry that turned out to be on the brink of collapse.) These bloated and often incompetent managements proved to be juicy targets for foreign competitors, and by the middle of the nineteen-seventies U.S. capital had a serious crisis of profitability. Attempts by the Federal Reserve to maintain high levels of employment through easy monetary policy resulted in high levels of pressure to raise money wages. The Fed oscillated between a policy of accommodating these pressures and allowing corporations to pass on increased costs to the public in the form of higher prices, and half-heartedly resisting the resulting inflationary pressures. (The oil crises of the period provided convenient cover to distract public attention from this underlying renewal of class conflict in the domestic U.S. economy, but probably had relatively little macroeconomic impact.)

The macroeconomic crisis of the 1970s ended with Jimmy Carter’s appointment of Paul Volcker as Chairman of the Fed. Volcker administered a major dose of austerity in the form of a wrenchingly tight monetary policy that drove interest rates to historic record highs and triggered a major double-dip recession, with the highest unemployment rates since the Great Depression. American corporations restructured themselves to compete more effectively on the international stage, with a major boost to profitability stemming from reduced wage pressures as a result of high unemployment. The Reagan administration’s fas-

ination with deficit-expanding tax reduction under the banner of “supply-side economics” (indistinguishable in its substance from the Keynesian demand management supply-siders execrated) required a tight monetary policy, high interest rates (which wrecked Latin American economies that had borrowed heavily in the 1970s), and an over-valued dollar. All these factors together amounted to a major attack on American labor, as unionized jobs vanished into the right-to-work South or overseas.

Despite the political elite’s anticipation of a renewal of 1970s type class divisions expressed in inflationary wage pressures, the unintended consequences of the liberalization of international investment flows in the 1980s, together with dramatic declines in international transport costs, turned out to transform the terrain of American political economy. Once corporations became confident that they could move profits freely around the world, they embarked on a major campaign to “rationalize” production by moving various pieces of each production process to the lowest cost region of the world to take advantage of wages low enough to offset the lower productivity of foreign workers. This led to massive disinvestment in American manufacturing, and put the fear of God into American workers who suddenly faced an all-too-credible threat of job loss through downsizing and offshoring. Upward pressure on American wages pretty well disappeared, eliminating the nasty macroeconomic policy dilemmas of the 1970s. The effects of these major changes jump out from the economic statistics: most prominently in the fact that real wages in the U.S., which had moved roughly proportionately to labor productivity for decades, suddenly stopped growing despite continued rises in measures of labor productivity.

Politics

While the Mont Pelerin Society worked to rehabilitate and modernize classical liberalism as a viable political ideology, a parallel movement of wealthy capitalists inspired initially by William Buckley began to invest heavily and seriously in a network of foundations, think-tanks, and journalistic enterprises designed to contest the domination of American politics by centrist liberal and moderate conservative views from the neoliberal angle. The massive funding and intellectual infrastructure this effort made available created a “conservative” political movement very different from anything American politics had seen. While pre-New Deal conservatism had largely classical liberal views (small government except for a big navy, low taxes, deference of the government to business priorities), these conservatives had viewed themselves as comfortably in control of the political process, as the “natural” governing coalition. The neoliberal movement, by contrast, saw itself as a beleaguered minority fighting an essentially revolutionary (or perhaps counter-revolutionary) battle against a powerful and entrenched collectivist-minded dominant political and intellectual elite. Neoliberals consciously modeled their political effort on the practice of revolutionary elite parties like Lenin’s Bolsheviks, and adopted radical political tactics such as the Nazis’ Big Lie propaganda.

While this neoliberal movement in politics had major successes, essentially capturing the Republican party, and transforming the media landscape through vehicles like Fox News, it continually ran into the hard political fact that the New Deal policies constituting the American welfare state (Social Security, Medicare, government regulation of finance) remained overwhelmingly popular with the American electorate. This political reality channeled much of the neoliberal right-wing energy into pursuing “wedge issues” like abortion and gun rights that promised to peel off layers of the New Deal coalition.

These sea-changes in the American political landscape posed new challenges for the Democratic political inheritors of the New Deal tradition, challenges they largely failed to understand or respond to effectively. Take, for example, economic policy. Faced with massive disinvestment in productive economic activity like manufacturing, the consequent destruction of communities that depended on unionized jobs and incomes associated with the labor-capital accord, what were Democratic politicians to do?

The most important economic policy to sustain jobs and incomes at the middle and lower strata of the income distribution is aggregate demand policy: the assurance of large enough spending by businesses on investment or by government to support high employment. An aggressive aggregate demand policy requires politicians to be willing to run large deficits in periods of economic weakness and slack. But the Democratic party somehow in the 1980s became the party of fiscal conservatism, going so far as to contest the 1984 presidential election on an austerity-based campaign against Reagan deficits.

Issues: The Federal deficit

The economics of Federal deficit policy is far from the simple analogies to household debt management that convince many voters. For one thing, the Federal government accounting system makes even measuring its actual public borrowing obscure. A large part of the “general revenue” budget deficit (which excludes the social security and medicare trust funds) has been funded each year by surpluses in the social security trust fund. (This trust fund, which is itself a highly misleading accounting concept, was replenished through bipartisan legislation negotiated by Reagan and Tip O’Neill in 1983 when the fund was indeed close to exhaustion. The 1983 reforms over-funded the system for the immediate future, but were expected to keep it afloat for about fifty years, in the expectation of another adjustment in taxes and benefits in the light of demographic and economic developments several decades down the road. These projections have proved, if anything, conservative, since the trust fund is now expected to last until the 2040s, at least a decade longer than Reagan and O’Neill planned for.) The main economic issues concerning the Federal deficit and debt are not hard to see, though they remain obscure to much of the electorate. The largest part of the Federal debt has been incurred to pay for major wars. In between major wars the biggest influence on the deficit is not Federal spending, but fluctuation in tax revenues due to the business cycle in the private sector. Over long horizons (presumably the Federal government will exist forever) business

cycle fluctuations add very little to the debt and the broad growth of incomes in the economy gradually overtake the massive debts incurred in wartime, so that the debt as a fraction of national income tends to fall. Although voters seem to be prone to major anxiety about the Federal deficit and debt, Federal borrowing is in fact a rather abstract concept that has almost no impact on the day-to-day lives of most citizens. The absence of a capital budget for the Federal government means that a balanced assessment of its financial position in terms of assets and liabilities is impossible to achieve.

There is an influential economic theory that argues that it makes no difference over long horizons whether the Federal government funds its spending by borrowing or by taxation. This “Ricardian equivalence” (in the jargon of economic theory) arises from the idea that over long horizons households know they will have to pay taxes with the same present discounted value as Federal spending; over long horizons increases in the Federal debt have to offset by private saving to finance larger future tax payments. There is, however, very strong evidence that Ricardian equivalence does not hold over time horizons comparable to the business cycle. When private spending falls, deficit financed government spending can effectively close the resulting gap between potential and actual output and reduce resulting fluctuations in income and employment. (Over a longer time horizon, monetary policy can have a major influence on private spending, but often acts too slowly to be effective in smoothing out the business cycle.)

Practically speaking there is no case to be made in the U.S. that Federal deficit spending could have serious negative macroeconomic consequences. Because the Federal debt is due in dollars that the Federal government can create without limit, there is no risk that the Federal debt could go into default except as a consequence of completely fiscally irresponsible behavior by legislators such as refusing to raise statutory debt limits as a political ploy. If Federal deficits grow massively in periods of high employment, and monetary policy failed to compensate by a sufficient rise in interest rates, there might be a resulting inflation (a scenario Latin American economies have experienced more than once), but in that case responsible government can correct the imbalance.

We can see as a consequence of these observations that the widespread political fixation with “job creation” is completely beside the point. Over relevant time periods the level of income and employment in the country depends on the amount of aggregate demand determined by fiscal and monetary policy. Unless the parameters of aggregate demand policy change, other “job creation” can’t amount to anything more than shifting jobs around from one state to another, or one sector to another.

The main function deficit politics has is as a stalking horse for the quite different neoliberal program of shrinkage of government spending and privatization of social security and medicare. The attachment of Democratic politicians to deficit and debt reduction in the last forty years raises at least the suspicion that neoliberalism is a bipartisan movement, and that neoliberal ideas have infiltrated deep into the Democratic party.

Issues: Well, what about social security?

The U.S. electorate seems to understand even less about the economics and politics of the social security system, despite firm support for continuing to receive benefits from it, than about the economics of the Federal deficit. The current social security system is not fully funded according to the standards actuaries apply to private insurance and pension contracts. Employed workers pay a substantial (and quite regressive) contribution out of their current earnings to secure eligibility for benefits. (In purely legal terms employers and employees each pay half of the basic social security tax, but from an economic point of view both parts constitute a cost to the employer of employing the worker and represent a part of the worker's compensation.) This tax money is assigned to the social security "trust fund", out of which benefits are paid. When taxes exceed benefits the trust fund runs a surplus, which is invested in Federal government bonds, and contributes to the funding of Federal expenditures. When benefits exceed tax revenue, the trust fund shrinks in value. Given current projections of the working age and retired population, the trust fund will be depleted, on "median" assumptions about employment and wages, sometime in the 2040s. Does this mean that the system will be unable to pay benefits at some point in the future? No.

First of all, the Congress and the President can by simple legislation continue to pay benefits from general revenues (income taxes) to make up shortfalls in the social security trust fund. It is in this sense that the social security trust fund is an accounting fiction, which has some political function in convincing the populace that their contributions are securing their own benefits, but represents no real financial or economic constraint. When the trust fund has become depleted, as in the early 1980s, U.S. politicians generally prefer, however, to "reform" or revise the benefit and taxation system to keep the fund solvent for some future horizon, such as fifty years. (There is no real point in trying to make the fund solvent for the indefinite future due to the difficulty in predicting changes in demography and economic performance over long horizons.) Tinkering with the benefit and taxation schedules is, predictably, a rich field for political squabbling and grandstanding, but from an economic point of view straightforward.

One of the pillars of neoliberal political economy is the goal of somehow repealing and privatizing social security altogether. Just why this prospect sets the neoliberal pulse pounding is hard to fathom. From a purely technical finance point of view the social security system provides an asset to households with risk and return features that the private sector cannot match despite the wonders of "financial engineering". It is not clear why narrowing the financial options of households is a high priority for a political movement that claims it is interested in maximizing individual freedom.

In any case the prospect of any actual reform of social security and its replacement by some system of subsidized private retirement accounts, though feasible in theory, is unlikely in political reality. The biggest hurdle is that, precisely due to the partial funding of social security benefits from current con-

tributions of employed workers, switching to a fully funded private system leaves a large financial gap in the form of the benefits owed to participants. In order to switch to a private system the Federal government would have to borrow something on the order of ten to fifteen trillion dollars to pay promised benefits. It is hard to believe even a radically neoliberal Congress and President would accept that price.

Issues: What are they, anyway?

When one begins to think critically about the issues facing the U.S., the suspicion dawns that a great deal of political rhetoric and journalistic media time amounts more to grandstanding and shadow-boxing than to potentially fruitful political conflict. Over the post-1980s era national political life has had a “good cop/bad cop” quality to it: if you are a Democrat, Clinton and Obama are the good cops and the reactionary Republicans the bad cops, while if you are a Tea Partier it’s the other way around.

Another way to think of this is that it is a version of the tragic dilemma of Social Democracy in European politics. A smaller fraction of the capitalist class supports the residual welfare state measures of the New Deal. As a result centrist politicians, both Democrat and Republican, have drifted toward a neoliberal political philosophy of austerity. The main points of political conflict have to do with the speed and exact manner in which the New Deal welfare state measures will be dismantled, not with the question of reforming and strengthening them. Because of their dependence on money controlled by the financial system and large corporations, both Democratic and Republican national politicians avoid straying very far from an austerity-centered political economy.

In the meantime, however, financial institutions and big corporations were making large amounts of money by dismantling the American productive economy through disinvestment and offshoring. It is not surprising that this pattern of economic management, under both Democratic and Republican political control, resulted in slower overall growth of the economy but especially a sharply unequal distribution of the resulting increase in income, nearly all of which went to the very highest strata of wealth- and income-holders in the society.

What is somewhat more surprising is the emerging evidence that this process put immense social and personal strain on communities that had depended on the “good jobs” of the labor-capital accord as their economic base, and did not have intellectual and technological assets like world-class universities, major centers of medical research and treatment, or intellectual property generation to cushion the process. It is somewhat surprising that the scale and intensity of this social damage largely stayed under the radar of established statistical indicators. To some degree this can be understood as a result of lower and middle-class households desperately shoring up their incomes by working longer hours at low paying jobs, and borrowing more. The full extent of this damage has only recently surfaced in work like Anne Case and Angus Deaton’s examination of the dramatic change in trends of mortality and morbidity among groups like white Americans without a college degree.

The first two years of Obama's first term, when Democrats had control of all branches of government, seem in retrospect a kind of political watershed. Obama effectively allowed the financial industry and its government representatives like Larry Summers and Timothy Geithner, to determine the policies aimed at damage-control and economic recovery after the financial debacle of 2007-8. This resulted in a feeble fiscal response (due in part to Obama's personal attachment to austerity economics and aversion to deficit spending) that left employment and incomes in most of the country almost unchanged, and an unprecedentedly easy monetary policy that effectively subsidized and bailed out the financial industry. Trillions for Wall Street and pretty much nothing for Main Street, despite the warnings of economists like Jamie Galbraith of the peril of bailing out the mortgage lenders while doing nothing for the households bankrupted by their mortgage debt. These policies did not play well politically with a significant part of the American working class.

Whatever the merits of Obamacare as a measure of healthcare policy, it failed dramatically to deliver its political goal, which would have been to re-cement the loyalty of the American working class to the Democratic party. In retrospect from the perspective of a 2018 election in which the Democratic party benefited from the healthcare issue, this looks more to have been as much a failure to sell Americans on the policy than necessarily the weakness of the policy itself. Obama looks in retrospect to have been a talented administrator and policy technician with a tin ear for the political reception of his decisions.

Pretty much the only thing saving the political bacon of the Democrats after 2010 was that so many voters, especially in areas benefitting from globalization largely in big cities on the coasts, hated Republican threats to social security and medicare. Trump's political insight was that the Republican "leadership" were a bunch of empty suits with very weak support from large segments of the Republican electorate. He demonstrated the truth of this insight with devastating electoral rigor in the Republican primaries. The Democratic party, operating at unusually high levels of self-delusion, over-confidence, under-competence, and saddled with a weak candidate strongly associated with the politics the national electorate had rejected repeatedly, managed to leave just enough room for Trump to squeak through to office.

In any very close election like 2016 there are any number of factors that could plausibly be seen as contributing to the outcome: Comey's inexplicable statements about the Clinton email case, Russian and Wikileaks manipulated disinformation on social media, and last-minute strategic spending by the reactionary Republican donors among them. But the deeper lessons of 2016 go well beyond Trump's personal antics (which worked very well in sucking the media into giving him huge coverage and name recognition) or temperamental unsuitability to the presidency. To my mind the most important lesson is the bankruptcy of centrist Democratic politics based on neoliberal "austerity light" policies. Democrats are going to have to come up with something more substantial than Clinton was able to articulate to stay in the ring; for example, actually to spend some money on things the public care about. The second most important lesson is that the Republican attempt at a reactionary coup

is still electorally unviable. In this respect Trump has done as much or more damage to the Republicans as he has to the Democrats. The divisions of the Republican party offer a major opening to Democratic national politicians, if they can figure out how to exploit them. The third important lesson is just how resilient the national security state is, even with a president erratically but, in some dimensions fundamentally, critical of the ongoing imperial wars and unwavering commitment to globalization.

Lessons, if there are any

I'm not in any particularly good position to undertake punditry on the details of candidates or political campaigns. I do think there is some real politics behind the highly selective spectacle presented to us in the media, and that this underlying politics will have a long-term shaping influence on national political outcomes. As I understand it, successful politics consists of having some idea of where you want the country to go, some credible methods for getting there, and an ability to find and hold together a coalition of voters and interests in support of your program sufficiently large and persistent to win elections.

The reactionary Republicans think they have a viable vision for the future of the country in the neoliberal fantasy of a self-regulating economy entirely steered by markets. I don't think so, for the reasons I've outlined here. The problem is that the capitalist economy is not just a system of market information processing, but also a system for the allocation of real resources to real human ends, and a system of distributing the claims to those resources among the members of society. Letting markets rip to do their thing inevitably does social damage that society is going to want to address. Neoliberalism is too weak in its responses to the problems its own measures create to be a stable platform for the political direction of a country as large, diverse, and an economy as complex as the U.S.

Does Trumpian or Bannonesque populism offer a more promising path? What this populism seems to amount to is the idea of maintaining the welfare state and even strengthening some of its protections (in sharp contradiction to neoliberal dogma) but only for a limited part of the population, defined by race, gender, citizenship, or birth. Limiting access to the welfare state is presumably supposed to keep costs under control, and various forms of political exclusion like voter suppression and extreme gerrymandering, are supposed to substitute for a majority political coalition. There is certainly some danger of this exclusive populism succeeding politically, especially if the broad "left" fails to respond to it in effective political terms. At the moment, however, the long-term prospects of exclusive populism look pretty dim. Trump's election depended on holding together a coalition of exclusive populists, traditional conservative Republicans, and neoliberal radicals, and barely succeeded in the face of a very weak Democratic campaign. The issues dividing the elements of this coalition: immigration, trade, globalization, and even climate change, pose enormous gaps for politicians to bridge over even with the most sophisticated happy talk.

The lessons, such as they are, of looking at American politics through the lens of political economy are more relevant to the left and “progressives”. It is a dangerous fallacy to think that public policies triumph because they are inherently right or just or good, and that history is on the side of political and social progress. We are stuck with an economic system that we don’t know how to replace and that comes with fundamental institutions such as private property in the means of production, wage labor, and monetary exchange that are bound to reproduce inequality and human suffering in society at large. It is certainly a noble aspiration to want to root out the sources of these social ills, but we also know that uninformed attempts to accomplish radical restructuring can do as much damage as good.

Historically the progressive measures that have had the most political and social success are those that divide the capitalist class, and, as a result, command substantial support from capital. It is worth considering various policy proposals from this point of view, and forming a cool judgment as to how much any one of them might succeed in dividing the capitalists, which is the key to progressive success. I’ll conclude with a brief discussion from this point of view of three major current issues, health care, immigration, and climate change.

If large corporations could get responsibility for health care of their employees shifted to society as a whole through some national universal health care scheme, it would lower their costs and promise to boost their profitability. Of course, some part of the increased profits would have to fund the resulting larger national health care system, but for many big and powerful corporations the scales would tip toward nationalization. The biggest pitfall in this path is Americans’ addiction to doctoring, to over-diagnosis and over-treatment, which, in combination with our toleration of egregious anti-competitive institutions in medicine, threatens uncontrolled increases in medical expenditures under a national universal system. Progressive advocates of universal health care on humanitarian grounds and as a measure of equality in a highly unequal society would do well to focus some attention on the problem of containing healthcare costs. A national universal system carries with it some real risks to civil liberties and individual autonomy, but it also offers some credible countervailing power to health care pricing and marketing practices. This is a case where the electoral battle seems to have been won, in that quite substantial majorities of Americans favor the general principle of universal health care funded through the Federal government. The question is whether the other parts of the necessary political coalition, which are going to include monied interests, can be put together in support of this progressive goal.

Immigration policy also has the potential for a creative division of the capitalist class. The standoff we find ourselves in, the result of lax enforcement of supposedly rigorous immigration procedures, is itself the result of inconsistent resolution of political conflicts over immigration. Employers by and large are going to favor easy immigration policies because they tend to lower their wage costs and make it easier for them to recruit employees they want contributing to their bottom line. Of course, lower wage costs for employers is going to translate into more competition for jobs and downward pressure on wages for

some segments of the working population. Can a progressive politics find a way to an immigration policy that divides each of these constituencies enough to command majority support?

Up until the 1920s, the U.S. had no economic immigration restrictions at all. This system had some enormous advantages: the free movement of people meant that those who came to the U.S. could – and did – freely return to their places of origin in the face of changing social and personal circumstances. Net migration was the result of relatively small differences between much larger gross annual immigration and emigration. The availability of jobs and housing effectively regulated migration flows. In this system the Federal government avoided the inevitable incidents of cruelty and inhumanity that strict enforcement of immigration restrictions inevitably entails. Could we return to a system like this in a world of greatly increased inequality? A sudden relaxation of immigration controls would probably trigger alarming short-term movements of people, but it seems likely that over time these transients would diminish and net migration would return to moderate levels.

Climate change politics offer both the greatest opportunity for dividing capitalists and the greatest resistance on the part of some elements of the capitalist class. Despite the tendency of both environmentalists and their opponents to frame climate change as a question of “trade-offs” (between generations, or between human beings and the planet) the problem of greenhouse gas emissions is a textbook example of the availability of a free lunch in economic terms. Because we face no price, either in the form of a tax, or a royalty on an emissions permit, or in the costs of complying with direct regulation for the emission of greenhouse gases, and greenhouse gases do damage through global warming, the current “business-as-usual” allocation of resources is inefficient. This implies that it is possible in principle to improve standards of living and climate for both present and future generations. In fact, an appreciation of the implications of this inefficiency completely dispels the idea that there is any conflict between economic well-being and climate damage control at the level of the world economic system as a whole.

This analysis does not, I hasten to add, imply that there are no conflicts at narrower levels involved in regulating GHG emissions. Giving up burning fossil fuels (which is really what we have to do to control global warming, even over a long time horizon of many decades) is, at least in the short run, going to raise the real costs of energy. Households that have chosen to live in McMansions reachable only by road are going to experience a significant increase in real costs of energy as a decline in their quality of life. In principle it is possible to compensate losers with more access to other non-energy intensive goods and services, but crafting such a compensation policy is a formidable political task. (George Schultz and James Baker, traditional conservative Republicans, tackled this issue directly in proposing a carbon tax to be rebated directly to households as a government transfer, along the lines of Alaska’s system of paying households from oil revenues. Though this proposal has serious defects, starting with the fact that the carbon tax rate it envisions is too low to be effective, it deserves more debate – politically, economically and environmentally – than it

has received.)

One of the least palatable aspects of the climate change issue is that in order to form a coalition for effective control of GHG emissions, it is very likely going to be necessary to pay off owners of fossil fuel resources. In principle it is possible to do this, but paying off the Koch brothers for their reckless investments in fossil fuel resources is unlikely to be a popular idea on the progressive left.

The more general point, it seems to me, is that while abstract thinking about society – such as Smith’s “invisible hand” long-period analysis, or Marx’s theory of surplus value, or neoclassical economics’ vision of first-best efficiency properties of competitive market allocation of resources, or Hayek’s understanding of markets as information revelation devices – is invaluable as a heuristic to help us think about what kind of society we want and how the complex society we live in works in various dimensions, abstract concepts are a terrible guide to practical politics. Social reality is just messier and more complex than any single attempt to conceptualize it can be. If there is some truth in abstract conceptions it emerges when we attempt to synthesize them, despite their apparent inconsistencies, accepting each one as one, but not the only, lens through which to understand the reality we live.

The case of European social democracy reminds us that the politics of managing the contradictions of post-industrial capitalism are much less exciting than the politics of somehow bringing fundamental change to the system, for example, through the eventual nationalization of the means of production. When nationalization fizzles as a positive program due to the inability of some nationalized firms to remain competitive with conventional capitalist corporations, it threatens to take the welfare state down with it. But this would be a stupid mistake, and thoroughly confuse the baby with the bathwater.

In the case of twenty-first century “progressive” politics the implications are to remind progressives that our society is based on the very imperfect and contradictory institutions of commodity capitalist production. Those institutions took a long time to evolve and develop and are not going to go away quickly, and represent fundamental constraints on what any policy, no matter how much political enthusiasm it engenders, can hope to achieve. It is still certainly worth it to work for a fairer, juster, and and more human system. The work of this type that seems to have the most lasting consequences, however, manages to use the forces of the system to transform it, in a kind of judo move, rather than hoping to defeat those forces by direct opposition. In the context of U.S. capitalism in the post-industrial age the key to progressive success is to find issues and policies that divide the capitalist class. The special circumstances that converged in the 1930s and 1940s to make New Deal social programs and the labor-capital accord possible are not likely to recur very often. But humans are ingenious and resourceful and today’s progressives can find some chinks in the armor of globalized capitalism.