

From Economic Freedom to Economic and Social Poverty: Institutional Approaches to the Business Enterprise, Structural Change, and the Role for Government

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Abstract: The extent to which freedom should prevail continues to be a lingering question in the economic discipline. The article focuses on how freedom is conceptualized. The question addressed is whose freedoms are being served through economic self-governance. The profit seeking microeconomic objective of capitalists, as addressed by Karl Marx, must lead to structural change resulting in unemployment. But unemployment has disastrous social costs. So the promotion of freedom for capitalists comes at a high cost toward society. Thus it is argued that the concept of freedom is itself a paradox. Freedom itself must be constrained to be viable.

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What is Freedom?

One can argue as to what is meant by freedom. There are many views as to what is “freedom.” However nothing meaningful can be achieved from arguing over the meaning of words.¹

The enquiry [into the meanings of words] . . . is doomed to sterility because words do not have meanings in the required sense at all; they simply have uses. . . . they are not the names of anything. To know their meaning is to know how to use them correctly, that is, in such a way as to be generally intelligible, in ordinary and technical discourse. . . . (Weldon, 1953, 19)

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As elucidated by Geoffrey Vickers, how one conceptualizes freedom is dependent upon the way one views the world.

Freedom is ambiguous . . . to some it means freedom from interference, to others “opportunity.” The negative concept of freedom which expresses itself by “let me alone” is characteristic of the comfortably situated. The others express their demand for freedom by “give me a chance.” The comfortable take opportunity for granted, but their allusions only reflect their good fortune. Between these conceptions of freedom there is a great gulf. (“A Bill of Duties for Men in England,” typescript dated April 1940, Vickers papers; quoted in Vickers [1991])

Freedom is on a spectrum. For those defenders of small government who have followed Friedrich Hayek’s claim that free markets are the most conducive to freedom have clearly taken the negative concept of freedom as freedom of interference (Burczak 2006). At the same time, Thorstein Veblen (1921) recognized that the self-regulation of markets is akin to regulation of the means of production by those whose motivations are toward their own pecuniary gain. Veblen is addressing an important conflict here. In the context of self-regulation, there will be a conflict between the individual micro-goal of capitalists, and larger welfare-enhancing macro-goals, such as full employment of society. The conflicting nature between the micro-goals of capitalists and the larger macro-goals of society once realized, leads to an investigation of the appropriate balance between freedom and control. To find this balance requires an investigation into the destructive nature of capitalist society, fueled by the motivation for profit. Karl Marx provides the best illustration.

Whatever the social form of the production process it has to be continuous, it must periodically repeat the same phases. A society can no more cease to produce than it can cease to consume. When viewed, therefore as a connected whole, and in the constant flux of its incessant renewal, every social process of production at the same time is a social process of reproduction. (Marx 1990, 711)

Marx makes clear that for society to sustain itself production requires reproduction. Exchanges among capitalists and between capitalists and laborers are required for the viability of society. When society is being “reproduced” it is the reproduction of an exploitive system. Just as capital is being reproduced to replace worn out capital equipment, the capitalist just as consistently produce and reproduce the worker as a wage-laborer. However, capitalism is not one of simple social reproduction, it is of reproduction on an expanded scale. Fortunately capitalists, driven by competition, are compelled to accumulate. Capital appears in the form of accumulated money. While surplus value is produced in the process of production it is realized in the process of circulation. Surplus value is created through the cutting of production costs, or in Marx’s terminology, the cutting of necessary labor time, which

cuts the variable cost of production. Capitalists are limited in the degree which the variable cost of production can be cut. The length of the working day, and worker's resistance to wage cuts create motivations by capitalists for other variable cost saving techniques.

These limitations leave capitalists to engage in labor-displacing technological innovation. Technological advancement frees up labor costs appropriating additional surplus value for capitalists. For Marx unemployment is seen as a natural process of capitalism. However in Marx, unemployment is also functional. Technological improvement leads to an increase in the reserve army, which favors the capitalist class in keeping wages at the subsistence level and serves as a disciplinary device for laborers. The micro-goal of pecuniary gain by the capitalists inhibits the macro-goal of full employment from ever being achieved.

According to Marx, structural change is endogenous to capitalism, which leads to technological unemployment. Alternatively, proponents of free markets claim that the displaced workers will be compensated in rebuilding the capital that originally displaced them. This is however an absurd conception because the new technique, to be introduced in the first place, must be more profitable than the old technique. Thus, the quantity of labor that is reemployed producing the "new" capital, must be smaller, or less expensive than in the previous period (Lowe 1988, 99). However, capital accumulation and technological advancement is not discrete, it is continuous. Thus there will always be a continual race between those whom are displaced because of technological change, and those whom are absorbed into new sectors because of capital accumulation. As Hans Neisser (1942) proposes, there must always be those whom are permanently technologically unemployed.

The next myth that needs to be broken is the functionality of unemployment. In Marx, unemployment serves a purpose. The unemployed serve as a reserve army of labor, ready and able to engage in the production process. The presence of the reserve army of labor serves to discipline the employed and keep wages at the subsistence level. However, laborers may not be able to easily move in and out of employment as Marx asserts. It is important to consider the social costs of unemployment, including mental and physical costs. The problem of unemployment needs to be characterized in the sphere of economic sociology.

[Economic sociology] tries to ascertain all the social factors and influences which form and modify the "data" of the economic order and its evolution. Thus economic sociology deals on the one hand with the social institutions of the economic system, and their specific local and historical structure. (Lowe [1935] 2003, 31)

All economic processes have a social aspect. Mark Granovetter (2005) argues that weak social ties, gained through employment, help expand one's social network. Then, the greater an individual's social network the greater an individual's prospects of maintaining employment throughout their lives. Now take the opposite extreme. The literature on the psychological effect of unemployment puts forth the argument

that unemployment is circular and cumulative in nature. This results in *the long-term unemployed to become unemployable*.

The sociology of unemployment has its roots in Marie Jahoda's ([1933] 2002) *Marienthal* study. Marienthal is an Austrian village where the livelihood of the community was dependent upon the local factory. When the factory closed in 1929 this began a wave of prolonged unemployment in the village (Feather 1990). The conclusions of the Marienthal study found that there are four basic attitudes of the unemployed: 1) *unbroken* high hopes, plans for future employment, children and household maintained; 2) *resignation*, all loss of hope, no plans for the future, but children and the household are maintained; 3) *in despair*, greater feeling of resignation, including a feeling of depression and a continuous comparison to the present state and a previous higher state of well being during employment; and 4) an *apathetic* state. The apathetic state is the most severe psychological state of the unemployed. It is defined as:

. . . state of complete passivity, the absence of any effort. Home and children are dirty and neglected, the mental outlook is not desperate but simply indifferent . . . Nobody plans for a more distant future, not even the days or hours ahead. (Jahoda 1933, 54 quoted in Feather 1990, 13)

As the period of unemployment becomes prolonged, the unemployed's psychological state regresses toward that of an apathetic state. This is a generalization for the most part and every individual response to unemployment is different based upon their unique circumstances. But broadly speaking the state of mind of the unemployed will regress as the duration of unemployment lengthens.

The downward psychological spiral of the unemployed is further evidenced in Browman, Hamilton and Hoffman's (2001) study. This is a study of the unemployed in Michigan following the General Motors plant closings in the late 1980s. Their study is important as it links social and personal effects such as: increase in crime, increase in divorce rates, deterioration of mental and physical health, etc., as all consequences of stress. This is true, however the causality is not simply one step. Rather economic conditions such as unemployment is the cause of stress (Brenner 1973). It is thus high stress that leads to both social and physical/psychological consequences. This clarification becomes important as it is the response to unemployment that becomes imperative to the overall level of stress, which the unemployed are subjected to. It is not surprising that the response to unemployment is different for different individuals. One's support network at the time of unemployment plays an important role, as does the current financial situation, and the original reason for unemployment. Browman, Hamilton and Hoffman (2001) find evidence that unemployment due to mass layoffs is not an initial stressor in workers' lives. This group of the unemployed tend not to fault themselves for circumstances which, in their minds, are beyond their control. What is important, however, is the circular, cumulative, and causative nature of unemployment and stress. Sources of exposure to stress cause additional stressful situations (as

unemployment as an initial stressor causes financial hardship), which in turn leads to anxiety, hostility, and depression, which then opens the door for further exposure and vulnerability to additional stressors (11). As Browman, Hamilton and Hoffman conclude:

Simply put, to have become unemployed and hence distressed – depressed, anxious, whatever – is to less likely gain reemployment or more likely to lose a subsequent job. Unemployment deals a double whammy because its consequence, distress, has further consequences – reduced employability – which make it harder to get back to square [one], unemployment leads to family stress and disruption, this too can have consequences for future employment, if only because it feeds the spiral of distress. (2001, 10-12)

If the initial cause of unemployment is of no fault of the worker, as time passes, workers' inability to become re-employed are a major cause of stress in their own lives. Workers now see themselves as being at fault for the inability to acquire employment. This causes great stress in the unemployed workers lives, especially as financial hardship continues to mount. This then leads to lower self-worth, anxiety, depression, family disruption, increases in drinking and drug use to cope with the stress, poor physical health of the unemployed and their families, and increased thoughts of suicide. Furthermore stressful situations simply do not pass, these are life altering situations. As unemployment is prolonged these symptoms progress. This further impedes the possibility of re-employment. Soon the unemployed become unemployable.

Not only does regular employment provide a basic income for individuals, but it sets up a much needed social environment that is important and necessary for individuals. Employment has formal and informal social relationships. Losing one's regular job decreases their level of social activity that they were previously engaged in (Kelvin and Jarrett 1985). Workers become friends, and they engage in social activities inside and outside the workplace. Unemployment causes dependency issues within families. Inside and outside the family structure, the unemployed, especially the long term unemployed, are seen as second class citizens (6). Being viewed by society in this manner disrupts the normal functioning of the family, and in addition the normal day to day functioning of the unemployed within society.

Balancing Freedom and Control

Unconstrained economic freedom creates an environment inviting capitalists to engage in labor displacing technological change. But unemployment is a detriment to the overall welfare of society. How can this be resolved? The question of freedom is certainly complex, but freedom itself is a paradox (Heilbroner 1992). According to Lowe (1948), liberty, "the release from formal restraint" (as defined in *Merriam-Webster's Collegiate Dictionary, 11th ed.*) comes at a price. Lowe suggested that liberty will eventually lead to anarchy. Here it has been argued that the pursuit of liberty, the

strive toward freedom, brings with it cumulative social costs arising from unemployment, which ironically are a natural consequence of freedom. Thus the only way to safeguard freedom is to find an appropriate balance between freedom and control (Lowe 1988).

The Employer of Last Resort Approach

The question arises as to the appropriate form of government control. First, the main issue is that the unemployed are viewed as what they are not. Since they are not employed they are viewed in a negative light. Not only is confidence lost but important skills are lost as well. Edward J. Nell (2000) has given a simple rationale for why unemployment exists; there are simply not enough jobs. There are not enough jobs due to the nature of capitalist society. If lower income individuals have a higher tendency to be unemployed, then employing this group of workers will have a greater impact on the demand for goods and services because they have a higher marginal propensity to consume. The increase of demand will cause employers to increase production, and hire even more workers, which will increase spending which will then have multiplier effects in the economy, until the economy reaches true full employment. The problem is that employers will not hire new workers, because with unemployment there is no anticipation that demand for their goods and services will increase. This Keynesian argument then raises the question of how to first raise expectations of investors, which in turn will spur effective demand.

It was seen earlier how a *laissez-faire* system creates obstacles that allow for adequate compensation for those technologically unemployed. The task then is to find the appropriate balance between freedom and control. John Maynard Keynes ([1936] 1964) focused his attention on government spending as the catalyst to push the economy toward full employment. Post Keynesians, especially those proponents of the “Kansas City School” focus on direct job creation. The “Kansas City Approach” to full employment is popularly known as the Employer of Last Resort (ELR) approach to full employment.

The nature of the ELR program is to guarantee public employment for those who are willing to work. The ELR approach to full employment has taken on renewed interest. The government job guarantee approach to full employment is to hire off the bottom, hiring workers who are unable to find private-sector employment. Employing workers from “off the bottom” has obvious stimulus effects. Employment provides stimulus for individuals to increase their spending in the private sector. Given that lower income people, under a Keynesian framework, have a higher marginal propensity to consume, this will provide the necessary initial boost in demand for employers in the private sector to increase investment, and increase output to satisfy the additional demand. Increased production in the private sector will then cause an increase in the demand for workers. Workers will then move from ELR employment to private sector employment. The ELR program will move counter-cyclically to the business cycle. Government spending on an ELR program will then also be countercyclical.

An ELR program is an improvement upon unemployment insurance because instead of the government paying unemployed individuals to not work through the issuance of unemployment checks, they are paying workers to work. Keeping this group of workers employed maintains skill-levels, reduces the previously discussed social costs of unemployment, and quickly alleviates the insufficient effective demand problem as addressed by Keynes (Wray 1998).

Not only does an ELR program address these concerns, but it has been proposed that the ELR program can also provide education and training for workers. Keeping workers trained and employed will increase their productivity thus lowering costs to private sector production. It also fully addresses the unemployment problem from all sides because an ELR job would be offered to anyone with the willingness to work, regardless as to the cause of their unemployment. The ELR program is flexible enough to combat both “Keynesian” and “Marxian” unemployment, therefore creating “flexible full employment” (Forstater 2000). The ELR program leaves out only the voluntary unemployed, and those who are unable to work due to age or health issues. In these cases, existing government programs can still provide for these individuals even with an ELR program.

In order to maintain freedom there must be government control. The Employer of Last Resort approach to full employment is a reliable, proven form of government intervention which will allow for the maximum amount of freedom, while promoting economic stability.

Note

1. I thank Warren Samuels for cautioning me against going down this path. Debating over what is meant by freedom would have made me, and the reader, lose sight of the article’s central theme.

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