State & Discrimination

The Other Side of the Cold War

Lynn Turgeon

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Preface

The origins of this book can be traced back to the curriculum reforms in the late sixties and the development of "Black Studies" programs at major universities in the United States. Under the guidance of Hofstra's Dean of Liberal Arts, Joseph Astman, faculty were encouraged to develop an interdisciplinary approach to the problems of minority groups.*

Twenty years of teaching a course entitled "Economics of Discrimination," which eventually attracted women as well as other minority students, is reflected in this book's contents and conclusions. The author is especially grateful to Dr. Murray Yanowitch, who team taught with him in the fall of 1969, when the course was receiving a trial run. As teachers of comparative economic systems, we both quite naturally encouraged our students to make international comparisons of the discrimination problem.

Travels throughout Eastern Europe the following summer convinced me that the greatest similarity between the problems of blacks in the United States and minority problems in Eastern

*For details on the development of this program at Hofstra University, see my "The Economics of Discrimination," monograph no. 62 of the Institute of World Economy (nee Center for Afro-Asian Research) of the Hungarian Academy of Sciences, Budapest, 1973 (also in Hungarian), especially pages 7 to 9. This is an expanded version of a talk given at the Petofi Club in Budapest in June, 1970.

Europe was to be found in the postwar condition of the remaining Gypsy (Rom) population, which still existed in Czechoslovakia, Romania, Bulgaria, and especially Hungary. In studying the Gypsy problem, the author is especially indebted to Dr. Milena Hubschmannova of Prague. In the fall of 1985, Hofstra University and IREX cooperated in facilitating fieldwork in Budapest, where the following persons contributed in various important ways: Istvan Dobozi, Eva Ehrlich, Gabor Revesz, Mihaly Simai, and especially Janos Timar.

Among the memorable students contributing to this course and indirectly to the contents of this book were: Bob Kirsch, Robert N. Horn (now Professor of Economics at James Madison University), Sharon Oster, (now Professor of Economics at Yale University), Morty Schapiro (now Professor of Economics at Williams College), and David Stewart.

Others who have read and commented critically on the manuscript (or parts thereof) at various stages of its development were: Tom Belmonte, Bettina Berch, Ednaldo Da Silva, Michael Ellman, Renee Ford, Ray Franklin, Jeff Frieden, Paula Garb, David Gleicher, Mark Glick, Morty Greenhouse, William Mandel, Robert McIntyre, Gottfried Paasche, Howard Sherman, David W. Southern, Howard Stanback, Alan Weiss, and Mike Wyzan. My indebtedness to all of the above in no way implicates them in its conclusions. Finally, special thanks to Susanna Sharpe, Manny Knight, Jim Merritt, and Scott Redhead for editorial assistance.

Introduction

State and Discrimination examines the political economy of the Cold War. Its thesis is that the competition between the two superpowers for world stature and public approval, particularly in the Third World, has forced each giant to pursue some policies that are antithetical to the solution of contemporary stabilization and growth problems of the respective economic systems.

For the United States, competition with the USSR has forced a change in the state's racial policies and general treatment of minorities, as foreseen by Gunnar Myrdal's *An American Dilemma*. Although women constitute a majority of our population, they have all of the economic characteristics of a minority group and have thus also benefited somewhat as free riders from the competitive coexistence of the behemoths. Figuratively speaking, blacks have been opening the doors that women have been walking through.

For the USSR, competition with the United States has accelerated the implementation of environmental policies that might well have been delayed until a more propitious time period. And this competitive struggle has forced Soviet planning authorities to imitate or react to United States military developments, albeit after some delay, as a result of breakthroughs in United States defense and offense technology.

Thomas Sowell and the University of Chicago "no free lunch" school have emphasized the historic volatility of our government's policy with respect to minorities.[1] The present book makes a case for a great reduction, if not the elimination, of this volatility after 1948. Soviet ideology and the future of East-West relations being what they are, the long-term prospects for minorities, including women, appear to be somewhat brighter in both countries as a result of their competitive coexistence.

Mainstream economists have traditionally assumed that greater "efficiency" is a legitimate objective of economic policy at both macroeconomic (the economy as a whole) and microeconomic (firm or household unit) levels. Thus, the role of government is to be generally minimized relative to the efficiency-producing free market forces which supposedly prevail outside the government sector. If government activity is to be justified, it must pass some sort of cost-benefit test: the social benefits of government activity must exceed their social costs. At the microeconomic level, the firm or enterprise is guided by profit-maximizing principles, assuming that returns are maximized and costs minimized. Subsidies for all types of economic activity—government sponsored or private—are suspect and are seen as undermining the goal of efficiency. Thus, the study of the "grants economy" by Kenneth Boulding and others is considered offbeat, if not subversive.

Beginning in the sixties, New Left economists began to question whether or not "efficiency," as conventionally defined by the mainstream economists, was either a legitimate goal or an apt description of the typical operation of the advanced capitalist system at *both* macroeconomic and microeconomic levels. The goal of maximizing profits was not necessarily synonymous with greater efficiency, as assumed by neoclassical economic theory.[2] The social cost of this profit-maximizing system was presumably an increasing alienation of labor, a dual labor market, deteriorating living standards for workers, and growing waste.

In my view, the New Left case against mainstream economics is strongest with regard to the United States' inability to solve the macroeconomic problem of providing full employment with minimal inflation. In contrast with its rhetoric, the advanced capitalist system in operation seems to be failing to provide anything resembling full employment. Each year the percentage of the available labor force engaged in productive labor declines, and each year governments tolerate higher levels of unemployed labor and capital. This is true not only in the United States and Canada, but also in other OECD countries. While this double-digit unemployment in OECD countries has brought down the rate of inflation—as posited by the traditional Phillips curve—it represents a tremendous macroeconomic inefficiency.

At the microeconomic level, however, the operation of most United States firms would appear to be remarkably efficient. This is particularly true in comparison with enterprises operating under actually existing socialist conditions, and it is also true in comparison with firms in other advanced capitalist economies. The failure of the United States government to guarantee some sort of safety net, or floor below which citizens cannot be permitted to fall, does indeed serve as a powerful incentive for many individuals to perform in an enterprising manner both within and outside the law. This, in turn, is conducive to the relative efficiency of the firm. On the other hand, the inefficiency in the operation of the noncapitalist enterprise seems somehow to be related to the economic security of workers and to the risk avoidance provided by the routinization of planned investment. This is in contrast with the relative efficiency of these governments in providing full employment with minimal inflation at the macroeconomic level.[3] To be sure, opposition to the goal of efficiency in the capitalist firm has been provided by traditional job-conscious, employment-creating trade unions in the United States, but their influence seems to be waning over time.

In the first two chapters, we will examine the operation of actually existing capitalism at both macroeconomic and microeconomic levels of economic activity. We will pay particular attention to the goal of efficiency and to the role of discrimination at each level.[4] At the macroeconomic level, it is posited that an *increase* in discrimination or segregation is employment-creating and thus absorbs some of the surplus generated by the advanced capitalist system, thereby giving only the illusion of "efficiency" at this level. On the other hand, at the microeconomic level, the *reduction* of discrimination is employment-saving and therefore represents a more "efficient" use of resources at this level. Thus, what we are saying about discrimination can be generally applied to any of the many forms of "disguised" or covert unemployment: there is a trade-off between overt and covert unemployment. During the eighties, Western European countries and Canada have been doing a better job with respect to minimizing covert unemployment, while the United States and Japan have superior records when it comes to minimizing overt unemployment. However, the entire advanced capitalist system tends to display a bias towards employment-creating at the macroeconomic level and employment-saving at the microeconomic level.

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Scarcity or Surplus: Which Is the Problem?

While there are numerous contemporary schools of thought in economics, there are essentially two broad paradigms. The more conventional "no free lunch" (NFL) paradigm is held by most mainstream, traditional economists in the United States, from Milton Friedman to Lester Thurow. But it is also held by many Marxists, and is present in the version of Marxism practiced today in the USSR itself.[1] It is sometimes summarized by saying that "there is no such thing as a free lunch" (Friedman) or that we are living in a "zero-sum society" (Thurow). In their view, which can be labeled the "either . . . or" paradigm, increases in one type of economic activity must occur at the expense of some other type of activity. A universal assumption of scarcity and of the need for greater efficiency underlie this mode of thought.

The alternative paradigm can be most clearly found in Bowles, Gordon, and Weisskopf's *Beyond the Wasteland*, which is in the tradition of Baran and Sweezy's *Monopoly Capital*, and might be labeled the "free lunch" (FL) approach.[2] Since there seems to be a growing gap between the *potential* output of our economy and its *actual* performance, a gain in one sector need not be at the expense of another. In fact, we can indeed have our cake and eat it too by putting back to work resources that otherwise would have remained unemployed or underemployed. We might label this the "both . . . and" approach to economic problems. An assumption of relative surplus and of the need for surplus absorption underlie this way of thinking. Under such conditions, the need for greater efficiency is certainly less pressing, if not altogether problematic.

The real roots of the NFL paradigm can be traced back as far as Adam Smith and the classical school, which held that the ultimate goal of a rational economy would either be the provision of more useful goods and services, or additional voluntary leisure. If the goal were the consumption of useful goods and services, then work or employment, especially in the investment sector, was simply a means to accomplish an end. There was no nonsense here about work being a "first necessity of life," as later posited by Marx for his communist stage of development. The long-range goal in an affluent or stationary society, as posited by John Stuart Mill, would therefore be to minimize workers' employment or the disutility of labor and to maximize utilities or satisfaction obtained from final goods or greater voluntary leisure.

In the foreign trade sector, according to the classical school, no particular advantage could be achieved by exporting more than a country imported, as the earlier mercantilist school had advocated. This is because exports were created by the disutility of domestic employment, and imports of useful goods and services were the only possible fruits of international trade for society as a whole. The mercantilists, as well as today's exchange rate mercantilists or "fair traders," have thus put the cart before the horse. They propose the maximization of disutility (work in the export sector) and the minimization of utility, or satisfaction, for society as a whole through the restriction of imports.

In all respects, the NFL approach is employment-saving rather than employment-creating. The act of saving is itself considered to be a virtue since it is assumed that saving is necessary for capital accumulation, and ultimately for higher consumption, to take place. Say's Law is assumed to operate to the extent that no general problem of overproduction (or underconsumption) is conceivable.[3] Government spending or saving is considered to be the only alternative to private spending or saving. In other words, it is inconceivable that there should be any permanent or increased underutilization of resources, or equilibrium at less than full employment, as an alternative. To the extent that government spending and saving (deficits requiring sales of government bonds) impinges upon private spending or saving, there is supposedly a "crowding out" of the latter as a consequence of a capital shortage and rising interest rates.

Greater efficiency is the magical tonic for the NFL system of ideas. Nevertheless, what should be the employment-saving impact of greater efficiency is frequently twisted by NFLers to become on balance employment-creating. For example, according to a *Wall Street Journal* editorial:

> Efficiency creates wealth. Additional wealth broadens the range of things people buy. The new jobs created are more numerous than the jobs lost through improved efficiency. (May 18, 1983)

The key activity responsible for improved efficiency is investment, which supposedly requires prior saving. If investment takes place, productivity increases and the United States becomes more competitive and dominant in world markets. In a NFL economy, consumption is curtailed through the imposition of a sales tax. This constraint on consumption results in increased investment.[4] Only in the distant future may the results of increased efficiency trickle down to ordinary consumers at the bottom.

The origins of the FL paradigm can be traced back to the Great Depression, which ultimately brought forth the Keynesian revolution. Say's Law had indeed broken down, and advanced capitalism seemed to be suffering from the problem of general overproduction, or underconsumption. This was obvious even to non-Marxists. As the private sector deteriorated, the only answer seemed to be an increase in the role of government spending and saving. At first it was thought that the active role of government need only be temporary. But when President Roosevelt cut back on government spending and saving in 1937, the private sector failed to respond positively, and the sharp 1937–38 recession ensued.[5] Only in fascist Germany, Japan, and Italy, where classical Keynesian economics was first boldly applied, did the advanced capitalist system get back to anything resembling full employment before World War II.[6] Full employment was also ostensibly an early characteristic of the noncapitalist system of the USSR. This developed through planned investment which began with the First Five-Year Plan (1927–28 to 1932). However, covert unemployment continued in rural areas for some time thereafter.

Faced with massive unemployment, the new FL approach was necessarily employment-creating rather than employment-saving. Attitudes toward saving also changed drastically. There was a "paradox of thrift," which meant that under certain circumstances saving was, in fact, counterproductive. Because resources were being underutilized, additional saving only made matters worse. By lowering the rate of saving, there would be a larger multiplier effect and a faster return to full employment.[7] And at full employment, a greater *aggregate* amount of saving would be forthcoming. Ironically, the attempt to save more would result in more unemployment and a smaller aggregate amount of saving, and the attempt to save less and spend more—the "paradox of spendthrift"—would result in more employment and a greater aggregate amount of saving.[8]

It was also recognized that saving was rather passive, and that the active variable was investment, which might occur despite what seemed to be limited saving in the eyes of the banking community. In the process of expansion, savings would naturally grow out of higher incomes from formerly underutilized resources. The result would be a "crowding in" of savings as the economy expanded.[9] Under such circumstances, underutilized resources simply represent disguised, or covert, saving.