

## A 2012 May Day Manifesto: “Left Structuralism” versus “Liberal Cyclicalism”<sup>1</sup>

I don’t want to overdraw the distinctions below, as I expect that many of my progressive “Liberal Cyclicalist” friends would agree with many of these policy perspectives but don’t feel that they can put them front and center for pragmatic political reasons - a political positioning that I believe is short-sighted and harmful as it cedes principled public debate over long-run economic vision to the right, and misses the opportunity to educate the public on the fundamental value differences between “left” and “right” economic policy.<sup>2</sup>

Also note that the “Left Structuralist” position outlined in A)-D) below is largely *compatible* with the “Liberal Cyclicalist” position a)-e) below, unlike the “Right Structuralist” position which continues to maintain (against all empirical evidence) that both short-term and long-term monetary and fiscal stimulus is detrimental, and that the U.S. public sector (along with finance and residential construction) needs to shrink.<sup>3</sup> Those who can bear actually looking at cross-country economic performance among rich countries will find that those with very large and generous public sectors like Sweden are current star performers on almost every measure of economic and public well being.<sup>4</sup> In contrast, small-government low-tax advanced countries like the U.S. and the U.K. have performed miserably for their populations over the last few decades, and their<sup>5</sup> “bloated finance, residential construction, and government sectors,” or at least the first two – the last is small compared to other advanced countries, are in many ways a *result of a lack of public investment* in more socially productive and efficient provision of basic needs like shelter, retirement security, health care, and education.<sup>6</sup>

---

<sup>1</sup> Though I believe that the views of my CPEG colleagues overlap to a large extent with my own on many of these issues, this document exclusively reflects the author’s opinion.

<sup>2</sup> <http://www.cpegonline.org/documents/NeoclassicalEconomicsIsImmoral.pdf> , Section 5.

<sup>3</sup> See Paul Krugman, “Easy Useless Economics,” NY Times, 5/10/2012, at: <http://www.nytimes.com/2012/05/11/opinion/krugman-easy-useless-economics.html> and David Brooks, “A Structuralist Revolution,” NY Times 5/8/2011 at: <http://www.nytimes.com/2012/05/08/opinion/brooks-the-structural-revolution.html>. See also Keynote address by Josh Bivens of the Economic Policy Institute on “Growth, Inequality and Fiscal Policy,” at the April 27, 2012 “Fiscal Symposium” of the Illinois based Center for Tax and Budget Accountability at: [http://www.ctbaonline.org/New\\_Folder/Calendar/Growth,%20Inequality%20and%20Fiscal%20Policy\\_Josh%20Bivens%20EPI.pdf](http://www.ctbaonline.org/New_Folder/Calendar/Growth,%20Inequality%20and%20Fiscal%20Policy_Josh%20Bivens%20EPI.pdf) .

<sup>4</sup> Paul Krugman, “What Ails Europe,” NY Times 2/25/2012 at: <http://www.nytimes.com/2012/05/08/opinion/brooks-the-structural-revolution.html>.

<sup>5</sup> Brooks, op. cit. quote from University of Chicago economist, Raghuram Rajan.

<sup>6</sup> See citations below.

First some of the major pragmatic points being currently pushed by “Liberal Cyclicalists” (Krugman, EPI, and the Obama administration) that we all agree on:

- a) Short-term deficit spending. The “Lesser Depression” continues. When taking new labor force entrants into account, hardly a dent has been made in the 10 million job gap that opened up in 2007. The economy is being propped up by federal deficit spending. As the impact of the ARRA recedes growth is slowing again. This is unacceptable. We need a major infusion of short-term fiscal and monetary stimulus or the employment and labor income situation will get even worse.
- b) Taxing the rich. All (120.6%) of the overall per-family income growth of the U.S. economy over the last few decades has gone to the top 10% and most of that (78%) has gone to families in the top 1% income bracket.<sup>7</sup> Over the same period federal income taxes on the rich have precipitously declined.<sup>8</sup> This is unfair, unsustainable, and irrational. This trend has to be reversed.
- c) An extreme make-over for the U.S. health care system is unavoidable. Coverage needs to be made universal and costs need to be contained. Unless something is done about the rate of growth of costs for the current maximally dysfunctional, inefficient, and unaccountable, U.S. health care system, health care costs will overrun the federal budget and destroy what’s left of the U.S. economy.
- d) Middle and lower-income victims of the bursting housing bubble need to be helped and the (mostly finance sector) beneficiaries of the bubble need to bear much of the cost of this. Publicly subsidized programs to provide affordable shelter need to be expanded.
- e) Financial regulation needs to be dramatically improved upon.

These are all worthy goals but, unfortunately, they will not suffice to get us out of the Lesser Depression. For that we need fundamental structural change, not simply a restoration of some semblance of functionality and fairness to our current, deeply distorted, economic system.

- A) We need a permanent vastly expanded public sector, or at least publicly financed, share of the economy. The most successful (and most democratic) advanced economies have up to 50% or more of their GDP tied to public funding through tax revenue, the U.S. has around 28%.<sup>9</sup> The unaided private sector has not provided adequate job or income growth for U.S. workers for decades. Moreover, the high quality and universal health care, education, human service, and cultural production that modern societies demand is best and most efficiently provided through generous public sector funding. These are the services that we need, not a revival of the distorted private “consumer and rentier” economy with its over expanded consumer and

---

<sup>7</sup> 1973 to 2008 per-family income growth for the bottom 90% of families was negative (-20.6% of aggregate per-family income growth), see: <http://www.cpegonline.org/workingpapers/CPEGWP2011-2.pdf> , Figure 2.

<sup>8</sup> <http://www.cpegonline.org/workingpapers/CPEGWP2011-2.pdf>.

<sup>9</sup> <http://www.cpegonline.org/documents/NeoclassicalEconomicsIsImmoral.pdf> , Figure 3.

financial services sectors.<sup>10</sup> This can best be accomplished through a large scale living wage federal jobs program that will employ the unemployed *and* significantly reduce or eliminate the low-wage labor market that has been largely avoided in the successful Northern European economies with very large and generously funded public sectors, and that is a major factor behind the growth in poverty and inequality in the U.S. noted in point b) above.<sup>11</sup>

- B) Similarly, the federal deficit should not be viewed as an accounting problem that can be tackled without changing the overall structure of the national and international economy. (This is the U.S. version of the European fallacy.) *Short-term stimulus cannot be followed by long-term federal deficit reduction without increasing unemployment, unless our structural trade deficit is reduced.*<sup>12</sup> To do this we need to change our trade and exchange rate policies, and have a national industrial policy that will foster a competitive export (for the foreseeable future mostly manufacturing) sector. U.S. economic well being requires a revival of real economic capacity, a restructuring of the economy away from “rentier” financial and consumer services and toward public services and high value added competitive exports.<sup>13</sup> Long term federal deficit reduction programs based on reducing health care cost growth and taxing the rich are necessary but not sufficient. The long-term federal deficit should not be cut without concurrent policies to reduce the structural trade deficit. There is no automatic “long term” after which economic balance will be restored and deficit reduction can begin, as the ex-ante economy of 2007, and even of 2001, were deeply distorted economies based on financial speculation, consumer borrowing, and over expanded private housing and consumer services growth. All this needs to change before we can stop flooding the world with dollars – though obviously at some point we will have to stop relying on our global currency “ace in hole” as the world will stop demanding dollars.
- C) We don’t just need more and better financial regulation, we need to radically shrink the financial sector and move away from our “rentier economy” structure.<sup>14</sup> A politically popular, efficient and effective way to do this would be to enact a tax on financial speculation or a financial transactions tax.<sup>15</sup> Up to a trillion dollars annually for the U.S. treasury could be raised from such a tax, this tax would primarily impact the wealthiest individuals (thus serving goal b) above), and if used to fund a large scale federal jobs program would also serve as an industrial policy supporting goals A) and B) above.<sup>16</sup>
- D) Most fundamentally we need to convert our economy from an “investor driven (rentier) economy” to a democratic “stakeholder economy.” In addition to a national industrial policy,

---

<sup>10</sup> <http://www.cpegonline.org/workingpapers/CPEGWP2010-1.pdf>.

<sup>11</sup> Op. cit. and forthcoming update in the *Review of Black Political Economy*

<sup>12</sup> <http://www.cpegonline.org/multimedia/DeficitLinkages.ppt>.

<sup>13</sup> <http://www.cpegonline.org/workingpapers/CPEGWP2010-1.pdf> and <http://www.cpegonline.org/workingpapers/CPEGWP2011-3.pdf>.

<sup>14</sup> <http://www.cpegonline.org/workingpapers/CPEGWP2011-3.pdf>.

<sup>15</sup> <http://www.cpegonline.org/workingpapers/CPEGWP2010-2.pdf>.

<sup>16</sup> <http://www.cpegonline.org/workingpapers/CPEGWP2009-1.pdf> and update in the *Review of Black Political Economy*.

and a much larger and more generous public sector, we need more economic democracy. Adam Smith's idea does not work. An advanced modern economy cannot be primarily based on self-interest and private financial gain, especially if we want to mitigate a looming global environmental calamity. Moreover, if corporations are to work for the long term economic interests of the workers and communities that they depend on, these stakeholders need to be explicitly given power over corporate decisions. The most successful countries in the European Union have co-determination laws that mandate that workers and the public are represented on large corporate boards; "works councils" legislation; much stronger labor movements; public development banks; and generously supported networks of public-private applied research institutes and public, union, and industry, supported advanced job training programs as part of well-developed "industrial policies".<sup>17</sup> The most economically successful economies in the world today are either politically repressive "state capitalist" economies based on the "Asian Model" (China), or "social- democratic corporatist" economies (Sweden, Germany). The Neo-Liberal small-government low-tax Anglo-American " investor run" economies have massively failed to improve, or even maintain, the well-being of their populations over the last few decades, though they have funneled enormous wealth and political power to the highest income individuals and produced a very large number of billionaires. This is not sustainable. The choice is ours: politically repressive State Capitalism, or democratic Social Democracy? For those who believe in democracy the choice should be clear. The "Free Market" Neo-Liberal model is neither viable nor justifiable.<sup>18</sup>

It's time for progressives to go on the offensive. The public needs to know that we are in a Lesser Depression that requires fundamental economic and political restructuring. A return to the status quo ante (even the one of thirty years ago) is not possible.

---

<sup>17</sup>

[http://www.brookings.edu/~media/Files/rc/papers/2012/0222\\_manufacturing\\_helper\\_krueger\\_wial/0222\\_manufacturing\\_helper\\_krueger\\_wial.pdf](http://www.brookings.edu/~media/Files/rc/papers/2012/0222_manufacturing_helper_krueger_wial/0222_manufacturing_helper_krueger_wial.pdf) .

<sup>18</sup> <http://www.cpegonline.org/documents/NeoclassicalEconomicsIsImmoral.pdf>.