



## Comment on MacEwan and Folbre

Andrew Zimbalist

October 2012

*This paper was presented as part of  
a September 2011 Festschrift Conference in  
honor of Thomas Weisskopf.*

# WORKINGPAPER SERIES

Number 297

POLITICAL ECONOMY  
RESEARCH INSTITUTE

Gordon Hall  
418 North Pleasant Street  
Amherst, MA 01002

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



## PREFACE

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

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

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

The eight sections are as follows:

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

This working paper is 3 of 3 included in Section 3.

*- Jeannette Wicks-Lim and Robert Pollin*

## *Comment on MacEwan and Folbre*

### REFLECTIONS ON “THE WEALTH-POWER-INEQUALITY-GENDER CONNECTION”

Andrew Zimbalist

In his paper “The Wealth-Power Connection,” Arthur MacEwan sets out to put some meat on the bones of the wealth-power connection in the United States. He begins by outlining the basic argument on the mechanisms of this nexus, as laid out by Edwards, Reich and Weisskopf, and then proceeds to provide examples and analysis of how this connection has manifested itself and developed over the last 25 years. His paper is clear and poignant, and I have few issues with the fundamentals of his argument.

I would, however, like to comment on some of its details and on some areas where I believe it would be fruitful to see the argument extended. First, MacEwan acknowledges that there are divisions among the wealthy, but he asserts that “on broad general issues, such as taxation and regulation, there is a wide commonality among the wealthy and among businesses” (p. 2). It seems to me that this formulation obscures too much and, in particular, it glosses over a new dynamic that has infected U.S. society. In my view, the increasing inability of lawmakers to find common ground and the significant emergence of the far right Tea Party represent a new fracturing of the wealthy. The sharpening income inequality that has characterized U.S. society, along with a permissive tax code, increasingly lax rules governing political contributions<sup>1</sup> and concentration of media ownership, *inter alia*, have made it possible for single individuals (such as Rupert Murdoch or the Koch brothers) to exercise inordinate influence on our political culture. The growing influence of these fringe views appears to be untethered to any underlying theoretical framework or empirical reality and threatens the sustenance of a U.S. economy in dire need of short-term economic stimulus. While the historical conflict within elements of the U.S. ruling class has provided for a flexible policy adjustment between tax giveaways and subsidies for the rich and their businesses, on the one hand, and the necessary redistributive policies, on the other, to preserve system legitimacy and to avoid open conflict, the emergence of the Tea Party seems to have swung the pendulum further away from this delicate balance.

Second, and relatedly, the discussion of the U.S. and world financial crisis during the last few years appears to have focused on the proximate causes of the problem, such as poor oversight by financial regulators, the integration of commercial and investment banking, the explosion of derivatives, government loan guarantees, or the rapid growth of subprime lending. All these factors and more were certainly important contributors to the problem. But underlying the current financial crisis in the United States and Europe, as well as the Latin American debt crisis in the late 1970s and early 1980s, the U.S. savings and loan crisis in the 1980s, the world-wide debt crises infecting Mexico, Brazil, Eastern Europe, Russia and Southeast Asia during the 1990s, and the collapse of the prestigious hedge fund Long-Term Capital Management in 1998, is inequality. This inequality obliges the large majority of consumers to borrow money in order to meet their needs or their aspirations; businesses, in turn, need financial institutions to provide the consumer credit to sustain demand. This reality obtains whether it is Arab oil money being funneled through the world’s money markets to fiscally-strapped

Latin American countries or domestic savings being structured into mortgage-backed securities to finance imprudent home purchases.

It is no coincidence that the post-1980 onset of financial crises in the U.S. corresponds with a period of growing income inequality. While between 1947 and 1979 the real income of the bottom fifth of U.S. households grew by 122 percent and that of the top fifth grew by 99 percent, since 1980 the real income of the bottom fifth has fallen by 4 percent and that of the top fifth has grown by 55 percent. Meanwhile, the concentration of income at the very top of the income distribution has grown even more acutely: in 1976 the top 1 percent of income earners received 8.9 percent of national income, while in 2007 the top 1 percent received 23.5 percent of national income.<sup>2</sup> Significantly, Germany, with Europe's strongest economy, has only 11 percent of national income accruing to the top 1 percent of earners -- less than half the U.S. level.

Free markets fail in a variety of ways. Market economies need public intervention to provide merit goods, reduce negative externalities, provide public goods, improve information, and promote competition, inter alia, but the political shift in the United States today is thwarting this necessary intervention, even beyond its normally limited level. The wealth-power nexus that MacEwan explores calls for a more nuanced interpretation that would shed light on how conflicts among the rich are changing and/or how their expression through the media and in practice is being influenced by new forces. Nancy Folbre's paper suggests an initial insight along these lines that I shall return to below.

I must also take issue with MacEwan's discussion of the school reform movement. I do not believe that there are only two alternatives: unionized public schools or non-unionized private schools. Nor do I believe that the charter school movement can be dismissed blithely as antithetical to educational success or as simply a tool of the wealthy to promote privatization. I don't think that the record will support the claim that idea of charter schools was hatched by wealthy economic interests; rather, I think its intellectual genesis dates to Albert Shanker who grew frustrated with the educational bureaucracy and advocated for teacher directed schools. It is true, however, that the charter school movement has been heavily financed in recent years by large hedge fund money and by certain conservative interests.

While I understand the potential political importance of the union movement, I believe that public school unions have often put job security above pedagogical progress and, thereby, have thwarted educational excellence (or competence).<sup>3</sup> While charter schools have both positive and negative features, so do public school unions. The charter school movement has at least two aspects: one that centers on providing better schooling for low income children and another that offers greater choice to middle income children. I think it is problematic to criticize both aspects with the same broad brush. It is unfortunately true that charter schools sap resources from the public schools; yet it is also true that public schools have been failing to provide a satisfactory educational experience, especially for low income students. The key to strengthening educational unions is to reform them, not to embrace them uncritically. The historical labor contracts in public schools are no longer fiscally sustainable, nor educationally acceptable. At the same time, of course, the larger solution to our public school dilemma is to reorder our priorities and to devote vastly more public resources to their operation, including higher teacher salaries.

Finally, I want to touch upon one other section of MacEwan's paper. MacEwan appropriately observes that the Republican cliché that lower taxes produce economic growth finds little empirical support from the U.S. experience over the last two decades. Of course, other variables, such as the dot.com boom of the 1990s, make

simple policy comparisons problematic. But there are two other dynamics that merit discussion. First, there is the matter of incentives and the potential connection between the type of tax levied and economic behavior. It is, for instance, possible that a tax credit for hiring new workers could be effective for promoting employment and growth. It is, however, unlikely in the extreme that lowering dividend or carried interest tax rates -- a policy followed by George W. Bush -- will promote investment and growth. Part of the problem with the Republican bromide is not that all tax cuts are necessarily bad, but that the Republicans seem to argue that all tax cuts are good and all tax increases are bad for the economy. Second, and relatedly, as I argue above, a well functioning economy cannot tolerate inequality beyond a certain threshold. Thus, tax increases on the very wealthy, particularly after three decades of growing inequality in the United States, can indeed promote macroeconomic health. The catch here, however, as MacEwan's paper so ably demonstrates, is that raising taxes on the people with the most political power is not a simple matter. Not everyone behaves like Warren Buffet.

I must begin my comments on Nancy Folbre's paper with a caveat. I don't know how or why I was selected as a discussant for this paper. While I enjoyed reading Folbre's ruminations on patriarchy and capitalism, I have but two tenuous claims to legitimacy to comment upon them. The first is genetic: my late sister, Michelle Zimbalist Rosaldo, was a feminist scholar and one of the founders of *Signs* journal. The second is my work on Title IX and gender equity in intercollegiate athletics, an exiguous foundation at best for understanding the historical relationship between patriarchy and capitalism. Having established my dubious *bona fides*, I now plunge ahead intrepidly with a few brief comments and questions.

One of the paper's main themes is that non-market and intra-family relations deserve to play a more central role in the analysis of the economic and political development of modern capitalism and that they deserve greater consideration in progressive analyses of U.S. society. I think that Folbre makes this point effectively and persuasively.

Our late friend and colleague David Gordon used to say "Marxist, Schmarxist" -- an aphorism that might apply here. Folbre spends a good deal of time explaining why the Marxian framework is deficient. Yet she spends little effort explaining why the Marxian framework is still important for understanding her questions. Given that Folbre finds that (a) class differences play a less prominent role in determining political allegiances, (b) gender differences are best understood "within a larger system of inequality in which age, biological kinship, and metaphorical forms of kinship based on race and citizenship play a central role," and (c) "the traditional Marxian critique of class based on ownership of the means of production has been trumped by a critique of other forms of inequality based on access to the means of social reproduction," would it not be liberating to jettison Marx in pursuing the interesting questions that Folbre poses?

I am puzzled by Folbre's assertion that "it is not far-fetched to suggest that a man who works eight hours a day to support a wife, who works eight hours a day to provide domestic services for him, should share his wages equally with her." If this is an ethical proposition, then I have no problem with it. As an economic proposition, however, it makes little sense to me unless the husband and wife bring equal human capital to their work. This is not to deny the value of housework; it is only to assert that it may have a different value, higher or lower, than different types of work outside the home. Nonetheless, I see no reason why the economic rationale should trump the ethical one.

Folbre has an interesting section where she discusses the increasing role of government in the U.S. economy over the last fifty years. As free markets fail to provide distributional equity, *inter alia*, there is a larger role for

the public sector to hold the system together. I am not sure that it is appropriate to refer to all government revenue as “surplus extracted by the government,” as she does. Why is it surplus when the government collects 10, 15 and 25 percent tax rates on low and middle-income Americans, or when state and local governments collect regressive sales taxes?

Folbre argues that women lean more toward Democrats because they are more dependent on the welfare state than men (both because they are more likely to be caring for children and because they live longer.) This may be, but it seems that there may be non-materialist reasons for female political preferences as well. Some of these may derive from women’s role as nurturers and their generally less bellicose inclinations.

Folbre offers an interesting materialist explanation for the rightward drift in U.S. politics. She writes: “Globalization has exceeded a threshold sufficient to weaken the incentives for multinational capitalists to support public investments in the health and education of a national labor force.” I don’t know of an empirical test that would affirm this interpretation, but it is both plausible and interesting. Of course, multinational capital is still dependent on a stable economic, political, social and legal environment in the United States and the growing inattention to the remedial distributional role of the public sector may trump multinational capital’s preoccupation with short-run cost minimization.

Globalization presents an interesting challenge. Inequality is manifested not only within family units and within countries, but it is also manifested internationally. Intentionally designed redistribution mechanisms such as progressive taxation, transfer payments and social programs, however, exist primarily within countries. Nonetheless, as with the Latin American debt crisis of the late 1970s and 1980s and today in the Euro zone, international redistribution mechanisms can be initially unintended and later forced by a crisis in order to preserve the system. Thus, in the case of the Euro zone, the redistribution will occur by creditors accepting substantial discounts on the sovereign debt they hold, as well as by issuing additional credit at discounted rates. This national/international dichotomy suggests that domestic inequality/financial crises can be more readily averted by effective policy making when allowed by the national political system, but that international inequality/ financial crises, absent a more cohesive political integration among countries, will travel closer to the precipice before an adequate resolution mechanism emerges.

The strongest evidence of the right’s unrealistic position on income distribution came in September 2011 when Republican leaders protested Obama’s plan to assess a minimum tax (at 35 percent or lower) on the fewer than 450,000 millionaires in the country. The Republicans claimed that this was class warfare. It is hard to believe that such a posture represents the long-term interests of U.S. or multinational capital, let alone the U.S. population.

---

<sup>1</sup> Since the two 2010 Supreme Court decisions, first, in *Citizens United* and, second, in *SpeechNow.org v. FEC* the practical restrictions on giving to political campaigns (and even preserving anonymity via 501(c)4s) are virtually non-existent. The Supreme Court’s obsession with and misinterpretation of free speech and the FEC’s and IRS’s unwillingness to tightly enforce existing statutes has left us with an unabashed wealth-power connection in the United States. See, for one, Eliza Newlin Carney, “The Deregulated Campaign,” *CQ Weekly*, September 19, 2011.

<sup>2</sup> See, for instance, Robert Reich, “The Limping Middle Class,” *The New York Times*, Sunday Review, September 4, 2011, p. 6.

<sup>3</sup> While tenure has its virtues in protecting academic freedom, in my view its costs, in its existing forms, have outpaced its benefits.