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Comment on Reich and Knight, Rosa & Schor

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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 4.

- Jeannette Wicks-Lim and Robert Pollin

Comment on Reich and Knight, Rosa & Schor

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COMMENTS ON REICH

Michael Reich uses Okun's law measurement of two economic facts to reflect the relative strength of the working class and management: (1) the cyclical component, which expresses how employment responds to short-run, i.e., cyclical, changes in output; and (2) the trend component, which expresses the level of GDP growth associated with stable unemployment.

The responsiveness of employment to output reflects two aspects of state of the class struggle: first, the extent to which employers shed or hoard labor during downturns; and second, employers' ability and incentive to restructure, i.e., speed-up, the workplace to get more work from the same number of workers. These dimensions reflect workplace power: can the employer impose its goals on workers, for example, to fire without notice or promise of recall, to avoid paying supplementary unemployment compensation, to insist on overtime and to impose speedup?

However, these dimensions also reflect external pressures on employers. For example, longer and more frequent recessions make labor hoarding unprofitable even if preserving the matches would have been efficient in normal circumstances. For another example, high fixed costs of employment create strong incentives toward getting more hours from the same number of workers (even if they must be fairly compensated). So both macroeconomic conditions and other aspects of the social and policy structure (our health system reflects all of: citizen-state relations, inter-capitalist competition, and labor-capital struggle) will bear on the employment-output workplace relationship measured in Okun's law.

Exactly how to read the cyclical component of Okun's law in relation to class struggle is thus ambiguous. Employers would like it both ways: sharp responsiveness of employment to output when they need it (during downturns); and weak responsiveness of employment to output when speedup is possible (during recoveries). The latter gives rise to the "jobless recovery," a phenomenon noted widely since the 1990 recession.

Class struggle may also show up in the trend component of Okun's law in different ways. Reich tests whether rising management strength, as measured by falling union density, may lead to a low-road path of economic development which then leads to a less robust economy with lower growth overall. An alternative way to think about the trend growth rate – the GDP growth associated with steady unemployment – is as the GDP growth *required* to keep unemployment stable, especially when comparing longer economic periods. Since World War II unemployment has trended in the U.S. several times, in addition to its cyclical variation. Technology or changes in labor force participation can influence the trend growth rate over time and how class struggle would affect this relationship is less clear.

Reich examines variation in Okun's law with two sources of variation in management strength: periodization and state labor markets. Reich uses two periods, 1964-1985 and 1986-2012, which I identify with the postwar SSA and low and declining management strength, and the neoliberal SSA and management ascendancy.

Business cyclicality differed between the periods, with the former period marked by recessions associated with aggregate demand shortfalls, Fed tightening, and the oil crisis and the latter by the financial-crisis recessions of 1990, 2001, and 2007.

Reich explores changes in Okun’s law over time as an indicator of the Strength of Management. Stronger management, Reich argues, may be associated with less responsiveness of employment to output, as firms can enforce speed-up with impunity and with lower trend growth. He finds little change in the cyclical component over time or by degree of union decline. Where Reich does observe a change is in the “trend component” of Okun’s law which expresses the GDP growth rate needed to maintain steady-state unemployment. Reich points to this change in the longer term trajectory of the U.S. economy—slower GDP growth—as the culprit behind jobless recoveries.

In the remainder of the comment I adopt Reich’s periodization but identify the relationship between management strength and Okun’s law with variation in Okun’s law over the business cycles within each periods. The conflicts involved in labor hoarding and in speedup will manifest themselves at points of stress and will emerge over the business cycle. Labor hoarding or permanent layoff will show up during downturns. The tension between speedup versus recall and new hiring shows up during recoveries.

Table 1 shows average GDP growth and Okun’s law estimates over the business cycle for the two periods using national data. Each quarter is assigned to a segment of the business cycle: normal expansion, recession, and the first six quarters of recovery after the recession trough. (Six quarters, or 1 ½ years, is arbitrary and results were insensitive to alternative definitions of early recovery.)

Table 1. GDP Growth and Okun’s Law over the business cycle: then and now

	GDP growth (4-quarter percent change)		Okun’s coefficient (percentage points of unemployment per percentage-point change in GDP)	
	I	II	I	II
Expansion	4.08	3.20	-0.32	-0.37
Recession	-0.75	-0.84	-0.42	-0.41
Recovery	5.79	2.23	-0.29	-0.10 ^{*,**}

*Statistically significant difference from Okun’s coefficient during Expansion.

**Statistically significant difference from Okun’s coefficient in period I.

Period I: 1948:I-1985:IV (148 Quarters); Period II: 1986:I-2012:I (105 Quarters)

Recessions defined by NBER's Business Cycle Dating Committee.

The Okun’s Law results are generally consistent with Rising Strength of Management. The response of employment to output during the decline into recession has neither sharpened nor slackened. However, the responsiveness during recovery has substantially weakened and is consistent with the end of the recall system and employers’ capacity to restructure to speed up the workplace. The results are also consistent with the rising importance of fixed costs for workplaces (and capitalist broader ability to resist health care reform).

There are some alternative explanations. First, as the first two columns indicate, GDP growth itself has been less robust in post-trough growth in the latter period than in the former; a dominant feature of the new econ-

omy may be the “recoveryless recovery” rather than the jobless recovery. Second, firms as well as workers may be subject to pressures of the new economy. Fixed costs of employment, in particular, health insurance, make firms prefer to add hours from existing workers rather than to hire additional workers.

Finally, I directly examine the speedup hypothesis with a modified Okun’s Law estimation. In Table 2, the columns headed “Employment” re-estimates Okun’s Law using percent change in employment simply to demonstrate similar patterns in responsiveness of employment as unemployment in Table 1. As with unemployment, employment response has been similar in expansion and recession but markedly attenuated during recoveries. The columns headed “Hours per week” examines the responsiveness of average hours per week to changes in GDP. There has been a modest increase in the responsiveness of average hours per week to GDP in the Expansion and Recovery phases of the business cycle, but the increase in responsiveness of hours during recoveries has nearly doubled. That is, while employment (and unemployment) is now less responsive to GDP growth, hours per week are now more responsive.

Table 2. *Employment responsiveness: Okun’s Law coefficients for employment and hours*

	Employment (percent change per percentage-point change in GDP)		Hours per week (hours per percentage point change in GDP)	
	I	II	I	II
Expansion	0.73	0.94	0.064	0.090
Recession	0.82	0.85	0.042	0.057
Recovery	0.56*	0.22**,**	0.096*	0.180**,**

*Statistically significant difference from Okun’s coefficient during Expansion.

**Statistically significant difference from Okun’s coefficient in period I.

Period I: 1948:I-1985:IV (148 Quarters); Period II: 1986:I-2012:I (105 Quarters)

Recessions defined by NBER’s Business Cycle Dating Committee.

Employment and Hours per Week are for Nonfarm Business Sector (BLS PRS85006013 and PRS85006023).

Okun’s Law is a rule of thumb, an empirical regularity, but it offers a window into the relationship between the workplace, where employment and production decisions are made, and the macroeconomy which both reflects and conditions those decisions. Variation in the institutional setting and the phase of the business cycle makes it possible to gain insight into the strength of management.

COMMENTS ON KNIGHT, ROSA AND SCHOR¹

Knight et al. goes straight to the heart of some difficult questions for the left. (Reading it in preparation for my comment, I thought, “At least I don’t have to deal with immigration.”) Knight et al. are correct that radical economists need to take on the growth question, and they offer some keen insights into how the question has evolved and what can and cannot be learned from macro analysis.

On the question of growth, radical economists have considered as many as four alternative strategies, which may operate in varying degrees of competition with each other:

Environment I - living with less, less is more, small is beautiful.

Environment II - transition to a sustainable yet high-output economy (renewable, efficient, zero waste)

The right to be lazy - the quest to reduce work hours especially as productivity rises, in conflict with capitalists who depend on surplus value

The right to livelihood - ensuring meaningful, adequately remunerated work under decent working conditions for everyone capable of performing it; adequate, dignified support for those lacking capacity; and maintenance of this full-employment economy..

It would be a mistake to select one of these threads as the unique true path for radical economics. But further work in the domain of hours and environmental degradation might seek a more complete integration of these four themes.

The macro results of the Knight et al. study do a good job indicating the problem of a pure macro approach to the growth-environment problem. At the macro level, degradation is more or less proportional to output, which is more or less proportional to total hours worked.

Whence the variation in variables? In these models with country and year fixed effects, identification of the relationship between hours and pollution comes from within-country business cycles and variation in cross-national trends in hours. Although I am not familiar with the data underpinning the Ecological Footprint and the other ecological outcome measurements, I have some reason for concern about these terms. If the ecological and carbon footprints are not from physical measures but are instead estimated from models of the relationship between economic activity and pollution output, then the EF model may be a simple reverse engineering of the models that constructed EF.

The mechanism at work from accounting relationships (pollution is a function of output which is the product of hours and product per hour) to hope for fulfilling the twin goals of pollution reduction and livelihoods is not fully elaborated. The brightest outlook comes from the analysis that looks at the effect of hours on pollution holding GDP and productivity constant. In this specification, reduced hours modestly reduce pollution even holding GDP (as a proxy for material well-being) constant, which gives cause for hope. But the mechanics of reducing work hours while holding both GDP and productivity constant poses an empirical puzzle, which necessarily points to the composition of economic activity (not its volume or value). . It is possible that these results reflect an option for the time rather than consumption dividend in highly developed economies, but the mechanism needs more elaboration.

In any case, the Knight et al. regression results point up a serious challenge facing us. It is not easy to find a free lunch, or less can't be more, at the macro panel level. Yet some countries have managed a time transition. German and French work hours have actually declined substantially as German and French people have increasingly enjoyed the dividend from higher productivity in leisure time rather than consumption.

The Environmental Kuznets Curve hypothesis (Grossman and Krueger 1995) posits that while environmental degradation at first increases with economic development, countries eventually demand an improved environment once they become "rich enough." There may be signs of an EKC in the hours-pollution success stories, such as Germany and France, but it is hard to tell with the cross-country panel macro analysis. Case

studies of societies that have converted productivity increases into reduced hours and pollution seem like a useful direction for further study.

In a critical re-examination of the EKC, Torras and Boyce (1998) instead find that environmental improvement can come early in countries with egalitarian distributions of wealth and power and environmental improvement is not guaranteed even in rich countries with insufficient equality. Equality in wealth and power powerfully mediates the relationship between GDP and environmental degradation and protection. The sensitivity of deterministic pollution-growth results to distributional considerations indicates the importance of keeping political economy in the analysis. There are several easy waypoints, including guaranteed incomes and enthusiastic endorsement of “forty hours pay for thirty hours work” (via vacations, working-week limits, stricter overtime rules, and worksharing among other policy approaches),

Knight et al initiate a potentially fruitful approach to the relationship between economic growth and pollution through the decomposition of the relationship into several effects or pathways. Knight et al. decompose the effect into scale and composition pathways, and Antweiler et al. 2001 adds a third, the technology effect. Scale corresponds to the gross macro relationship that more output means more degradation. Composition is largely relevant for shifting the burden among countries, as some countries undergo the transition to post-industrial service economies or actively offshore their polluting activities. Technology, in economists' peculiar use, refers broadly to how economic activity can be organized. The technology pathway points ultimately to political choices of how we produce as a society and a planet with due attention to ecology, distribution, and livelihood.

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¹ I am grateful to Jeannette Wicks-Lim for her advice to consider the “fundamental issue of how to fit in the argument of a strategy of less work given its potential environmental benefits versus the argument of needing to operate an economy near full employment in order to (a) sustain decent living standards for workers and (b) transition to an economy with the most energy efficient infrastructure and renewable power production in order to protect the environment.”