Critique of Liberalism cont.

Are Political and Economic Liberalism (Markets and Democracy) opposed to one another? Can they be reconciled?
Today’s Menu

• **I. Critique of Liberalism continued**
  – **A. The Market-Democracy Link**
    • They are not opposed
    • They are opposed
      – Econ. Liberal argument: Democracy creates too many rent-seekers which bloat the state and constrict market freedom
      – Political Liberal argument: Markets create inequalities in wealth which translate into power inequalities which destroy democracy
      » Markets → “double movement” → undemocratic repression
      » Empirical evidence that Markets don’t lead to democracy

• **II. Equality as a distribution principle**
The Link between markets and democracy is a natural one

• Rationality fosters the desire for individual freedom
• Free markets lead to economic growth which creates a middle class who demands democracy
• Markets diffuse wealth
• If wealth leads to power, then markets also diffuse power
• Democracy is the best way to organize diffuse power
• Market capitalism fosters virtuous behavior that is placed in the service of self-interest
• And self-interest is the basis of rational social coordination
• Fukuyama: Humans are rational and will form the most rational form of society.
• The most rational political form is democracy
• The most rational economic form is the market
• “Modern technology-driven market economies thrive on individual freedom—that is, a system where individuals rather than governments or priests make decisions on prices or rates of interest.”
• Economic growth produces a middle class with property rights, a complex civil society and ever higher levels of education to maintain economic competitiveness. All these factors together create fertile ground in which demands for democratic political participation take shape, which eventually get institutionalized in democratic government.
Economic liberals sometimes argue that Democracy Undermines the market:

- The reasoning is that markets require economic competition and a minimal but strong state that ensures competition;
- But democracies are vulnerable to interest group and populist pressures that distort markets through taxes and regulations (especially labor demands need to be constrained because they prevent capital accumulation.)
Political Liberal argument: Markets create inequalities in wealth which translate into power inequalities which destroy democracy.
Also....Double movement is inevitable: People will protest economic inequality (caused by market liberalization) because it undermines political equality
Protest leads to repression

• Market reforms create opposition

• So in order to push through market reforms, politicians have to be authoritarian

• the process of democratization will be sacrificed at the expense of market liberalization

• And that sacrifices future democratization

• politicians recognize that market reforms will face significant opposition, so they resort to political tactics like (1) policymaking by presidential decree, (2) bait and switch campaign tactics, and (3) the isolation of economic reform teams from congressional and public oversight

which are undemocratic methods. as a result, the process of democratization may be sacrificed at the expense of market liberalization. and potentially, these undemocratic methods could become precedent, harming the chances for future democratization. This refers to situations in which candidates run on an anti-reform platform only to enact market reforms once elected.
Empirical evidence that Markets don’t lead to democracy

• In fact, countries that have participated in the market and grown fast over the past 50 years -- or over the past 150 -- haven’t shown a greater tendency to become democratic.

• Russia: If suddenly the price of oil increases and it becomes much richer through the market,

• do we expect it to become more democratic?
Not only do Markets NOT create democracy....... 

• They can actually destroy Democracy!
In fact, some say that Democracy requires Public Ownership and Planning.
Some problems with all of the above:

- Whether democracy and markets fit well together depends on

  - When countries enter the market
  - When they industrialize
  - Where they fit in the international system of power and wealth
  - We will talk about this later in the course
And how we define democracy

Dysfunctional Democracy

Illiberal Democracy

Dysfunctional Democracy

Illiberal Democracy

THE BEST DEMOCRACY MONEY CAN BUY

GREG PALAST

An Investigative Reporter Exposes the Truth about Globalization, Corporate Cons, and High Finance Fraudsters

"Courageous reporting . . . Read this book!"
Michael Moore, author of Stupid White Men

WHAT'S DEMOCRACY?

DEMOCRACY IS THE FREEDOM TO ELECT OUR OWN Dictators
What happens to the political economy of freedom in all of this?
The political economy of equality

Distributive Justice and the Critique of Liberalism
For most classical liberals, both political and economic, Freedom Trumps Equality

Liberal theories believe that justice is best served through freedom. They also believe that the moral worth of a system of political economy must be judged by its contribution to aggregate utility.

Free Markets are blind to ascriptive characteristics of people. Democracy ensures that everyone has equal political freedom!

For Adam Smith, the market is the superior means to abolish class, inequality, and privilege.

Why do we care about “moral worth”? Except for rational choice, and later welfare state theories, we are looking at theories which are making arguments about the best political economy—the best relationship between the market and the state. The question of course is: Best for whom? For liberals, it is everyone…..

Aggregate utility means the good of the whole group.
Distributive Justice Theories

They believe that political economy should be more concerned with equality than with freedom. They are concerned more with inequality than with freedom in the production and allocation of goods in society. Inequality is injustice.
First principle of distributive justice advocates the allocation of equal material goods to all members of society. So Distributive Justice means a Preference for Equality or its functional equivalent. Functional equivalent? What is that?

[Diagram of a balanced scale with 'Equality' on one side and 'unequal but better' on the other]
.....and Markets undermine Freedom

Those who focus on the issue of equality ask: Who wins and who loses? The liberal answer is that we all benefit, and so no one loses. Distributive justice theories say because the market creates inequalities, the rich stay rich and the poor stay poor. The result is not only economic, but social and political inequality?
Marxist and neo-Marxist Theories of Political economy

Three “Laws” of Capitalism
First of All, What is Capitalism?

• A market system in which the means of production are in private hands.
• Profits of that production accrue to those who own the means of production
• The Three Laws are......
1. Exploit Labor!

Could you live on 28¢?
2. Expand Or Die
3. Capitalism will die no matter what!
First Law of Capitalism: Exploit!

• Unequal distribution of wealth is caused by **exploitation**, both in production and distribution of wealth.

• **HOW?**
Assumptions About Exploitation

• A. The **central actors** are economic classes, not individuals

• B. **Private property** creates these classes, and ensures that they have unequal power

• C. Private property ensures **exploitation** of one class over another---If you own property, you get to exploit those who don’t
Assumption: Individuals are **not** the key actors: The importance of economic class for Marx

- Your economic class is determined by where you are in the production process
- Historically, every kind of production produces class conflict
- Where you work and what you own determines who you are!
- And your identity is submerged in the class of people that you fall into: owners or workers
Class Exploitation in four easy steps

- Ownership of property creates two classes: capitalists and workers. Capitalists own the machines (capital) and labor owns their labor!
- Only labor (not the market) creates value
- But by virtue of his ownership of capital, the capitalist class turns labor into a commodity
- And because he owns capital, the capitalist extracts surplus value from labor, and this is his profit.
Step 1: Private Property

Private property in liberal theory is the reward for talent. It is the means by which entrepreneurs capitalize their talent.

Marx based his critique of private property, not on the moral principle of justice, but on the moral principle of freedom. Capitalism negates the value of freedom. One is only truly free when one is in the control of one's affairs. Private ownership, by dividing society into the propertied and the propertyless, denies to the propertyless the direction of their affairs, stands in opposition to a flourishing and harmonious society, and imposes upon all the clutch of the market's invisible hand.

I use the word "labourer", to refer to a person who works for a living as and when conditions allow it, rather than someone who lives off property. In their work, men were dominated by property, and instead of men using things, things used men. This was true not only for workers who became slaves to machines, but their employers who had to use their property to make profits, since otherwise they would be driven out of business.

If individual motivation is understood in terms of self-interest, which is in turn understood in terms of accumulation, then possession is made fundamental to our identity. Economics tries to ground its analysis in the utility-maximising individual; but we can analyse this idea as itself a fiction, created to justify the true ground of economics: private property. It is, therefore, a right of inequality, in its content, like every right. Right, by its very nature, can consist only in the application of an equal standard.
Step 2: Labor Theory of Value

• Labor creates value.
• money has no intrinsic value unless it can purchase stuff made by labor
• Capital has to be mixed with labor to create marketable value.
Step 3: Labor is turned into a commodity to buy and sell

A commodity is something which can be exchanged for other things on the market — something which thereby has an exchange value. Commodification refers to those processes through which social relations are reduced to an exchange relation, or as Karl Marx (1978) refers to it in the *Communist Manifesto*, as “callous ‘cash payment.’”

The nexus between man and man is naked self-interest, … callous “cash payment.” Capitalism has drowned the most heavenly ecstasies of religious fervour, of chivalrous enthusiasm, of philistine sentimentalism, in the icy water of egotistical calculation. It has resolved personal worth into exchange value, and in place of the numberless indefeasible chartered freedoms, has set up that single, unconscionable freedom — Free Trade.”

Marx focused on the commodification of the labor process, in which the real, material activity of labor by individual workers was transformed into abstract labor, just another cost the process of production. A commodified worker is, in simple terms, a worker with a price. The commodification of labor, inherently alienates human beings from their true selves. Since the worker does not own what he produces, since he lives as an extension of the machine, since he hates what he does, then the worker does not own his own life, he is in a basic sense simply a human machine.

Whilst reading about ‘commodified labor’ images of workers with price tags and discount tickets floated through my subconscious in much the same way one might imagine a car lot. Rows of eager workers aiming to receive the best price for their resources and skills while at the same time guaranteeing they don’t get passed over in favor of the more appealing offer in the next row.
Wait!

• Liberal theory tells us that in free market economies, labor can be freely exchanged:
• the worker can freely choose between alternative “utilities,” jobs, employers, and leisure trade-offs“
Commodification leads to Alienation

- The Concept of Alienation
  - the commodification of labor corrupts a person's very humanity

- For Classical Liberals and for Marx: the importance of a self-created life, because only in such a free activity can the human individual be most fully alive. Any forced activity means a loss of what is most vital about human experience. When Marx looked around him, he saw everywhere that human activity was about as far removed from a self-created life as it is possible to get. Millions of men, women, and children were little better than slaves, working at mind-numbing mechanical jobs in factories for a subsistence salary under hazardous working conditions which drastically shortened their lives. The system of private property leads to a total denial of the possibilities for a human life beyond mere animal existence. In a very real sense, the workers not only had no control over their lives; they did not own their lives, for they lived most of the time as extensions of machines which someone else owned, producing material goods which were not theirs. Nothing of themselves went into their work except their muscle power, for which they received a small hourly wage. Hence, their humanity was corrupted. To this situation, Marx gave the enduring name of alienation. For Marx the alienation of the worker was all the more acute because of his view of human nature. Marx sees human life as defined by its material conditions. Human beings are what they do—and what they do is work to derive a life for themselves from the world around them. Everything about them, including their consciousness of themselves and their understanding of nature and their belief in God is a direct product of what they physically do in their daily lives. In other words, the human identity and the human being's consciousness of that identity are determined by work, by the material conditions which the individual has to face in order to cope with life.

- An object contaminated by the alienating exchange-relation can never truly be our own—unless it leaves the capitalist system of exchange altogether. And this means that while we inhabit the capitalist world we can never be truly ourselves; if people in their daily activities have to deal with oppressive and dehumanizing material conditions, then they are not fully human, no matter what anyone can say about their spiritual or ideal identity. Thus, for Marx alienation is a physical and psychological condition which arises out of the conditions of modern work. Since the worker does not own what he produces, since he lives as an extension of the machine, since he hates what he does, then the worker does not own his own life, he is in a basic sense simply a human machine. He exists to himself as an alien object; he is conscious of himself as something he despises, rather than loves or enjoys or even recognizes as his own.
Step 4: Extraction of surplus Value

$100 dress

$12 wages

$16 overheads

$18 materials

$54 Profit = surplus value