The Decline of Economic Virtue

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BOOKS REVIEWED:

Charles L. Schultze, *The Public Use of Private Interest.* Washington, D.C.: The Brookings Institution, 1977.

Milton and Rose Friedman, *Free to Choose: A Personal Statement.* New York: Harcourt Brace and Jovanovich, 1980.

The spirit has gone out of American capitalism. The malaise is rooted in the evolutionary logic of a civilization mobilized around the pursuit of productivity, economic growth, and private affluence. Its traces can be detected even in those texts that celebrate the virtues of the order. For they constantly repudiate one set of virtues traditionally ascribed to the order to save another set in jeopardy. Charles Schultze, an economic adviser to President Carter, and Milton and Rose Friedman, advisers to Ronald Reagan, provide two cases in point.

Schultze is a welfare-state enthusiast who has grown increasingly cautious. He continues to sing praises for the market as a coordinator of economic activity because it deploys the self-interest of participants for public purposes, without sacrificing either individual freedom or social efficiency:

> Market-like arrangements not only minimize the need for coercion as a means of organizing society; they also reduce the need for compassion, patriotism, brotherly love and cultural solidarity as motivating forces behind social improvement. Harnessing the "base" motives of material self-interest to promote the common good is perhaps the

most important social convention mankind has achieved. (*Public Use*, pp. 17–18)

Schultze also believes, as a good Democrat should, that while the market must be protected, it must be supplemented by the state in a variety of areas. Extreme inequalities in income and security, transactions that perpetuate racial or sexual discrimination, agreements that impose harsh environmental effects on third parties, and cyclical shifts toward unemployment or inflation must be adjusted through corrective state intervention. The defect in the welfare state as now constituted is its tendency to intervene directly through bureaucratic institutions that are clumsy and expensive. Schultze would introduce a more subtle technique of control, one that will work with the market, rather than against it, and one that will not spawn unmanageable bureaucracies. When a clear case for state intervention is established, the state must itself adjust the market prices in target areas to bring private transactions and the public interest closer together. Firms polluting food, air, or water, auto commuters contributing to traffic congestion and energy shortages, and homeowners wasting energy will be given price or tax incentives to reduce pollution, auto traffic, and energy waste. The market will become a selective instrument of state power; it will adjust self-interest to the public interest "with almost frightening efficiency."

The attraction of Schultze's program—it has already become conventional wisdom among liberal economists—resides in its realism by comparison with other modes of state intervention. State coordination of economic life can, Schultze says, draw upon coercion, moral incentives, or self-interest. The first cuts against the grain of American values, and the second against the grain of human nature. Only the third is acceptable; it requires the state to enter more actively into market transactions. The politicization of the market preserves its ability to promote economic growth and private affluence while reducing the adverse "side effects" increasingly attached to those pursuits.

But the program makes one uneasy upon further reflection. First, the technique is itself coercive unless it reflects the standards and priorities of those whose conduct is manipulated by the pricing system. Second, the bureaucracy required to monitor these price and tax charges will be very extensive; its size will be proportionate to the size of the gap between the ends promoted by the pricing system and the values and priorities of those who bear the costs. For the market method does create temptations to evade artificial prices; it encourages the growth of that "irregular" or "underground" economy that has already become so large. To limit the proliferation of these evasions, it will take a bureaucracy invulnerable to the self-interest that characterizes other organizations. Third, the traditional virtue ascribed to the market—it is said to coordinate economic transactions by nonpolitical means—is sacrificed by these political intrusions into the market. The visible politicization of the market will create new space for political struggle, and the constituencies with the most political leverage will undoubtedly receive the best breaks in the application of the incentive system.

As each of these criticisms implies, the technical solution proposed by Schultze ignores the profound public disaffection from the civilization of productivity, which impairs the performance of economic institutions and generates resistance to state attempts to shore them up. We will examine this phenomenon later. But first we must show how Schultze bumps into it, even though the assumptions governing his program screen it out of account.

Schultze believes it is unrealistic to expect citizens to consider the public interest when engaged in work, consumption, education, investment, management, childrearing, tax payments, and recreation. The "realism" of his program resides in its refusal to draw upon such vague and unreliable sentiments. But Schultze eventually concedes that a high degree of civic virtue is needed if the institution of these new policies is to be achieved democratically. People generally act as "their self-interest dictates . . . given the existing set of incentives," yet his program requires that as voters and citizens these people also "have views about the public good of incentives" (p. 73).

But Schultze gives us no reason to believe that the motives prevailing in the economic marketplace will be suspended in the political marketplace. Nor does he explain how we have reached this impasse. He merely ends "rather lamely," admitting that "there is no instrumental solution to the dilemma." The only hope for the order, he concludes, "is a steady maturing of both electorate and political leaders" (p. 90). The cultural solidarity dismissed in one part of the theory reemerges as a critical part of the solution in another.

The liberalism represented by Schultze—for *this* is what liberalism has come to today—stands at a critical juncture. It must either show how its economic program can secure support, or acknowledge that economic rationality and democratic politics, as it construes each, no longer cohere inside the political economy it endorses. Since Schultze gives primacy to the received conception of economic rationality, the logic of the argument justifies the further insulation of the administrative state from the vicissitudes of democratic politics. It generates implications Schultze himself is unwilling to draw.

Shultze's song faintly echoes a more pervasive cynicism and disaffection within the order. Though the underlying theme remains unfocused, it does find public expression in the widespread resentment against and by welfare recipients, the general public contempt for state bureaucracies, the perception of extensive corruption in private and public institutions, the growth of the irregular economy, the insecurities engendered by unemployment and inflation, the tax revolts, the anxiety that America has become a pitiful giant in an irrational world, and the dissolution of traditional political coalitions. The gentle, paternal voice of a Ronald Reagan fills this void with the sounds or reassurance. And the economics of nostalgia peddled by Rose and Milton Friedman is packaged to give that gentle voice the tough undertones it needs. All the performers play their parts.

The Friedmans possess a double tactical advantage that is destined to leave a lasting imprint on the terms of political debate. They blame a variety of economic dislocations on the long-term effects of welfare-state expansion and they call for a return to the competitive market, the minimal state, and the traditional virtues of workers, parents, consumers, and citizens. The program allows responsible people to act with initiative once again, and it enables the market and the state to discipline those who refuse to exercise that initiative. It speaks thereby to both the nostalgia and the hostility of many who stand on slippery ground in the current order of things; and it does so at a time when the liberal opposition has lost its self-confidence and public credibility.

"Government," the Friedmans insist, "is today the major source of economic instability" (*Freedom*, p. 90). And the expansion of governmental programs has induced a corollary retreat from the principles that earlier produced economic growth, prosperity, personal independence, and freedom in America. The country has drifted "from belief in individual responsibility, laissez-faire, and a decentralized and limited government, to belief in social responsibility and centralized and powerful programs" (p. 94).

Each new state failure is a clone of previous failures. Welfare programs give recipients the incentive to avoid work. Minimum-wage laws promote unemployment, making it too expensive for employers to hire workers with marginal skills. Public school systems, protected from the disciplines of the market, fail to educate children. Environmental agencies impair economic growth and competition while expanding the size of the state bureaucracy. Labor unions—from the AMA to the UAW—secure high wages, job security, and low productivity for organized workers, while generating increased costs for unorganized workers. And state programs financed through state expansion of the monetary system produce inflationary spirals damaging to all consumers. In each case, the answer is to pull the state out of the economy and to allow the market to reestablish its historic role as the coordinator of economic transactions and as the motor of economic growth.

Consider one of these charges more closely. There is only one real cause of inflation, the Friedmans insist, and fortunately it is a factor readily subject to state control. Inflation occurs when the state increases the supply of money faster than the economy generates increases in the rate of productivity. The

Friedmans refuse to treat as *causes* of inflation any of the following: the costs of financing a war, the organization of an international oil cartel, the rapid expansion of consumer credit, the demand for higher wages by workers, or the ability of major corporations to set prices. This for two reasons, they say. First, none of these "factors" can actually produce inflation, unless price increases are validated by state decisions to expand the supply of money; and, second, each is itself a result of unnecessary state intrusions into the market.

Overlooked in the Friedman position is the understanding that a democratic state must validate a variety of pressures structured into the political economy or court severe economic and political troubles. If we accept this conception of the democratic state, the locus of irrationality proves not to be in the history of unnecessary state action but in the nature of the relationship between the state and the economy. To avoid the force of this argument, the Friedmans must show why the state persistently increases the money supply in the absence of any imperative to do so.

"In the United States," they assert, "the accelerated money growth during the past fifteen years or so has occurred for three related reasons: first, the rapid growth in government spending; second, the government's full employment policy; third, a mistaken policy pursued by the Federal Reserve System" (p. 264).

The third cause consists in the attempt by the Federal Reserve Board to control inflation through the manipulation of interest rates rather than through the regulation of the money supply. But even here it is probable that the Friedmans exaggerate when they call the policy a "mistake."

For the state, in an order where competing interests organize politically, is expected to respond to a variety of economic pressures at once. During the period under scrutiny, it tried to finance an unpopular war, support a series of corporations squeezed by liquidity problems, maintain the financial community's confidence in the banking system, keep a lid on inflation, and protect the dollar in the international economy. It thus faced contradictory pressures, responding to some with adjustments in the discount rate and to others by validating bank credit policies through increases in the supply of money.

The *political* dynamic implicit in the state's monetary policy is more explicit in its "growth in spending" and "full employment" policy. It is this dynamic that destroys the Friedman thesis from within. For, according to the Friedman theory, such tendencies are built into the relationship between the state and the economy. The theory anticipates, first, an impressive array of demands to increase state expenditures; second, responsiveness by state officials to these demands proportionate to the relative power of each faction; and, third, resistance by the electorate to tax increases sufficient to cover escalating state expenditures.

One virtue of the market, according to the Friedmans, is that it provides a base from which a variety of interests can organize to advance claims upon the government. And according to market theory, each interest must be expected to use its resources to extend its market and political power. Firms with temporary market leverage will deploy these resources in the political marketplace, seeking state policies to consolidate and extend these advantages. Given these same assumptions, we must expect constituencies with unfavorable market positions to strive to rectify those disadvantages through appeals to the state. The predictable historical result is a large set of state programs subsidizing the most powerful corporations, and a smaller set supporting constituencies placed at a competitive disadvantage in the market. When the political implications of market theory are acknowledged, it can be seen to anticipate the historical transformation of the market economy into the corporate/welfare system.

If the result they oppose is built into the historical dynamic of the political economy they endorse, how can the Friedmans seek to reverse it? They might try to limit the freedom of interests to organize politically, thereby liberating the state from these destructive pressures. But that would defeat the central virtue of the market economy—its protection of free association and democratic accountability. The Friedmans opt for a compromise. They support a series of self-denying constitutional amendments that would limit the future right of the electorate to exercise its will through the state.

> Our founding fathers have shown us a more promising way to proceed: by package deals, as it were. We should adopt self-denying ordinances that limit the objectives we try to pursue through political channels. We should not consider each case on its merits, but lay down broad rules limiting what government may do. (p. 299)

The package is a large one, and it is to be incorporated into the American Constitution. The preliminary list includes rules to maintain a balanced budget, limit tariffs, prohibit wage and price controls, reduce drastically the state's role in economic regulation, mandate a flat tax rate, and confine the ability of the state to expand the money supply. When economic rationality (as they define it) and democratic politics collide, the Friedmans are unwilling to reassess the priorities and imperatives of the political economy within which that collision occurs. Instead they would restrict the legitimate sphere of action of the one institution accountable to its citizens through elections.

Pretend these amendments would promote general prosperity, even without producing the side effects Schultze sees produced by such a minimally regulated market. It is still unclear how the civic energies to support the reconstituted relations between the state and the economy are to be mobilized. Appar-

1Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962), p. 299.

ently the support is to come from citizens who conclude that the new ordinances will promote the public interest over the long run. But that expectation belies one of the central tenets of the Friedmans' theory. They repeatedly debunk liberal and radical proposals as noble but misguided exactly because they call upon people "to act against their own immediate interests in order to promote a supposedly general interest."[1] Yet in this instance, they themselves call upon a variety of constituencies to give up specific advantages accruing to them now, to promote a future and uncertain public interest—the restoration of the market system.

Of course, a successful coalition might push these amendments through anyway. It might consist of one constellation of voters who perceive that the program will give them a comparative advantage in future competition for scarce resources, and another constellation of voters who would express both their general hostility against the system and the vague hope that this program will work better than the options currently dominating the political dialogue. Such a result would be effective politically, especially since the constitutional amendments would be extremely difficult to overturn once passed. But it would also call into question the claim that the proposed withdrawal of the state from market regulation supports the public interest rather than consolidating the hegemony of one class over another.

The Friedman theory undermines its own pretensions at two key points: it denies its own claim that the market is an internally stable and self-sustaining system, and it eventually appeals to the civic virtue it initially debunks. The second issue is especially important. Once the necessity of civic virtue has been acknowledged, then the following question must be posed: Does the historical development of the civilization of productivity tend by its nature to undermine the allegiance it needs to sustain itself democratically?

The logic of the Friedman theory, like that of its Schultzean competitor, nudges its proponents toward a critique of the politics of democratic accountability. In both cases, democracy is thought to collide increasingly with economic rationality. And since both theories endorse enthusiastically the prevailing priorities of economic life, both identify an excess of democracy as the principal obstacle to be surmounted.

These theories deconstruct themselves because neither reassesses the assumption and priorities governing the civilization of productivity. Neither possesses the categories to comprehend the reasons for the progressive public disaffection from these imperatives, or to detect its indirect expression in contemporary orientations toward self, work, consumption, politics, education, family, and nature. Because the Friedmans and Schultze are stuck on the surface of public life, their proposals to curtail the web of evasions, resistances, and oppositions that have penetrated deep into the substance of our political economy carry repressive political implications.

The defining institutions of this civilization are mobilized around the pursuit of economic growth, private affluence, leisure, personal freedom, and constitutional government. As long as these pursuits seemed mutually compatible and intrinsically valuable, the disciplines essential to them could appear legitimate to a majority of participants. But a set of purposes that inspires a populace at one moment in history can assume a different appearance once the dangers and burdens imposed by its achievement are recognized. The gap between the old expectations and the actual achievement drains the order of normative significance for many who must continue to work, consume, bargain, and politic within it. The economic institutions of the civilization of productivity are particularly vulnerable to such normative disruptions. For these institutions have been justified primarily in instrumental terms as necessary means to desirable ends external to them. If the ends eventually come to seem unattainable or necessarily productive of undesired side effects, the performance within the central institutions will deteriorate in a variety of ways. There are many signs that such a disillusionment now permeates the civilization of productivity. Consider some of them.

1. It is now apparent that the pursuit of universal, private affluence is self-defeating, even if the unit of universalization is restricted to one country. Many private goods (e.g., cars, quiet resorts, technical training, suburban living) decline in personal value as they are extended to everyone. Their enjoyment is intrinsically bound up with the expectation that only a few will possess them, because when they are extended indefinitely, traffic congestion increases, resorts get crowded, technical training loses its comparative advantage, and suburban living becomes disorganized urban living. Similarly, as the pursuit of private affluence proceeds, an increasing proportion of private consumption becomes a means to other ends rather than an end in itself. The car, once a vehicle of pleasure, becomes a necessity when shopping malls and workplaces are built around the assumption of its general use. Clean air and water shift from free goods to commodities. And a similar evolution from luxury to necessity occurs with respect to refrigerators, credit cards, telephones, health and liability insurance, business apparel, and a university education, to name only a few items. Work is for the end of consumption, and consumption increasingly becomes organized around the requirements of work. The motivation to sacrifice in work, school, and politics declines as the word gets out that the rewards for these sacrifices cannot be extended to everyone and that they do not produce the desired satisfaction for those who receive them.

2. Labor mobility, from a private point of view, is an indispensable means to an improved standard of living; it is, from the vantage point of the market, an

efficient way to deploy human resources. But as a perpetual feature of social life, it eventually operates to weaken ties of kinship, neighborhood, and local community. Paradoxically, the erosion of these traditional sources of sustenance and identity encourages people to demand more of those rewards that the order is capable of providing: commodities. That which is rational from the vantage point of economic efficiency undermines social institutions that are highly prized by those served by that efficiency. And the damage done to these institutions is then converted into pressure on the state to finance care for the elderly, the control of delinquents, centers for abused women and children, etc.

3. The stratified labor market, designed to motivate the lowliest workers as well as the most skilled professionals, combines with the self-defeating character of the universal pursuit of private affluence to guarantee that a large portion of the populace will never share fully in the ends legitimizing the civilization of productivity. The realization that this is so eventually seeps into the body politic. It intensifies pressures to collectivize some services through the state (e.g., health care, unemployment insurance, environmental protection); it increases disaffection from the social roles imposed on those closed out of the circle of affluence; and it eventually impels public and private bureaucracies to extend disciplinary control over those whose motivation to work, pay taxes, and obey laws voluntarily begins to deteriorate.

4. The political economy that generates an internal dialectic of corporate concentration and worker disaffection also impels corporations to introduce detailed disciplinary control over an ever larger percentage of workers. The crisis of productivity that worries the Schultzes and the Friedmans flows partly from worker resistance to this process of work rationalization; it is exacerbated by the growing proportion of workers who must then be hired to monitor, control, discipline, and observe their disaffected brothers and sisters. Work slowdowns, quality debasement, strikes, and sabotage emerge as unorganized responses to the extension of disciplinary control in the workplace, and the disciplinary reactions to these developments further accentuate the problem of "worker motivation."

5. A frantic pace of technological and occupational change is central to a civilization of productivity, but it ensures that the knowledge acquired by older generations will be of little apparent use to younger ones. It renders each generation of workers obsolescent (even if some hang onto their jobs), just when those workers most need the respect and dignity bestowed on those functionally important to the society. The old are cast off in the name of economic progress; they see themselves closed out at the end from the world they helped to build during the middle years of the life cycle. The perception of this reality, of course, infects the orientations of those in their middle years as well, since they can now observe the future before them.

6. The necessity to exploit a constantly expanding portion of the earth's resources to fuel perpetual economic growth not only reduces the opportunity to comprehend and appreciate the natural state of things, it eventually increases the state's dependence on essential productive resources located outside its boundaries. The country must support a huge military machine to protect precarious supplies, and it becomes increasingly apparent that this combination of awesome military strength and extreme economic dependence threatens this civilization itself.

As these consequences accumulate and become more visible, as the gap between the abstract ends legitimizing the civilization and the actual life experiences of participants becomes increasingly apparent, the suspicion grows that these are not minor side effects to a series of otherwise laudable imperatives and priorities. These consequences form an intrinsic part of the historical trajectory of the civilization of productivity itself. These suspicions remain cloudy and inarticulate because they are not yet incorporated into the mainstream of our political dialogue. They emerge indirectly in the dissatisfaction with family and school, in the rapid turnover of countercultures, in the deteriorating performance within the institutions of work and politics, in the expansion of institutions to monitor, observe, confine, and discipline a large variety of constituencies, in the loss of confidence in the efficacy of political leaders, in corruption and tax evasion, in high rates of divorce and child abuse.

Schultze and the Friedmans cannot comprehend this social dialectic because they treat citizens, workers, and consumers as if the question of identification with the roles and purposes of the civilization could never become problematic. The categories guiding their inquiry thereby slide over shifts in the social infrastructure of the order. And when they do detect discrepancies between the imperatives of the order and the behavior of people, they consistently endorse an expansion of disciplinary controls through the market or the bureaucracies to bring conduct back in line with the order of things.

Suppose a more complete statement of the alternative account of the trajectory of the civilization presented here showed it to have a high degree of credibility. It would still be necessary to ask: Why, then, does the mainstream political dialogue continue to float between a cautious defense of a modest welfare state and a robust appeal to return to the market principles that made this country great? Why is the disaffection from the imperatives of the order screened out of the official debate? Since we find theories of ruling-class manipulation to be too simplistic and too contemptuous of the people to be saved, we must look in another direction for the answer.

Part of the answer resides in the inability of the Left to display in theory or practice a version of socialism that tames these market imperatives while protecting civil liberties and political democracy. The failure to articulate a credible alternative immobilizes critical energies and hinders public articulation of the underlying issues. Another part of the answer flows from the double accountability of the welfare state to the electorate and to the privately incorporated economy. We shall consider the second factor more closely here.

Since the state is the one institution that is formally accountable to the electorate through elections, we can see ourselves as collectively free, free as a people, only if we believe that it has legitimate resources at its disposal to promote justice and the common good as we understand them. If we believe that current governmental failures are due to the absence of effective state leadership and management, we are then able to believe that the election of new, more competent leaders will resolve these ills. We are potentially free, if current state officials are unnecessarily inept. And the connection between these two beliefs helps to explain why the questions of competence and leadership tend to become the defining issues in each presidential election.

But the state is accountable not only to the electorate. It is also accountable to the privately incorporated economy. At this second level it responds to organized economic interests but, more importantly, it must support the general preconditions of economic growth through private profit to secure the tax revenues needed to carry out its social programs. Its accountability to the electorate depends on its effectiveness in supporting the performance of the economy, and the second imperative severely limits the options it can pursue in meeting the first. The double accountability of the state thus encourages state officials to believe that the rational solutions to popular grievances fall within the limits set by the state's need to support the preconditions of economic growth through private profit.

Citizens, wishing to see the state as the agency of public accountability, also strive to define issues and grievances within the limits of existing state resources. We call, for instance, upon the state to control inflation through a reduction in state expenditures rather than concentrating on how the economy of productivity constantly produces new effects that increase the level of needed state expenditures. Or, similarly, candidates are scrutinized for their views on abortion, gun control, capital punishment, and the draft, because these issues appear to fall within the orbit of potential state effectiveness; the candidates' comparative standing on the role of the family, the elimination of poverty, the structure of work, or the threat of war posed by our dependence on foreign energy supplies are considered less salient. These latter conditions, falling outside the orbit of state capability in the current order, are treated as if they resided in the necessary order of things.

The dynamic of party competition solidifies this process. Candidates competing for office concentrate on those instruments currently available to the state that have not been deployed (or deployed effectively) by the opposition party. The state possesses the right to punish criminals, regulate the money supply, reduce regulation of business, and revise tax incentives to favor investors, so one of our parties insists that this mix of "tools" will suffice to correct current economic ills. The state has the right to institute welfare programs, to rationalize regulatory bureaucracies, and to use tax incentives to bring private interests closer to the public interest, so the other party insists that this mix of "tools" will work. Since at every election one of these packages has not been given a try recently, the challenging party can always contend that it is time for a change. Both parties emphasize the importance of leadership and competence within the existing order. Neither party asks whether the self-receding character of the collective pursuit of private affluence, the ecological effects of ceaseless growth, the social consequences of continuous mobility, the rapid obsolescence of old workers, the extension of disciplinary controls over workers, and the threat of war flowing from international economic dependence support the need to reconstitute the economy itself. Neither party is prone to ask whether it is unlikely that the state can promote justice and the common good in the current order of things.

The disenchantment with the civilization of productivity thus does not find direct expression in electoral politics. It is expressed symptomatically in the crisis of worker motivation, the growth of the irregular economy, high divorce rates, increasing drug use, withdrawal into private hedonism or fundamentalist religion, and the widespread distaste for the welfare state. Ironically, these symptomatic expressions deepen performance defects in the economy and further confine the state's ability to respond to them.

The Schultzes and the Friedmans do not perceive this dynamic clearly. Their simple solutions promise to extend it in one way or another, either by accelerating the dialectic of social dissolution or by extending the logic of social regimentation. More likely, these two tendencies will move in tandem, each providing the action to which the other reacts, in a cycle closing in on itself. The Schultze/Friedman agenda is doomed to be cramped increasingly by the economic unreason embodied in public policy, and that unreason must appear to those captured by this defunct vision to reside in the excesses of democratic politics. The contemporary affirmation of democracy is thus bound up with the exposé of the unreason lodged inside the new imperatives and the old priorities of the civilization of productivity.