Anarcho
Review: The Conscience of a Liberal by Paul Krugman
Love me, I'm a liberal
December 22, 2008

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A review of Paul Krugman's new book (**The Conscience of a Liberal**), discussing its strengths and weaknesses. It is particularly good on the results of 30 years of neo-liberalism on the American Working Class, plus on the importance of unions for workers. His call for a "New New Deal" should make us aware of why the first one was broken and that we should aim for more…

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talism, economists who reject the neo-classical consensus have an opening to transform the subject, hopefully into a science. Keynes was partially successful in the 1930s. Will Krugman use his new found prestige to do likewise? It would be nice to think he will, but I doubt it. I hope I'm proved wrong.

a 'media personality'" whose *"grand statement"* of his ideas, **The New Industrial State**, *"wasn't what they considered real economic theory."* (p. 13) It should be stressed the Galbraith made an explicit point to incorporate political, economic and market power into his economic analysis, unlike neoclassical economics.

> *"Those who envisage a society of well stuffed pigs which waddle contentedly under the ferule of a small number of swineherd; who do not take into account the need for freedom and the sentiment of human dignity ... can also imagine and aspire to a technical organisation of production which assures abundance for all and at the same time materially advantageous both to bosses and the workers. But in reality 'social peace' based on abundance for all will remain a dream, so long as society is divided into antagonistic classes, that is employers and employees. And there will be neither peace nor abundance.*
>
> *"The antagonism is spiritual rather than material. There will never be a sincere understanding between bosses and workers for the better exploitation [sic!] of the forces of nature in the interests of mankind, because the bosses above all want to remain bosses and secure always more power at the expense of the workers, as well as by competition with other bosses, whereas the workers have had their fill of bosses and don't want more!"*[16]

The final issue is the question of what Krugman will do with his so-called Nobel prize in economics and the prestige that automatically garners. This book shows how far from reality Economics 101 actually is (as can be seen from comparing its arguments with Krugman's own textbook). This, I am sure, will see him attacked as being a bad economist by his peers – which would be somewhat ironic, given his dismissal of John Kenneth Galbraith's non-orthodox, but far more realistic, analysis back in the 1990s.[17] Yet, there is hope. With the current crisis of capi-

[16] **Errico Malatesta: His Life and Ideas** (Freedom Press, 1993), pp. 78–79

[17] In **Peddling Prosperity,** Krugman argued that Galbraith had *"never been taken seriously by his academic colleagues, who regard him as more of*

The Conscience of a Liberal, Paul Krugman (W.W. Norton & Co., 2007)

> *"economists who continue to consider economic forces alone ... without taking into account* ***the ideology of the State****, or the forces that each State necessarily places at the service of the rich ... remain completely outside the realities of the economic and social world."* (Peter Kropotkin[1])

This is both an interesting and a frustrating book. It is interesting because of its evidence on rising inequality in America and its causes as well as the vigorous defence of unions. It is frustrating because its ideological framework ensures that obvious conclusions (at least to an anarchist) are avoided and its suggestions on what to do are so limited (namely a *"New New Deal"*).

It is a well-written and well-argued book, which will be read by many more people now that Paul Krugman has been awarded the non-Nobel prize for economics. Insofar as this makes people aware of the realities of neo-liberalism in America, this is to be welcomed. However, given that Krugman is probably America's most famous liberal economist and leading neo-classical synthesis Keynesian it is useful to point out the weaknesses of his arguments from a libertarian position.

The book itself is easy to summarise. It is an attempt to explain the liberal case, why inequality in America arose, how bad it is and a suggestion on what to do about it. Unusually for many economists, Paul Krugman places political decisions at the heart of his account. That the impact of the political environment, he argues, can be decisive in determining economic equality *"sounds like economic heresy, but a growing body of*

[1] quoted by Ruth Kinna, *"Fields of Vision: Kropotkin and Revolutionary Change"*, pp. 67–86 **SubStance**, Vol. 36, No. 2, pp. 72–3

economic research suggests it can be" (p. 7) but *"the timing of political and economic change suggests that politics, not economics, was taking the lead."* (p. 8)

These changes have been driven by a small number of conservatives in the Republican Party, which *"has been taken over by radicals, people who want to undo the twentieth century."* (p. 163) And they have, to a degree which would have been unthinkable a generation ago. While *"America in the 1950s **was** a middle-class society,"* (p. 38) Americans today *"live in a second Gilded Age, as the middle-class society of the postwar era rapidly vanishes."* (p. 39) America in the early twenty-first century is similar to pre-New Deal America, *"a land of vast inequality in wealth and power, in which a nominally democratic political system failed to represent the economic interests of the majority."* (p. 15)

He discusses how this happened, what drives inequality and what can be done to solve it. Along the way he refutes some myths and acknowledges some reality. For example, Krugman argues that there is *"no question"* that US trade with Third World countries *"widens inequality"* and *"reduces job opportunities for less-skilled American workers, while increasing demand for more-skilled workers."* (p.135) which makes a nice change from his previous uncritical defence of globalization. He presents the facts that American health care system is poor compared to state-run ones elsewhere, noting that the *"quality of care they provide, by any available measure, is as good or better than ours. And they all of this while spending much less per person on health care than we do."* (p. 215) *"All the evidence"*, he says, *"suggests that a more just system would also be cheaper to run than our current system, and provide better care."* (p. 216) He points out that these countries do not have "socialised" medicine, but rather *"socialised insurance"*, although he gets socialization and nationalization mixed up by stating that Britain has *"actual socialised medicine, in which the government runs the hospitals and doctors are government*

how best to do this – particularly as our immediate goal is to increase our influence and movement and working class people who consider themselves as "liberals" are more likely to agree with our ideas than the "conservatives" (the ideologues, particularly on the right, are probably beyond saving). We must, in other words, not make the struggle for reforms (particularly in an economic crisis) become an end in itself, particularly if the state is being more supportive of labour due to an economic collapse caused, in part, because capital has successfully waged its class war on labour!

Ultimately, the New Deal was eventually smashed by business for reasons Kalecki predicted, as will any New New Deal imposed upon the system by the necessity of solving the current neo-liberal crisis. Which shows that reforming capitalism cannot succeed simply because of the issue of class power will not disappear even with the best intentions of people like Keynes and Krugman. So, the major problem with this book is that it is liberal in nature, not anarchist – which is hardly surprising, given its author! Yet it is worth reading, simply because of the evidence he presents on rising inequality and its effects on society. It is also useful for its reminders on the importance of unions (even business unions) and their benefits to workers (which explains why bosses tend to hate them).

Yet the key problem remains, as always, that the fundamental problem of capitalism (workplace and social hierarchy) can never be reformed away and that social reforms within capitalism aiming to ensure full employment and increased equality (the two really cannot be disconnected) brings this contradiction to the fore. To quote Errico Malatesta:

> *"The fundamental error of the reformists is that of dreaming of solidarity, a sincere collaboration, between masters and servants, between proprietors and workers ...*

So love me, love me, love me, I'm a liberal"

Obviously this exaggerates Krugman's youthful radicalism (he has got more radical since the Bush Junta) nor has he called for state repression of those to his left. Rather, it is the perspective of the song which fits, namely of trying to save capitalism from itself while, at the same time, trying not to be too radical. So the song seems fitting as this was also the perspective of his hero Keynes: *"The **class** war will find me on the side of the educated bourgeoisie."*[15] This seems to fit Krugman as well, particularly when he lambastes the (obvious) stupidity of the Bush Junta and its crony capitalism.

Ultimately, it would be a mistake to think that the New Deal was opposed to by all sections of the capitalist class. Far from it, many of the more *"educated"* elements with it (individuals and companies) welcomed it and took part in shaping its policies (particularly as the alternatives seemed to be continual depression or revolution). If any *"New New Deal"* develops we can expect the same thing. For example, universal health care makes sense to many large corporations that would prefer not to have the burden of paying for private insurance (particularly when their international competitors do not thanks to nationalised schemes). So while certain elements of the capitalist class (particularly its right-wing) hated the New Deal, others were far more pragmatic and, indeed, supportive of it as they recognised it as an attempt to save capitalism rather than destroy it.

So while anarchists will feel sympathy for much of what drives Krugman, in the end his aim is to keep capitalism going and erode its rougher edges. In the struggle for reforms (eroding the rough edges) anarchists will be working with liberals and others who do not share own aims but who seek change for the better. It is useful, therefore, for anarchists to discuss

[15] quoted by Doug Henwood, **Wall Street** (Verso, 1998), p. 212

employees." (p. 217) He refutes many of the myths associated with France (pp. 254–6), that bogey man of the American right and points out that while GDP per capita may be lower there this is because French workers work 86% as many hours as Americans, and that *"working less improves the quality of life even if it reduces income."* (p. 255) Underlying the book is the strong contrast (indeed, contradiction) between his arguments and the supporting evidence with "Economics 101."

Winning the class war: The results of neo-liberalism

The strength of Krugman's book, and the main reason for libertarians to read it, is the evidence he presents on the state of working class America after 30 odd years of neo-liberal capitalism.[2] The facts speak for themselves.

In 1966, the typical man in his 30s was earning as much as his modern equivalent, by the early 1970s he was earning 14% more. (p. 80) In 2005, the median inflation-adjusted earnings of men working full-time *"were slightly lower than they had been in 1973"* and if we compare earnings of men aged 35 to 44, *"wages were 12 percent **higher** in 1973."* (p. 127) In fact, *"by the end of the 1950s American men with a high school degree but no college were earning about as much, adjusted for inflation, as workers with similar qualifications make today"* (p. 48)

After the Second World War, the real income of the typical family grew by 2.7% per year, with *"incomes all through the*

[2] Krugman has addressed inequality before. Chapter 5 (*"Income Distribution"*) of his 1994 book **Peddling Prosperity: Economic Sense and Nonsense in the Age of Diminished Expectations** (W.W. Norton & Company, 1995) refutes right-wing claims that inequality had not risen. Significantly, though, it ended thusly: *"That doesn't mean nothing can be done about it — but let's hold off on that discussion until the story of the liberal revival has been told."* (p. 150) Clearly, as inequality continued to rise under Clinton, that *"revival"* was not on the cards in the 1990s!

income distribution grew at about the same rate." Since 1980, *"medium family income has risen only about 0.7 percent a year"* (p. 55) Median household income *"grew modestly"* from 1973 to 2005, the total gain was about 16%. Yet this *"modest gain"* may *"overstate"* how well American families were doing, as it *"was achieved in part through longer working hours."* For example, *"a gain in family income that occurs because a spouse goes to work isn't the same thing as a wage increase. In particular it may carry hidden costs that offset some of the gains in money."* (pp. 126–7)

This stagnation is, of course, being denied by the right. Yet, as Krugman memorably puts it: *"Modern economists debate whether American median income has risen or fallen since the early 1970s. What's really telling is the fact that we're even having this debate."* (p. 124)

According to neo-classical economics, each factor of production gets paid according to its contribution to creating commodities. Thus the wages of labour should, according to the theory, rise in line with productivity. That ***did*** happen post-war, until (approximately) 1980 when productivity continued to rise while wages flattened. In fact, the value of the output of an average worker *"has risen almost 50 percent since 1973. Yet the growing concentration of income in the hands of a small minority had proceeded so rapidly that we're not sure whether the typical American has gained* ***anything*** *from rising productivity"* (p. 124) This means that wealth have flooded upwards, and *"the lion's share of economic growth in America over the past thirty years has gone to a small, wealthy minority, to such an extent that it's unclear whether the typical family has benefited at all from technological progress and the rising productivity it brings."* (p. 244) Unsurprisingly, *"there's remarkably little direct evidence for the proposition that technological change has caused rising inequality."* (pp. 132–3) Particularly as *"international comparisons suggest that institutions, not technology, are at the heart of the changes over the past thirty years."* (p. 149)

The attempted assassination of Palmer may have given the state an excuse to launch the Palmer Raids, but Krugman seems unaware of the extensive state repression of the anti-war and radical movements (of which the anarchists were at the forefront) which provoked it. In other words, it was in **response** to the wide-scale state repression of revolutionaries because of their anti-war stance and activities. As Paul Avrich pointed out, the anarchists' *"uncompromising opposition to the war brought down on them the full panoply of government repression. Throughout the country anarchist clubhouses were raided, men and women beaten, equipment smashed, libraries and files seized and destroyed, lectures and recitals were disrupted, newspapers and journals suppressed."*[14] This was under a Democrat President, with Wilson signing the Espionage Act in June of 1917. If Krugman had been around then, his anti-war articles may have seen him join Emma Goldman and Alexander Berkman in prison for sedition (in June 1917, a mere two years before the Palmer raids).

This historical illiteracy brings him to his real point, namely its affect on people like him at the time. Thus the bombing *"had the incidental effect of discrediting or intimidating ordinary liberals, people who believed that capitalism could be made more just without being abolished"* (p. 33) As Phil Ochs memorably finished his classic song **"Love me, I'm a Liberal"**:

> ***"Once I was young and impulsive***
> ***I wore every conceivable pin***
> ***Even went to the socialist meetings***
> ***Learned all the old union hymns***
> ***But I've grown older and wiser***
> ***And that's why I'm turning you in***

[14] **Sacco and Vanzetti: the anarchist background** (Princeton University Press, 1991), p. 94

lem" and that it *"never was a major cost of government."* (p. 92) Race could be hidden because *"many of his supporters surely defined the undeserving by the colour of their skin."* (p. 94) He also notes, in passing, that *"an obsession with other peoples' sexual lives has been an enduring factor in movement conservatism –- a key source of the movement's, um, passion."* (p. 96) Sidelining people's passions onto scapegoats can be useful.

Krugman is optimistic that decrease in racist attitudes will reduce Republican appeal, not to mention that fundamental instability of parts of the GOP alliance. For example, business is *"pro-immigration because they like an abundant, cheap labour force"* but GOP voters *"also tend to be strongly nativist."* (p. 208) Equally, the wealthy elite will be concerned that a victory of the religious right part of the GOP may restrict their personal freedoms. Krugman's hopes for an emerging Democratic revival across America seem to have been vindicated by Obama's victory – but, then, the complete mess the Bush Junta had helped create could not but help.

In Conclusion

I was perplexed what to entitle this review, until I read Krugman's account of the Palmer Raids. Then it dawned on me, the title should be Phil Ochs classic song ***"Love me, I'm a Liberal."***

Why? While the right lambasts Krugman as being a "socialist" and even a "Marxist", he is at pains to show how reasonable he is. Actual socialists do get a mention in his book: *"there were a fair number of genuinely dangerous radicals around. In particular, there were surely far more communists and anarchists in America during the Long Gilded Age"* (p. 32) He goes on to state that in 1919 the US government *"began the infamous"* Palmer raids *"after a bomb exploded"* in front of the home of the attorney general. (p. 33)

Krugman rejects the suggestion that this was due to the benefits of skills or education, noting that *"even among highly educated Americans, most haven't seen large income gains. The big winners, instead, have been members of a very narrow elite: the top 1 percent or less of the population."* (p. 8) In fact, *"even the college educated have for the most part seen their wage gains lag behind rising productivity. For example, the median college-educated man has seen his real income rise only 17 percent since 1973."* (p. 136) The big gains in income *"have gone not to a broad group of well-paid workers but a narrow group of extremely well-paid people. In general those who receive enormous incomes are also well educated, but their gains aren't representative of the gains of educated workers as a whole … The observation that even highly educated Americans have, for the most part, seen their incomes fall behind the average, while a handful of people have done incredibly well, undercuts the case for skill-biased technological change as an explanation of inequality and supports the argument that it's largely due to changes in institutions, such as labour unions, and norms."* (p. 136)

He compares a CEO and schoolteacher, both educated to the same level but the latter has seen a modest gains while CEOs have seen their income rise from about 30 times the average worker in 1970 to more than 300 times now. (p. 136) More precisely, average CEO pay has increased from 40 times the average full-time worker in the 1970s to 367 times in the early 2000s. The next two highest officers saw their incomes rise from 31 times to 169 times the average worker. (p. 142) From an anarchist perspective, this is unsurprising as the key difference is that a CEO is doing the job of a capitalist and so is in a position to monopolise the fruit of other people's labour. Being at the top of a hierarchical organisation, bosses are well placed to conclude that they contribute most to the creation of a commodity and award themselves appropriately! And as Krugman notes, CEO pay is decided upon by *"corporate boards, largely selected*

by the CEO, hire compensation experts, almost always chosen by the CEO, to determine how much the CEO is worth." (p. 144)

He presents a telling analogy but noting that if Bill Gates walks into a bar, the average wealth of clientele soars but the people already there are no better off. This, he correctly argues, is *"a pretty good metaphor for what has actually happened in the United States over the past generation. Average income has risen substantially, but that's mainly because a few people have gotten much, much richer. Median income, depending on which definition you use, has either risen modestly or actually declined."* (pp. 125–6) This means that the *"ordinary American workers have failed to reap the gains from rising productivity because of rising inequality … If gains in productivity had been evenly shared across the workforce, the typical workers' income would be about 35 percent higher now that it was in the early seventies. But the upward redistribution of income meant that the typical worker saw a far smaller gain. Indeed, everyone below roughly the 90th percentile of the wage distribution — the bottom of the top 10 percent — saw his or her income grow more slowly than average."* (pp. 128–9)

Where has the money gone? Easy: *"the really big gains went to the really, really rich."* In fact, *"only the top 1 percent has done better since the 1970s than it did in the generation after World War II. Once you get way up the scale, however, the gains have been spectacular — the top tenth of a percent saw its income rise fivefold, and the top .01 percent of American is seven times richer than they were in 1973."* (p. 129) Significantly, *"the top 0.1% of Americans, a class with a minimum income of about $1.3 million and an average of about $3.5 million, receives more than 7 percent of all income — up from just 2.2 percent in 1979"* (p. 259) The inequality is astounding. An American is in the bottom half of the top 10% if they earn $100,000 to $150,000 (p. 129) In fact, about 75% of the population have an income below $75,000, 60% have less than $50,000 (p. 193) Which means that Joe the

no problem with state intervention in defence of private property, corporate power and so on (see Dean Baker's **The Conservative Nanny State** for details).

Krugman must be aware of this, yet he refers to how the right has turned *"antigovernment ideology into conventional wisdom"* resulting in the *"tyranny of antigovernment ideology."* (p. 32) Really? Then why do the Republicans aim to become the government? Why, when successful, do they use government power to further their agenda and intervene in the market to secure capitalist interests? Why, then, do they wrap themselves up in the flag and praise the military? Krugman obviously means antigovernment ***"rhetoric"***, which masks a pro-state ideology. After all, the state was always ready to intervene during labour disputes during the *"Long Gilded Age"* to break strikes and smash unions while protecting capitalists from foreign competition as well as other forms of corporate welfare. And in what way is the government ***not*** interfering in the economy *"tyranny"*? Would that be because then ***private*** tyrannies associated with private property, wage labour and economic power have free reign?

If, as Krugman states, tax cuts *"deliver most of their benefits to a small minority of the population while the pain from a weakened safety net hits far more widely"* (p. 176) then why do no-elite people vote Republican? First, because less poor people vote, so making such policies less unpopular at the ballot-box. Secondly, there is bigotry. He places racism at the heart of why there is no welfare state in the United States, and success for the Republicans in spite of them having *"policies that favoured the interests of a narrow elite over those of middle- and lower-income Americans."* (p. 100) For example, Reagan, regardless of subsequent mythology, managed to make this agenda gain votes *"by using small-government rhetoric to tap into white backlash without being explicitly racist"* (p. 106) and so was *"the representative of and vehicle for white voters angry at the bums on welfare"* regardless that *"cheating was never a significant prob-*

in America, become associated with right-wing free-market capitalist ideology. This means that in spite anarchist using "libertarian" to describe our ideas since 1858, it now refers to, effectively, the exact opposite of what it used to mean! For example, the editorial collective of **Libertarian Labor Review** felt it had to change the name of the journal to **Anarcho-Syndicalist Review** because of the confusion its use of the traditional meaning of "libertarian" was provoking. While this may be a minor annoyance compared to the right-wing onslaught on our class, it is worth mentioning[13] (particularly some on the left seem incapable of recognising the differences, even when they point out the hypocrisies of neo-liberalism).

So part of the problem with the right is that they use expressions in unusual ways, code in other words. Krugman takes a look at the early issues of the **National Review** *"to get a sense of what movement conservatives sounded like before they learned to speak in code."* (pp. 100–1) It celebrated a Senate vote *"that, it believed, would help the South continue the disenfranchisement of blacks"* and (of particular note to anarchists) celebrated Franco as *"an authentic national hero"* who had saved Spain from *"a regime so grotesque"*, namely the Second Republic. (pp. 102–3) We can only imagine what the journal made of the libertarian social revolution of 1936!

So a problem for anarchists is that the right have been sprouting "anti-government" rhetoric for some time. The reasons are different, of course, insofar as we oppose the state (including government) because it oppresses the many in the interests of the few while the right oppose aspects of government because it sometimes intervenes to protect the many against the few (usually to ensure the stability and continuation of capitalism). The difference is important, particular as the right have

[13] This may help non-anarchists reading this why the term "libertarian" has been used to describe non-right-wing positions in this article

Plumber need worry about his taxes when he gets into the top 5%!

How has this impacted on the so-called "middle-classes"? Well, it means that due *"to rising inequality, good performance in overall numbers like GDP hasn't translated into gains for ordinary workers"* and so, significantly, while the economy appears to be doing well, the people in it are not: *"the stagnation of wages and median income in the face of overall economic expansion"* (p. 201) So *"the average has gone up, but that means nothing to most people"* since 2001 as *"corporate profits have soared … and so have incomes at the top of the scale. But the wages of most workers have barely kept up with inflation"* (pp. 201–2)

Unsurprisingly, given that "trickle-down" economics has (as could be predicted) resulted in a flood-up in terms of wealth, social mobility has fallen – after all, it is easier to climb a hill than a mountain. This is just as important as the explosion in inequality, as the "free-market" right argue that dynamic social mobility makes up for wealth and income inequality. As Krugman notes, while Americans *"may believe that anyone can succeed through hard work and determination, but the facts say otherwise."* (p. 247) In reality, mobility *"highest in the Scandinavian countries, and most results suggest that mobility is lower in the United States than it is in France, Canada, and may even in Britain. Not only don't Americans have equal opportunity, opportunity is less equal here than elsewhere in the West"* Without the blinkers of capitalist ideology this should be unsurprising: *"A society with highly unequal results is, more of less inevitably, a society with highly unequal opportunity, too"* (p. 249)

So in stark contrast to Milton Friedman's assertions in **Capitalism and Freedom**, not only is "free market" capitalism more unequal than social democratic capitalism, there is less social mobility. Somewhat ironically, it took governments inspired by Friedman to prove his pronouncements false. Not,

of course, that Friedman bothered to mention those awkward facts in the preface to the 40th anniversary edition of that work.

Needless to say, three decades of successful capitalist class war against the working class goes without mention in political circles, documenting its results gets you denounced as advocating "class war"!

The Union makes you strong!

Another reason for libertarians to read Krugman's book is for its pro-union arguments. It is refreshing to see a respected mainstream economist presenting workers' organisations in such a positive light – particularly as "Economics 101" demonised them.

> *"According to a wide range of scholarly research,"* Krugman summarises, unions *"raise average wages for their membership; they also, indirectly and to a lesser extent, raise wages for similar workers … as nonunionised employers try to diminish the appeal of union drives to their workers … unions tend to narrow income gaps among blue-collar workers, by negotiating bigger wage increases for their worse-paid members … And nonunion employers, seeking to forestall union organisers, tend to echo this effect."* (p. 51)

He argues that *"if there's a single reason blue-collar workers did so much better in the fifties than they had in the twenties, it was the rise of unions."* (p. 49) In the 1950s, more than 30% of non-agricultural workers where unions members, compared to 12% today. (p. 111) Unions *"were once an important factor limiting income inequality, both because of their direct effect in raising their members' wages and because the union pattern of wage settlements … was … reflected in the labour market as a whole."* (p.

the economic elite, driving the rightward shift of the GOP, runs up against a problem of timing. The sharp rightward shift of the Republican Party began before there was any visible increase in income inequality." (p. 170)

This funding and networking meant resulted in the American right *"acquiring what amounted to a party intelligentsia"* (p. 115) and *"by the 1970s the intelligentsia of movement conservatism had an establishment of its own, with financial backing on a scale beyond the wildest dreams of its liberal opponents. To put it bluntly, becoming a conservative intellectual became a good career move."* (p. 117) This had created *"a professional conservative intellectual, who has made his entire career inside an interlocking set of essentially partisan institutions."* (p. 118) Channelling Naomi Klein[12], Krugman argues that the *"ideas were there; the organisation was there; the intellectual cadres were there. To achieve power, however, the movement needed a crisis."* (p. 122) The stagflation of the 1970s, the intense social and class conflict, was utilised to push what was to become neoliberalism, or the "Washington Consensus" which is now unravelling.

It should be noted that the rise of this right-wing system of patronage has affected anarchists as well. Since the 1970s, thanks to funding by the wealthy, the term "libertarian" has,

[12] Klein argues in **The Shock Doctrine: The Rise of Disaster Capitalism** (Penguin Books, 2008) that Friedman and his associates were *"waiting for a major crisis, then selling off pieces of the state to private players while citizens were still reeling from the shock, then quickly making the 'reforms' permanent."* (p. 6) Like Klein, Krugman in **Conscience** makes a point of highlighting Milton Friedman, *"who led the pushback against Keynesian economics"* (p. 115) even though his *"argument was slippery and, I'd argue, bordered on intellectual dishonesty."* (p. 116) Suffice to say, Friedman's flawed critique of Keynes only gained traction because of the limitations of Krugman's own neo-classical Keynesian synthesis. Those Keynesians, like Nicholas Kaldor, who rejected this lobotomised version of Keynes had not problems refuting Friedman and predicting the evils trying to apply his Monetarist notions would cause.

and, for Krugman, legislation to overcome the realities of any real labour market.

Yet if Krugman's economics textbook were to be rewritten to reflect reality it would, undoubtedly, will see its sales plummet as any textbook which does not subscribe to neo-classical economics is unlikely to be allocated as course reading material.[10] As John Kenneth Galbraith put it, *"when something gets fixed in the textbooks, it becomes sacred writ. The textbooks respond to the accepted truth, thus to the saleable truth and not necessarily to the real truth."*[11] Ironically, the reality of economics may ensure that Economics 101 will never be reformed…

The vast right-wing conspiracy

Neo-liberalism did not happen by accident. Many powerful and wealthy people hated the New Deal and Keynesianism and wanted to end it and acted accordingly. Krugman's account of this makes interesting reading, particularly as the rise of movement conservatism and its institutions may come as a surprise to many of the book's readers.

As Krugman summarises, *"beginning in the 1970s the GOP became, once again, a party defined by its opposition to taxes on the rich and benefits got the poor and middle class, and willing to do whatever it takes to promote that agenda."* (p. 155) The American right has created *"an interlocking set of institutions ultimately answering to a small group of people that collectively reward loyalists and punish dissenters,"* (p. 163) of which the numerous corporate and elite funded right-wing think tanks are a mere part. This ideological network is important, as *"the hypothesis that the rising concentration of income empowered*

[10] A good non-neoclassical introduction to economics textbook is Hugh Stretton's **Economics: A New Introduction** (Pluto Press, London, 2000)

[11] J.K. Galbraith and Nicole Salinger, **Almost Everyone's Guide to Economics** (Penguin Books, 1981), p. 55

149) He puts the United Auto Workers (UAW) at the centre of this process, as its members were *"guaranteed wages that rose with productivity"* in return for *"labour peace"* Other unions based their demands of these agreements, with nonunion workers *"strongly affected, because the threat of union activity"* led their employers to match it. (p. 138) With the smashing of the unions came rising inequality, with the "*sharpest increases in wage inequality in the Western world have taken place in the United States and in Britain, both of which experience sharp declines in union membership"* (p. 263) Looking at institutions and norms, he argues *"America is unique"*, with Britain seeing renewed inequality but inequality in France and Japan changing little since 1980 (pp. 140–1)

So how do unions restrict inequality? Channelling John Kenneth Galbraith[3] (whom he had dismissed in the 1990s) he correctly argues that *"they act as a countervailing force to management"* (p. 263) More specifically, from an anarchist perspective, they held ensure that workers keep more of the wealth they create but is monopolised by the bosses. Which, in part, explains the rise of inflation under Keynesianism as companies tried to recoup in circulation (higher prices) what they had lost in production. They also checked the ability of management to pay themselves excessive wages. Unions, moreover, by ensuring high wages allow growing domestic consumption to be based on income (not debt) which bolsters aggregate demand, so reducing the fragility of the economy – although Krugman does not mention this.

Krugman also correctly supports the argument that the rise of the unions was not due to enlightened politicians but, rather, due to the direct action and solidarity tactics of the workers themselves. As he puts it, the *"alternative story … places … em-*

[3] J.K. Galbraith discussed the idea of *"countervailing power"* (which included unions) which arises to counteract the economic power of big business in his 1952 book **American Capitalism: The Concept of Countervailing Power**.

phasis … more on the internal dynamic of the union movement itself … the rising strength of the union movement became self-reinforcing, as workers who had already joined unions provided crucial support in the form of financial aid, picketers, and so on to other workers seeking to organise." (p. 50) Needless to say, though, he does note *"the government's shift from agent of the bosses to protector of the workers"* (p. 51) although he does not place this in the context of a massive economic depression and the threat of social revolution (not to mention the illusions that state capitalist Stalinist Russia offered an alternative to a obviously bankrupt private capitalism). In the words of a certain Franklin Delano Roosevelt:

> *"I was convinced we'd have a revolution [in the US] and I decided to be its leader and prevent it. I'm a rich man too and have run with your kind of people. I decided half a loaf was better than none – a half loaf for me and a half loaf for you and no revolution."*[4]

Which places Krugman's comment that *"FDR was viewed as a traitor to his class"* (p. 48) in context. That is a key lesson of the 1930s for now, although Krugman does not stress it. Today, he rightly suggests, the American public *"both understands the role of growing inequality and supports government action to do something about it."* (p. 202) Yet if the public does not take action themselves to pressure the government to act then that support will be of little use. The New Deal came about, in part, due to popular pressure from below (most obviously in the unions organising but it was not limited to that). So for all those who hope that Obama will be like FDR then create the popular movements, direct action and solidarity which forced FDR to act. If that is not done then Obama will be subject to the

[4] quoted by Neil Smith, **The Endgame of Globalization** (Routledge, 2005), p. 120

to reach his extraordinary conclusions bears any relation to reality. They were chosen precisely because they led to the desired conclusion, that inflation is a purely monetary phenomenon, originating solely in excess monetary demand."[8]

In other words, the *"real truths"* of neo-classical economics (unions are bad, unemployment benefit is bad, capital earns and deserves its return, etc.) did not come about by accident but were supplied precisely to meet a market demand – and the appropriate assumptions, no matter how much they *"put realism to one side"*, were invented to ensure the desired conclusions. This, it should be pointed out, helped undermine the Keynesian revolution. The Hicks[9] inspired neo-classical Keynesian synthesis could not be defended based on the neo-classical microeconomics at its foundations and, consequently, this laid the basis for the Monetarist counter-revolution of the 1970s and the shunting of macroeconomics into a subclass of microeconomics.

This is not to attack Krugman as such, simply to point out how flawed Economics 101 is (he is simply repeating the orthodoxy, an orthodoxy which, it should be noted, Adam Smith has little in common with). The whole of the neo-classical orthodoxy rests on weak foundations and if Krugman is serious about his opinions in **Conscience** then the next edition of his introductory textbook will have to be substantially rewritten. Perhaps **Conscience** can be considered as a flavour of the book that would be written if you do **not** "*put realism to one side*"? After all, in his discussion of France he notes that *"it's very difficult for any individual, operating on his or her own, to trade less income for more leisure."* (p. 255) Hence the need for unions

[8] Balogh, p. 167

[9] Steve Keen, in chapter 9 of his excellent book **Debunking Economics: The Naked Emperor of the social sciences** (Pluto Press, 2001) discusses how Hicks lobotomized Keynes in order to made him save for neo-classical economics.

This is not to suggest that anarchists should support (or oppose) minimum wage laws as a solution to low pay (unions are a far better option as these involve the workers actively defending their position rather than hoping the government does), it is simply to show that a real labour market has little in common with the standard neo-classical assumptions.

Somewhat ironically, given his love of Keynes, his textbook argues that wages did not fall during the great depression because of *"sticky wages"* (p. 782) which is a position which Keynes explicitly argued was **not** the case in **The General Theory**! In Chapter 19, Keynes argued persuasively that fully flexible wages and prices would not ensure full employment. If wages did not fall during the 1930s it was precisely because, as Keynes argued, price flexibility ensured that prices of goods fell as wages fell. Wages were not "sticky" for the simple reason that workers do not control the prices of goods – that is under the bosses' control. Krugman is aware of this, of course, but strangely this is not reflected in his introductory textbook! Perhaps this is unsurprising, as he (like the good neo-classical Keynesian he is) seems to believe that Keynes' argument is only application during depressions, when there is a *"liquidity trap*." Now, if Keynes had believed his ideas were only applicable in a depression then he would not have called his book **The General Theory of Employment, Interest and Money**!

Given the deeply political history of economics, including neo-classical economics, it really is not surprising that *"the real truths of economics create a natural propensity in economists to go all the way to free-market fundamentalism."* This is because the ideology (theology?) was formulated from the late 19th century, in part, to defend capitalism from the threat of the socialist movement and, in part, to justify the current system – with the appropriate assumptions, no matter how unrealistic, set as required. Or, to use a more recent example, in the case of Monetarism "*none of the assumptions which Friedman made*

same pressures from the state and capital as Clinton, whom (as Krugman notes) governed *"to the right of Richard Nixon."* (p. 5)

Significantly, Krugman does place the fall of the unions into a class struggle position (although he does not explicitly draw the obvious conclusions, namely that capital and labour have opposite interests). He rejects the *"conventional answer"* of it being a result of the changing structure of the workforce in favour the *"simple and brutal"* fact that business interests *"went on the offensive against unions beginning in the 1970s"* using *"hardball tactics, often including the illegal firing of workers who tried to organise or supported union activity."* (pp. 149–50) So *"the sources of union decline in America lie not in market forces but in the political climate created by movement conservatism, which allowed employers to engage in union-busting activities and punish workers for supporting union organizers."* (p. 263)

The initial business base of movement conservatism was in smaller business, who hated unions and so *"business owners who hated unions were a solid source of financial support. And this support was rewarded … in the seventies and eighties America's political shift to the right empowered businesses to confront and, to a large extent, crush the union movement, with huge consequence for both wage inequality and the political balance of power."* (pp. 114–5) This *"empowerment of the hard right emboldened business to launch an all-out attack on the union movement, drastically reducing workers' bargaining power."* (p. 7)

Michal Kalecki, the Polish socialist who independently developed key concepts usually associated with Keynes' **General Theory**, predicted the rise of neo-liberalism and the assault on the working class in 1943:

> *"Indeed, under a regime of permanent full employment, the 'sack' would cease to play its role as a 'disciplinary measure. The social position of the boss would be undermined, and the self-assurance and class-consciousness of the working class would grow.*

> *Strikes for wage increases and improvements in conditions of work would create political tension. It is true that profits would be higher under a regime of full employment than they are on the average under laissez-faire, and even the rise in wage rates resulting from the stronger bargaining power of the workers is less likely to reduce profits than to increase prices, and thus adversely affects only the rentier interests. But 'discipline in the factories' and 'political stability' are more appreciated than profits by business leaders. Their class instinct tells them that lasting full employment is unsound from their point of view, and that unemployment is an integral part of the 'normal' capitalist system."*[5]

Significantly, Krugman ignores this impact of full employment and the class struggles of the 1960s and 1970s and their impact on capitalism. *"As for the economic crisis"* of the 1970s, he states, *"it was caused by a combination of bad luck and bad monetary policy."* (p. 123) It would be fairer to suggest that the social and economic pressures of not fearing being fired, along with other struggles against hierarchy elsewhere in society, had eroded workplace hierarchy to such a degree that Keynesianism went into crisis, a crisis which neo-liberalism solved by means of what Thomas Balogh termed "*the incomes policy of Karl Marx,"* namely *"deliberately setting out to base the viability of the capitalist system on the maintenance of a large 'industrial reserve army'"* of the unemployed.[6]

So we should not forget the economic climate (Krugman's *"market forces"*). After all, the deep Reagan recessions of the early 1980s (caused, in part, by doomed to fail Monetarist in-

[5] *"Political Aspects of Full Employment"*, pp. 347–56, **Collected Works of Michal Kalecki** (Clarendon Press , 1990), vol. 1, p. 351

[6] Thomas Balogh, **The Irrelevance of Conventional Economics** (Weidenfield and Nicolson, 1982), pp. 177–8

fortunate side effect of this was that individual demand curves cannot be summed!

Equally, the use of the standard labour supply curve flies in the face of substantial empirical evidence. As he notes, the *"most compelling piece of evidence"* for a backward bending curve is the US labour market since the 19th century where *"it seems that Americans have chosen to take advantage of higher wages in part by consuming more leisure"* (pp. 300–1) What does over 150 years of actual history mean compared to the beauty of neo-classical economics? So why is it assumed? Simple, an upwards slopping curve is required to show that unemployment is caused by wages being too high. If a backwards supply curve is assumed then the neo-classical explanation for unemployment is undermined, yet it does make sense of the fact discussed in **Conscience** that the high-union density 1950s and 1960s had low unemployment and that *"despite the low unemployment rate"* workers *"were much more likely to receive unemployment insurance than laid-off workers are today."* (p. 80)

Much the same can be said of the minimum wage, which the textbook argues *"generally lead to structural unemployment."* However, this is only valid if you assume a "standard" labour supply curve (i.e., if you "*put realism to one side"*). He does mention that *"[s]ome researchers"* (unnamed and unreferenced) *"have produced evidence"* that minimum wage laws do not have the expected effect. (p. 772) This is in the stark contrast to **Conscience**, where he notes that Card and Krueger (*"two of America's best labor economists"*) had *"found no evidence that minimum wage increases in the range that the United States has experiences led to job losses. Their work has been furiously attacked both because it seems to contradict Econ 101 and because it was ideologically disturbing to many. Yet it has stood up very well to repeated challenges, and new cases confirming its results keep coming in."* (p. 261)

in terms of ensuring workers gain from productivity growth and reducing inequality. The contradiction is palpable.

The limitations of Economics 101 become clear when he discusses the labour market. He, rightly, starts his discussing by noting that *"most people have limited control over their work hours"* but then immediately adds: *"To understand the logic of labour supply ... it helps to put realism to one side for a bit and imagine an individual who can choose to work as many or as few hours as he or she likes"* (p. 298) In other words, to *"understand"* the *"logic"* of labour markets who need to ignore reality!

Perhaps this is unsurprising, for he states that *"you might say that it isn't economics if it isn't about choice."* (p. 6) Hence the need to portray the labour market as something it is not, in order to avoid the awkward fact that working class people are in a dependent position in the labour market due to unemployment (which explains business hostility to full employment and the use of the *"natural rate of unemployment"* to tame inflation by forcing up unemployment).

Krugman does raise the possibility of a backward bending Labour supply curve (p. 300, p. 309) but uses the standard one to discuss the (negative, of course) impact of unions on unemployment. The reason for this is the assertion that although *"an **individual** labour supply curve may bend backwards, **market** labour supply curves are almost always upward slopping over their entire range."* (p. 309) So the sum of individual curves is different from the component parts? Unlikely. Elsewhere, Krugman states that *"market demand curve is the **horizontal sum** of the individual demand curve of all consumers"* (p. 248) and argues that demand is based on an ordinal measure of utility. (p. 256) Yet ordinal utility states that individual utility cannot be added together! Cardinal utility (based on an objective measure of utility) can be, but was rejected when it became clear that it justified redistributive taxation (as the utility of a pound to a poor person was greater than to a rich person). The unspired attempts to control the money supply) resulted in mass unemployment which ensured that the union bureaucracy was no longer needed to secure *"labour peace"* – it could be achieved by fear of unemployment. Which is another problem with Krugman's account, namely that he fails to mention the bureaucratic nature of the unions, and the stupidity of their leaderships. They did not seem to recognise that the tolerance of unions by business had ended until it was far too late and where more than willing to sell-out their (usually more militant) members than break their cosy links with management.

So when the union bureaucracy could no longer provide the service of *"labour peace"* and when the mass unemployment produced by Monetarism did that job, then the unions could be broken ignored – and were. And you cannot help ponder, though, whether the quintessential liberal notion that there is harmony between capital and labour helped to theoretically disarm the unions, making the anti-union onslaught come as a surprise rather than the inevitable event it most surely was. Similarly, the liberal assumption that the ***capitalist*** state would support the unions against the capitalists ensured that they did not build up their own strength and ability to resist repression. Needless to say, this attack was placed within a general political strategy inspired by Milton Friedman's neo-classical Monetarism and *"natural rate of unemployment"* – which was, as in Britain, started in the 1970s under the reformist party (namely, Labour and the Democrats).

Krugman notes that because the poor do not vote as much as the rich, pro-elite policies need not be a vote looser. Yet why do the working class vote less? Perhaps because many realise that they have only two wings of the Business Party to choose from? That one wing is more populist (and sane) than the other should not detract from this, as can be seen from Krugman's nostalgia for the bi-partisanism of the 1950s and 1960s. Yet, as Labour in Britain shows, even a nominally "labour" party ends

up changing itself rather than changing the system, imposing the costs of crisis onto its voters and generally acting as a business party would. Which, of course, was what anarchists predicted would happen and why we favour direct action and organisation in the workplace and community to achieve change.

Significantly, this process of rising inequality and stagnant wages was seen under Pinochet's *"economic liberty"* (to use Milton Friedman's obscene and misleading term). With the threat of a visit from the secret police (and subsequent torture and death), the labour market became as close as possible to the atomised vision of perfection found in the economic textbooks. Unions, while not totally eliminated, were muzzled by law and tamed by terror that meant that leaving a job and finding another was the only way to improve your wage. Yet according to Economics 101, wages should have increased with productivity under such ideal circumstances. They did not.

Economics 101

Significantly, attempts to reshape society to make it conform to the assumptions of neo-classical economics have had results somewhat at odds with the predictions. Not that we should be surprised, given how little that ideology reflects reality. Which is another strength of the book, namely his contrast between the results of social Keynesianism and neo-liberalism with what the neo-classical orthodoxy asserts.

Yet, it is doubtful how much this contrast between reality and theory will impact on the latter. Like his hero Keynes, Krugman is still tied to the neo-classical orthodoxy (although to a far greater extent) and so any valid insights he presents are undermined by his underlying assumptions. On the one hand, he proclaims that *"the real truths of economics create a natural propensity in economists to go all the way to free-market fundamentalism"* (p. 115) and that Adam Smith's *"invisible hand"* metaphor is *"a powerful and true insight."* (p. 116) Yet, elsewhere, he argues that the evidence of 30 years of neo-liberalism *"strongly suggests that institutions, norms, and the political environment matter a lot more for the distribution of income – and that impersonal market forces matter less – than Economics 101 might lead you to believe."* (p. 8)

"Standard economy theory," Krugman argues, *"tells us that attempts to defy the law of supply and demand usually fail"* and so *"conventional wisdom"* would predict that the New Deal would fail (p. 53) and that to reduce inequality would *"wreak destruction on the economy."* Yet it *"succeeded in equalising incomes for a long period"* and during *"a time of unprecedented prosperity, which we have never been able to recapture."* (p. 54) In fact, there was *"a remarkable reduction in income inequality, with almost entirely positive effects on the economy as a whole."* His conclusion? *"If that tale runs counter to what textbook economics says should have happened, well, there's something wrong with textbook economics"* (p. 56)

Ironically, this applies to his own textbook on economics (co-authored with his wife, Robin Wells, and imaginatively entitled **Economics**[7]). The contrast between evidence and arguments within **Conscience** and his own "textbook economics" is stark. For example, in comparison to **Conscience**, Krugman's textbook mentions unions in passing, namely that a union *"leads to higher wages for those workers represented"* by one. (p. 296) The most extensive discussion on them (pp. 771–2) is in the context of explaining how structural unemployment is caused when the wage rate is too high due to the *"minimum wage, labour unions"* (p. 771) among others. Thus unions push up the wages above their market level, as the *"market wage rate is equal to the equilibrium value of the marginal product of labour."* (p. 291) Yet, as noted above, **Conscience** shows how important unions are

[7] Paul Krugman and Robin Wells, **Economics** (W. H. Freeman, 2006)