

**Dangerous Currents: The State of Economics**  
By Lester Thurow  
Random House, 247 pp., \$16.95

THEORY

# Reply side: Thurow on free market economics

By David M. Kotz

Imagine that, while traveling by train, you comment to your seatmate that something should be done about the 11 million unemployed. He responds that you are suffering from an illusion. No one is involuntarily unemployed, he assures you; those 11 million people are enjoying leisure because they regard the pay rates in jobs for which they are qualified as too low to make it worth their while to work. When you look at him quizzically, he remarks that if you doubt his point, you should realize that it must be valid since any involuntarily unemployed person could quickly find work by going to an employer in his trade and offering to work at slightly below the going wage. He adds that, in any event, it is futile for the government to attempt to reduce unemployment because government policies have no effect whatsoever on the real performance of the economy.

By this point in your train ride you would probably be wondering what sort of crank was sitting next to you. But if you had read Lester Thurow's critique of conventional economics, you would know that your seatmate could well be a leading academic economist. In recent years an extreme version of conservative economics has replaced liberal, interventionist Keynesianism as the dominant view among economists.

Thurow's *Dangerous Currents: The State of Economics* is a penetrating critique of the currently fashionable conservative economic theories that go under the names of monetarism, supply side economics and the lesser known "rational expectations" theory. These different brands of conservative economics share the common view that a capitalist economy, if left unfettered by government intervention of any sort, gives us the best possible results. If we have lately experienced unemployment, inflation, import invasions, declining productivity and stagnation, the root cause is government interference with the free market through taxation that discourages investment, social programs that destroy work incentives and regulations that infringe on freedom of enterprise.

Thurow's own work falls within the liberal interventionist tradition, but he is not wedded to every element in the tradition. Thus, while holding the government responsible for bringing full employment, he is skeptical of antitrust laws and taxes on corporate profits. In his writings he calls for a more equal distribution of income and more state planning of the economy, but he bases these reforms on a continuing foundation of capitalist institutions. A respected MIT professor, Thurow has become perhaps the leading liberal economist in the public eye. He appears regularly on television and lectures widely; his books are heavily promoted in the media.

### Auctioneering economics.

In *Dangerous Currents* Thurow demonstrates that contemporary conservative economics is not a bizarre aberration within the economics profession. On the contrary, it derives logically from what Thurow calls the "equilibrium price-auction model." The price-auction model assumes

that all human economic interactions take place in competitive markets in which an imaginary auctioneer rapidly finds the price that will equate supply with demand. While the interventionist Keynesian theory ruled during the '50s and '60s in macroeconomics (the study of unemployment and inflation), the *laissez faire* price-auction model developed in the 19th century remained the orthodoxy in microeconomics (the study of firms and households). Thurow effectively shows that the contemporary conservative theories are an extension of the latter theoretical model into the realm of unemployment and inflation.

Having established this much,

during recessions despite rising unemployment. Furthermore, he points out that workers who feel underpaid generally don't quit but rather hold onto their job while looking for a new one.

The supply siders, with their magical claims that tax rate reductions will solve all economic problems, are shown to be the "religious fundamentalists" of the price-auction tradition. The price-auction model supposedly "proves" that competitive capitalism produces optimum efficiency and economic growth; hence, any reduction in government interference (taxes) must improve economic performance. Empirical evidence would be nice—and Thurow gleefully recounts

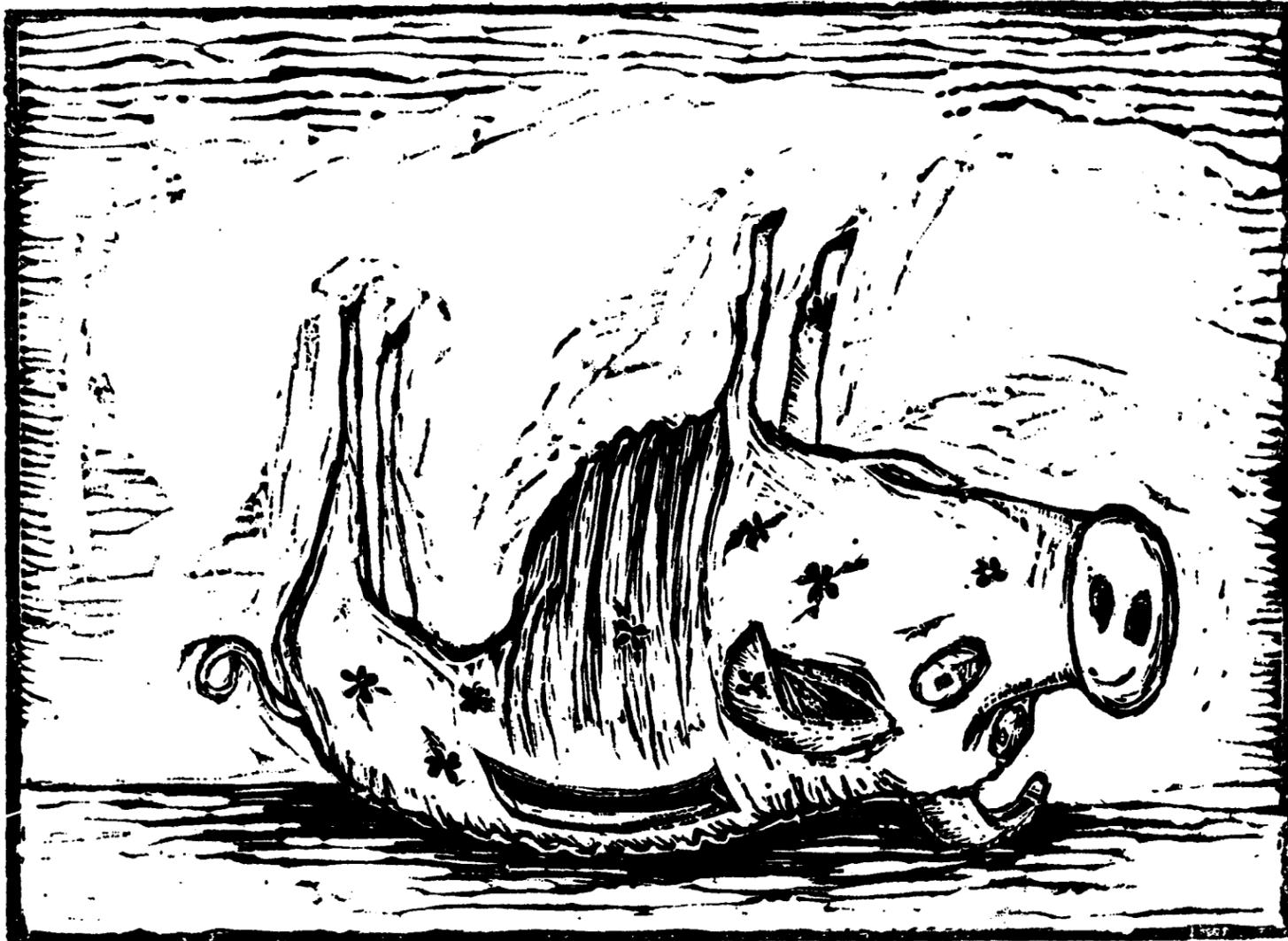
He shows that the price-auction model view of the world is fundamentally misleading, that it ignores the complex social nature of human beings and their varied wants and needs, overlooks the key role of institutions and habits in human economic behavior and misrepresents the effects of uncertainty about the future for economic behavior.

### Thurow's weakness.

Despite the many strengths of this book, *Dangerous Currents* suffers from three weaknesses, which render it a less useful book than it might have been. First of all, the book is not well written or edited. It has the appearance of a rush job that went through only

the introduction that the book is aimed both at the professional economist and the lay person. But mainstream economists are accustomed to discussing economic theory in a highly abstract, jargon-laden manner, and Thurow's attempt to produce a book that would be taken seriously by other mainstream economists required a manner of presentation that tends to exclude non-economists.

The most serious weakness of the book is Thurow's unsuccessful effort to explain why conservative economics has re-emerged as the dominant view. He offers two reasons for this development. First, the economic storms of the '70s sent economists searching for a world of theoretical certainty, which the price-auction model offered. He likens it to the upsurge in religious fundamentalism. But why was this particular theory chosen? There were other possible candidates; Keynesian economics offers its own brand of certainty about the world, yet it was discarded. Secondly, Thurow asserts that economists are attached to the ease with which the price-auction model can be cast



Thurow's critique is thorough. Thurow launches a devastating attack both on the specific new theories now in vogue and on the price-auction model itself. He challenges the conservative theorists' basic assumptions, their logical consistency and the accuracy of their predictions.

Take, for example, Milton Friedman's "natural rate of unemployment" theory. This theory holds that the economy naturally produces full employment, although some unemployment will be recorded since some people, dissatisfied with their wages, will have quit their jobs to look for better paying ones. Thurow shows that this theory derives from the implausible assumption that the labor market is like the stock market. That is, the labor market is assumed to "clear" by the rapid adjustment of wages to ensure that every unemployed person wanting a job will get one (just as stock prices will adjust to assure that every seller of stock can find a buyer). Thurow observes that labor markets don't work that way in reality—wages do not always fall

the major piece of empirical support for supply side theories: Martin Feldstein's finding that Social Security taxes reduce savings and hence reduce investment and growth. Unfortunately, Feldstein's result turned out to be due to a computer error that, when corrected, showed that Social Security taxes *increase* savings. Such an error could ruin a career, but in this case it seems an error in pursuit of a good cause is forgiveable, and Feldstein is now chairman of Reagan's Council of Economic Advisors.

one draft. Good, clear writing is especially important in a book about a difficult subject aimed at the lay person. Another draft might have made the main arguments in the book more powerful and easier to follow.

But another draft would probably not have remedied a second problem: the book is very difficult in many places. Much of it is intelligible only to someone with a strong economics background. More defining of terms would have helped, but the problem goes deeper. Thurow indicates in

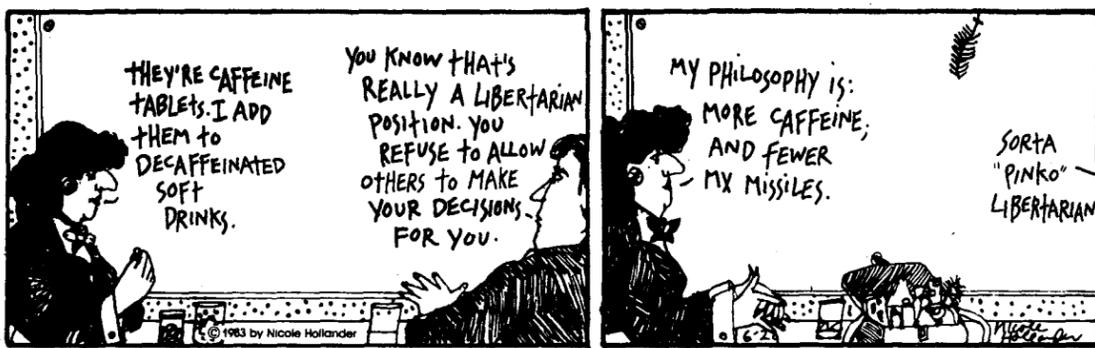
into rigorous, mathematical form. True, but again, so can other theories—including Marxian economics.

The real reason is painfully obvious, and Thurow comes close to seeing it when, in another context, he observes that "the profession is willing to change its research interests and focus of attention very rapidly in response to society's [sic] perceived needs and funding largess." If one substitutes for "society's" the

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## Sylvia

by Nicole Hollander



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phrase "the dominant group's," then we have the basis of an explanation.

Since the Progressive Era the capitalist class has been politically divided over the issue of state intervention in the economy. A liberal wing, usually associated with the larger, more established corporations and banks, has supported certain kinds of state intervention, while the conservative wing, associated with smaller and/or newer business interests, have favored *laissez-faire* economics. This split played a role in the establishment of state regulation of business in the 1900-20 period and the creation of significant social programs coupled with government efforts to tame the business cycle beginning in the period 1933-48. As the state role in the economy changed, economic theory eventually changed with it, as Keynesian theories both informed and justified state intervention.

### Changing winds.

In the late '60s and early '70s, popular pressure led to the expansion and improvement of social programs such as Social Security, aid to education and health programs. And over the clear opposition of big business, government regulation of occupational safety and health and the environment were established. But the economic winds were changing, as the U.S. economy (along with the other capitalist economies) entered a crisis in the '70s that grew more severe as the decade proceeded. This led the liberal wing of capital to shift ground. Social programs and regulation of business previously seen as necessary to stabilize capitalism were now viewed as having expanded excessively, undermining the growth and competitiveness of U.S. business. The effect on politics was immediate. The last years of the Carter administration were marked by deregulation and cutbacks in social programs. The Reagan administration greatly accelerated this movement, but the basic direction began earlier.

The effect on academic economics was no less dramatic. With the capitalist class united around the need to cut social programs and regulations, the economics profession rapidly moved to the right. It was partly a matter of research funding: the American Enterprise Institute (AEI) and other right-wing foundations began to pour money into economics research that would prove the "right" things. The ultimate source of such funds is not just John Birch-type small capitalists; the top officials of Chase Manhattan Bank, General Motors and General Electric have raised funds for AEI in recent years.

But money was not the whole story. When united, the capitalist class has enormous power to create a national mood or direction, particularly through the mass media. As the national mood reflected in the media shifted against government intervention in the economy, the economics profession shifted with it.

The new conservative economics did not just respond to and reflect the new politics; it has played a key role in promoting it. It is difficult to justify a program of transferring income from poor to rich and undermining the massively popular environmental and job safety laws. But the new conservative economics, and the traditional price-auction model from which it derives, offer a

powerful rationale for that program. This theory vigorously argues that state intervention in the economy does not accomplish the good things it is supposed to accomplish. All it does is hamstring the economy, which makes everyone suffer. This must be so, because the unfettered free market always produces the best possible outcome. Thus, individual workers will switch from unsafe to safe jobs, compelling the optimum amount of job safety. Voluntary private savings for old age (IRAs) are superior to the compulsory Social Security system. And so on.

According to this rationale, the re-emergence of a seemingly archaic and outdated "free market" economic theory makes sense. It re-emerged not for the reasons of form cited by Thurow (easy mathematization and an air of certainty) but for reasons of substance. It is ideally suited to justify the current political program of big business. But the free market theory is ultimately in conflict with the world view and experience of the larger corporations and banks. They operate in a world of markets controlled by private monopoly power and state intervention. While true believers would like to actually go back to the small, non-interventionist state of the 19th century, corporate thinkers understand that that would be a prescription for disaster—capitalism needs an interventionist state for stability and survival. Although big corporate money has promoted the resurgence of free market economic theory, there has been a continuing tension between the right-wing economics ideologues around the Reagan administration (David Stockman, Representative Jack Kemp) and the more traditional corporate types (Treasury Secretary Donald Regan, Vice-President George Bush).

It is likely that the political winds will soon change again. The Reagan administration has succeeded in cutting back social programs and regulation of business. But the conservative economic program has not solved, nor can it solve, the economic crisis. It appears that the solution will lie in another extension of the state's economic role, this time involving direct state guidance of markets to facilitate profit-making and enable U.S. business to compete against the more highly planned economies of Japan and Western Europe. Known as "industrial policy," this strategy seems to be the wave of the future. If this proves correct, conservative economics will soon be found wanting, and a resurgence of neo-Keynesian interventionist thought seems likely. The right-wing economic ideologues, so puffed up of late with money and praise by the powers that be, may soon be deflated and relegated to the fringe of modern economic thought once more.

Should this scenario emerge, Lester Thurow is well positioned to assume a leading role as economic guru of a renewed liberal interventionism. His previous book, *Zero Sum Society*, advanced an industrial policy. His latest book clears the field for such a policy by showing the claim that unregulated markets work best is based on an outmoded and implausible theory, thus slaying the free market dragon now barring the path to industrial policy.

David M. Kotz is an economics professor at the University of Massachusetts-Amherst.

# ART <> ENTERTAINMENT

## GRAPHICS

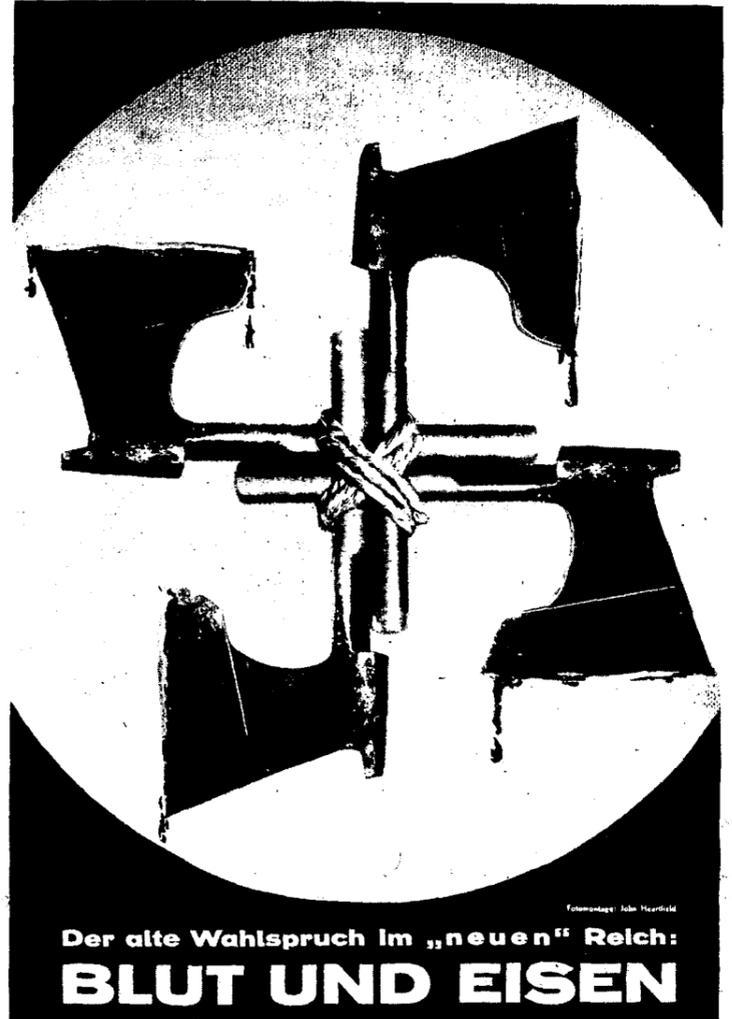
# Heartfield: The art of photo-persuasion

By Miles DeCoster

When Helmut Herzfeld changed his name to John Heartfield in reaction to the rising nationalist sentiment in Weimar Germany, he embarked on a career in which person, politics and art were to be inseparable. The exhibition of his graphic work at the Peace Museum in Chicago shows both the political relevance of his work to the climate of oppression that accompanied the rise of Nazism in the '30s as well as the aesthetic significance of his technical innovations in the use of typography and photography. Heartfield was a pioneer in the use of photomontage as an artistic device and as a means to integrate current imagery with overtly political messages.

While experimentation in styles, mediums and techniques was widespread in Europe and Russia in the '10s, '20s and '30s (i.e. cubism, constructivism, suprematism, surrealism, dada, etc.), Heartfield did not confine his work to the traditional outlets for art or limit his audience to an educated elite. He chose rather to publish his work: as posters plastered on the kiosks in German cities, and in periodicals that reached a wide and diverse audience—primarily in AIZ (*Arbeiter-Illustrierte-Zeitung/Workers' Illustrated Paper*). Between 1930 and 1938 he contributed more than 200 pieces to AIZ dealing with political and social issues of the day. In the mid-'30s, AIZ reached more than 500,000 readers, and many of the covers were reprinted as posters.

While the origins of photo-



montage are subject to debate, there is little disagreement that John Heartfield and his Russian contemporaries Alexander Rodchenko and El Lissitzky were its masters. It is no accident that they all used it as a vehicle for political persuasion as well as artistic statement. Photomontage was a technique ideally suited for commentary on current events

AIZ, March 8, 1934.

because the artist could integrate news photos familiar to a wide audience with other photographs, drawings and text. It thus retained the veracity of the news photograph while allowing for manipulation and symbolic modification.

The juxtaposition of image and text was also a key element in Heartfield's covers and posters. Just as the meaning of photos taken from the popular press and Nazi propaganda were altered, so too were headlines, quotations and slogans lifted and their meaning slyly perverted. For an AIZ cover (December, 1935) headlined "Hurrah, the butter is gone" Heartfield created a montage of a family eating various pieces of machinery—the family dog is under the table chewing on a large bolt while the baby nibbles on a hatchet. The wallpaper is decorated with swastikas and a "Hindenberg pillow" (the General, not the zeppelin) rests on the sofa. At the bottom of the cover is a quote from Goering: "Iron has always made a country strong; butter and lard have at most made the people fat."

In other AIZ covers the relationship between the National Socialists and the German industrialists who financed them is made explicit. An October '32 cover headlined "The Meaning of the Hitler Salute" shows Hitler with his hand up in "salute" receiving money from a much larger man behind him. The subtitle reads in part: "Millions

AIZ cover, April 12, 1934.

