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**Article**

## "We have to wake up and smell the flowers". Interview with Stephen Marglin

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## Forum

### »We have to wake up and smell the flowers.«

*Interview with Stephen Marglin<sup>\*,\*\*</sup>*

*Stephen, our first question is plain and simple: How did you become an economist?*

It was a combination of policy relevance, this feeling that what you are doing is going to have an impact on the world, and the intellectual challenge of the kind of neat mathematics in which economics was increasingly formulated. Like many others in the 1950s and 1960s, that is what attracted me, very simply. But economics has changed. You talk to young economists now and few claim to have any interest in trying to make the world a better place. You just do not hear that. It's a career, it is a job.

*In 1974/5, when economics was not only a job, you wrote, from a Marxian perspective, an influential two-part article on What Do Bosses Do?. Later on, you developed together with Amit Bhaduri the Bhaduri-Marglin model, which is still an important tool for post-Keynesian theory. In your last book, The Dismal Science: How Thinking Like an Economist Undermines Community, you deal with the explanatory power of behavioural economics. – Do you just switch from tool to tool, if I may say so, or do all these theoretical approaches of yours have something in common, a common idea or habit?*

First, my last book is not really about behavioural economics. What I have to say about behavioural economists is that if these people had the courage of their convictions, or if they had convictions, then behavioural economics could be a very important tool for criticising standard economics. But as they themselves say, they are not out to rock the boat. They want to show what you can do when you change one little assumption here or there and keep everything else the same. Far from wanting to criticise standard economics, they are desperate for acceptance by the profession. Nor do they ever look at the consequences of



\* Stephen A. Marglin holds the Walter S. Barker Chair in the Department of Economics at Harvard University, where he became a tenured professor in 1968. Marglin has contributed to many aspects of economics over his long career. His published papers and books range over the foundations of cost-benefit analysis, the workings of the labour-surplus economy, the organisation of production, and the process of macroeconomic adjustment. Together with Amit Bhaduri he developed the Bhaduri-Marglin model on the relationship between growth and income and its distribution.

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their theory, if it were to be carried out with rigour and some kind of complete programme, for the whole branch of welfare economics.

From my perspective, mainstream economics, and in fact all economics has developed largely around normative issues. You cannot understand the framework of mainstream economics unless you understand that. You cannot understand why the competitive model is taken as the norm, and then other forms of market structure are taken as deviations from the norm. It makes no sense if your sole purpose is to describe how the world works. Were this the case, you would start with oligopoly, and monopoly, and maybe some monopolistic competition to take account of the vegetable sellers and restaurants and so forth. You sure as hell would not start with perfect competition; that would be a footnote.

Again, why do we spend so much time teaching the theory of consumer choice? If we weren't interested in drawing normative conclusions, we could start from demand curves. We do not have to posit rational consumer choice. If we do insist on starting from consumer choice, why do we assume that preferences are fixed? Once again the answer lies in the normative agenda.

The whole structure of mainstream economics is geared towards its normative propositions, namely that markets are good for people. Why are markets good for people? Because they eliminate waste. They are efficient. This latest book of mine is really an attempt to understand this whole set of foundational assumptions that economics makes about people. It is about assumptions of individualism, assumptions of self-interest, assumptions of unlimited wants, which I have come to see as derivative assumptions, not the primary assumption. Finally, it is an assumption that there is only one community that is legitimate, that is the community of the nation. These are the assumptions of modernity that underlie the mainstream structure of economics and that permit one to argue that markets are good for people.

In some way or another, at least for the last forty years, critical examination of that conclusion, that markets are good for people, and its premises is what ties my work together, my trajectory. I cannot say that it was that well thought out, but in retrospect my career has been about trying to understand the limits of the assumptions of economics, particularly two strands: One strand is emphasized in the last book, which is what those assumptions do to communities. The other strand, with which my present research is concerned, is the failure of markets to deliver full employment, the Keynesian problem if you will. I have gone back and forth between these two issues, but I have to say that at some point around the year 2000, I got discouraged about Keynesian theory. I had additional thoughts to develop further some of my ideas of the 80s, which I worked out first in collaboration with Amit Bhaduri. I even wrote some of these ideas down. But in terms of really pushing them, spending a lot of time on them, it just seemed like there was nobody out there that would listen. Since 2008, I think the market has changed. In fact, the book that I'm working on at the moment is precisely an attempt to explain Keynes, perhaps what Keynes actually meant, and if not what he actually meant, then what he should have meant!

*If I understood your last book right, the hypothesis is that if people think as economists they are undermining communities and social ties. If so, let me ask provocatively, should economists not refrain from any economic policy advice? If mainstream economic ideas are undermining social cohesion, and you have some arguments for that, then why not get rid of all these economists?*

That brings to mind the slogans of the revolutionaries in England in 1381, the great peasant rebellion, they wanted to do various things for the betterment of the country, the first of which was to kill all the lawyers! I am considered to be a radical, but I am certainly not that radical. I would like to change economics, not ban economics. I think the perspective of mainstream economics is a very important perspective. I teach it, I teach it not as a straw-man to knock down. I teach it as a very important perspective, a very important way of being in the world. My problem with my fellow economists is their belief that it is the *only* way of understanding the world, of being in the world. That particular way of understanding the world makes community invisible, so that there is no way that an economist who is steeped only in that tradition, only in that way of seeing the world, can meaningfully take account of community when formulating policies. Community literally does not make sense to an economist. I think what we have to do is change economics, and then we will get better policy recommendations out of economists.

*Could you give an example for such a policy recommendation taking community into account?*

One of the areas that is quite controversial is outsourcing jobs, and as part of that debate economists, like the general public, should take very seriously the impact of job loss on communities. There is a fair amount written about this, journalists have been writing about this, and this is politically a very sensitive subject. But economists consider this a naïve question. My colleague Greg Mankiw once defended outsourcing on the grounds of comparative advantage when he was chair of the Council of Economic Advisors, about six years ago. He had to back-pedal very quickly because not only Democratic members of Congress, but Republicans as well, were up in arms. As a perceptive commentator noted, and I quote this in *The Dismal Science*, the argument was not between Democrats and Republicans, but between economists and everybody else. All the economists lined up behind Mankiw. All his critics were non-economists. This demonstrated to me that economists do not really understand comparative advantage, number one. And number two, their framework makes it impossible for them to take into account what are the real consequences of job loss, which is the destruction of whole communities.

*From the perspective of mainstream economics, the decision to outsource a branch or not would be based on a cost-benefit analysis, and they will attach monetary values to the costs and to the benefits. What would be the alternative, would you try to quantify the social impact of outsourcing as well?*

No, I do not think that you can quantify everything. Albert Einstein is reported to have had a sign in his office saying ›Not everything that we can count counts, and not everything that counts can be counted‹. To bring in things that cannot be counted is the great challenge of economics. Not only the destruction of communities but the destruction of the ecosystems on which sustainability depends defies precise quantification.

My position on the ecology debate is that the North ought to slow down growth or perhaps end growth completely. Not because we know for sure that otherwise we are going to hell in a basket, we do not know. But even though there is good deal of evidence that growth is unsustainable, the evidence is not in the form of hard numbers; not everything that emerges from ›hard‹ science can be quantified. But there is enough evidence that we should be worried.

On the other hand, there is evidence that at the levels of income we have reached in Germany, Europe, the USA and similar countries, further increases in income do not make people much better off. There are huge problems of maldistribution of wealth and income, but in terms of average levels, we are not in the position of Africa, China, India, where the pie is too small to be distributed in a way that would satisfy peoples' needs. So given the evidence on the ecological dangers of continued growth, and given the evidence that further increases in income will not contribute markedly to human well-being in the North, a powerful case can be made for stopping the engine of growth, or at the very least, slowing it down considerably. The case is made stronger by a third consideration, which is that the South does need growth. To free up ecological space for the South to grow is both prudent and equitable, even if we can't demonstrate this conclusion numerically. We need a new discourse in economics that takes account of the things that we can quantify along with the things that we cannot quantify, or which takes the things we cannot quantify into the picture.

*Am I right? On the one hand, your Keynesian heart says that we need growth to alleviate distributional conflicts, and on the other hand, your ecological heart says that we do not need it?*

The Keynesian heart speaks to the short run, the ecological heart to the longer term issue of sustainability. My combined heart says that we need to change our institutions so that we have other ways of addressing problems of distribution rather than through growth. Ernest Gellner, the anthropologist, had a very nice phrase for growth in this context: he called it ›universal Danegeld‹, which he glosses as ›buying off social aggression with material enhancement‹. Danegeld was tribute the English natives paid to the marauding Danes in the 9<sup>th</sup> and 10<sup>th</sup> centuries, in order to be left alone. Today growth does the same thing for the rich: it directs the attention of the less fortunate – everybody else – away from the possibility, some might say the necessity, of redistribution. Redistribution could go a long way towards changing the way people measure their self-worth, measuring *being* in terms of *having*. Evaluating our lives in terms of material success, in terms of what we can afford to buy, is something that has been deeply engrained in us for centuries now. If we are to thrive in a post-growth world, this is something that we are going to have to change. We have to wake up and smell the flowers.

*As you know, Keynes in his 1930 essay on The Economic Perspectives for our Grandchildren thought that this long-run solution would more or less automatically occur. But you, as you have also these Marxian elements in your arguments, would not tend to agree with him on this, I guess. So what are the concrete policy measures that we can take now that would bring us closer*

*to the long-run solution to the economic problem that Keynes described. There is distribution, but what else?*

There are policies, and then there is something much harder, and that is a social transformation. The policies are, first of all, to distribute income more equally. That would be done in a number of ways, but the tax system is the principal way of doing that. Another is to make it much easier to share work. Our institutions are against that. For instance, in the US most of our healthcare insurance is provided by employers. This is a huge cost, so it is obviously in the interest of the employer, in economising on this cost, to hire one person for forty hours instead of two people for twenty hours. For another example, we have to go no further than the current recession. In one sense, it is remarkable that a relatively small fall in total output can have such devastating effects. In the USA, at the bottom of the recession, output fell by only about 5 percent from pre-recession levels. Now, if everybody sacrificed about 5 percent, people would hardly notice it! But the impact has been severe precisely because it is so concentrated. Instead of leading to sharing the available work, economic slack has led to layoffs and firings: the unemployment rate has gone from 5 percent to 10 percent. So while there is considerable difference on how to provide jobs, economists and politicians are all in agreement that we need more jobs, we need growth to get out of this recession. And they are right – as long as our labour market institutions are what they are, the only way for people to get out of this recession is to have jobs. If instead of 5 percent of the labor force bearing most of the burden of unemployment, the pain were spread more evenly, the pressure for growth as a cure for recession would be much less.

Let me add a further example: old age pensions. There is again considerable agreement among economists and politicians about the need to change the retirement age in order to ensure the solvency of retirement funds. But if you think about retirement from an ecological point of view, you are led to a different perspective. In a post-growth society, if our identity and self-worth, not to mention our very economic survival, is no longer bound up with our position in the paid-labor force, we will embrace work sharing. And one way of sharing the work is to shorten the period people remain in the paid labor force. One way of moving towards a low growth economy is for people to take out productivity gains in terms of shorter work lives instead of more goods, lower rather than higher retirement ages. Once you start thinking in these lines, a lot of policies that one might think are obviously beneficial are going to turn out to be counter-productive. And vice versa.

The harder problem is that a real cultural shift would be required, a change of the cultural rules of the game so that people do not judge the worthwhileness of their lives by how much consumption they enjoy, or by their position in the paid labor force. These are harder changes, not impossible but harder.

*But there are obstacles, for example the French government just raised the retirement age; in Germany pay-as-you-go health insurance was watered-down and the labour market was flexibilised. Would you say that this is only because we use the wrong models or have the wrong ideas, or does it have something to do with interests or with growth being a necessary ingredient of the economic system as it is?*

I think it is both. We do not even have a serious debate at the political level about no-growth. This is still a fringe idea, with zero traction in the political arena. Certainly, wrong ideas are part of the problem. But, just as it is possible to underestimate the power of ideas, it should be recognized that ideas do not exist in a vacuum: capitalism as it is constituted has a strong vested interest in growth, and a serious attempt to move in the direction of a low- or no-growth economy would have to address the problem of taming or transcending the profit-motive.

Even standard economics recognises that there are all kinds of instances where private profit is not an indication of social well-being. So that's not heresy. Every standard text-book that I know of, every mainstream textbook, has its chapters on the virtues of the market, and then its chapters on the exceptions, externalities, public goods, asymmetric information etc. So the idea that social well-being might call for over-riding or transcending the profit motive is not in itself a novelty. To recognise the virtue of no-growth, or at least that this is a plausible policy objective that ought to be seriously debated, would require a much more wholesale evaluation of the structure of incentives in private production. It would go much further than what mainstream economists call market imperfections.

*The paradox that I always see is that, presumably, it will be much easier to transcend the profit motive and to have post-materialist values in a society that is more equal. So the reduction of working hours would be easier in a society which is more equal. But on the other side, it will be very difficult to make society equal without growth, because that would mean that you would really have to take from the rich and redistribute income to the poor, because the relative redistribution would have to be absolute redistribution if GDP or incomes is constant. Do you really want to advise the trade unions or the social democratic movement to be against growth from tomorrow onwards, and to promote cultural progress along the lines you propose, or do we need to change culture more slowly while using growth as a tool to redistribute income and then use that as a tool to change culture?*

You pose the dilemma very well, but what I am talking about is starting a discussion. It is not like that discussion is going to be a short one. The problem as I see it is that now you cannot even raise this issue and have it taken seriously at any political level. Obama talks about better educating our kids. Why do we need to better educate our kids? Because of the Chinese! Without better education, the Chinese will overtake us economically. That is the level at which debate about our economic future takes place. I think we need to change the debate, and while we are doing that, there is plenty of room and time for the redistributive growth that you are talking about.

But you have to recognise that growth is not an automatic mechanism for providing a better distribution of income. In fact, over the last generation in the US, in large parts of Europe, growth has produced a more unequal distribution. There is some question about whether growth has caused greater inequality, but there is certainly no mechanism by which growth is going to guarantee better distribution. I am not at all persuaded that the problem of policies that would lead to a redistributive growth of the kind that you are implicitly arguing for are any easier to get in place than a set of policies for redistribution without growth.



A few years ago there was a public opinion poll by the Gallup organization that shed considerable light on the political obstacles to redistribution in the US. There were two questions that peaked my interest. The first about people's conception of how much income and wealth it took to be rich. ›Rich‹ was therefore self-defined. The median response was around \$120,000 of income or \$1,000,000 of wealth. The second question was the more interesting one: *Do you expect to be rich?* What percentage of Americans under the age of thirty do you think said that they would be rich – remember they could define for themselves what it required to be rich?

*In the USA it is a high percentage, I think – 60 percent?*

50 percent, you are right on the money. It blew my mind, because the actual US statistics at the time were so radically different: families with an income of \$120,000 or above constituted between 8 percent and 10 percent of the population.

I did some regressions with the data, regressions that were possible because the poll also sampled political orientation. It turned out, no big surprise, that if you expected to be rich, you were much more likely to favour the right. So even if you are not rich, you vote that way. Given this mindset – remember 50 percent of the population under 30 expected to be rich – it is difficult to have a serious discussion on the merits of redistribution of income and wealth. So, yes, growth for the purpose of redistributing income has its political attractions. On the other hand, this policy has not delivered the goods in the absence of a recognition of the ecological constraints that may make it necessary to slow down the machine, and such a policy will probably be more difficult to pursue in the future.

*But when you think back 20 years ago, your spirit was probably different. At the time of the Bhaduri-Marglin model, were you still thinking about wage-led growth as a strategic option for social democracy?*

Yes, but let me back up a little. You and I agree that improvement in the redistribution of income is a necessary step towards having a serious discussion about the limits to growth. That does not answer the question of what policies we need today to get out of the current recession. I think the topics that came out of those papers with Amit are still valid today. It is one of those things that after twenty years has come back into relevance.

But actually my motivation in the enterprise with Amit was somewhat different than promoting a specific policy. I was trying to understand the logic of the Keynesian model, and how it related to the general left-Keynesian consensus that redistributing income to wage-earners was always a way of stimulating growth. The *always* part never seemed right to me, and I wanted to understand the conditions under which the left-Keynesian consensus made sense. The theoretical achievement was to show the conditions under which wage-led growth was appropriate, which also meant recognising the conditions under which profit-led growth would be appropriate.

At the present time it is very clear, to me anyway, that the conditions under which profit-led growth would be appropriate are not simply met; at the present time the left-



Keynesian position does make sense. But at the time we were working, and in the 90s, you could have made a case for profit-led growth.

*The experience of the 70s, and the profit-squeeze argument?*

It comes down to how responsive capitalists are to profit opportunities. Right now, they are not responsive at all. At least in the USA they are so scared that they are sitting on their cash. Even where the small entrepreneurs themselves would really be eager to go out and do something themselves, the banks will not lend them any money, and they do not have access to capital through the bond markets. At the present time, the business community is not about to invest, and the only kinds of projects that they are looking at are investments that would cut costs. This only reinforces the argument for wage-led growth, the left-Keynesian position: the higher are wages, the more attractive is labor-replacing, which is to say, cost-cutting investment. So high wages would do two things: first, stimulate consumption demand on the part of the workers, and, second, stimulate the portion of investment demand that is directed to eliminating some of the jobs that workers still have. Both of these stimuli will lead to an increase in demand right now even if they have different intermediate and long run consequences for employment. So the conditions right now, much more so than when Bhaduri and I were doing our original work sorting out wage- and profit-led growth, seem to be so clearly in favour of wage-led growth. What we did was to provide a framework in which to sort out the arguments. It happens that the framework is more useful now than at any time since we did it.

*Some people have added to this distinction between wage- and profit-led growth the notion of a finance-led model. In the USA, for instance, during the decades before the crisis there was redistribution away from wages to profits. But perhaps due to the pressure of shareholder value and on the high returns on financial investment, physical investment activity was actually quite weak, while growth was driven by high levels of consumer demand despite the stagnation in median real wages. The argument is that real wage increases were substituted for by a credit expansion in the personal sector. How would you respond to that?*

I think it is true that credit expansion did substitute for income increases for a large part of the population. In a sense this reinforces the argument for profit-led growth because it says that you do not need to redistribute to workers or wage earners in order for them to consume. They will consume anyway provided they can turn their houses into ATM machines. What you are always balancing in this argument is the effect of raising the profit share on investment as against its effect on consumption. In your argument, high profits do not have a negative effect on consumption because workers are able to finance consumption out of debt rather than income. But at some point the credit bubble would have to burst. So, this type of profit-led growth is probably not sustainable.

*The interview was conducted by Torsten Niechoj and Till van Treeck in October 2010.*

*Selected Publications of Stephen Marglin*

*The Dismal Science. How Thinking Like An Economist Undermines Community*, Cambridge: Harvard University Press 2008 • Individualism and Scarcity, in: Cullenberg, S./Pattanaik, P.K. (eds.), *Globalization, Culture, and the Limits of the Market: Essays in Economics and Philosophy*, New Delhi: Oxford University Press 2003 • Understanding Capitalism: Control vs Efficiency, in: Gustafsson, B. (ed.), *Power and Economic Institutions*, Aldershot: Edward Elgar 1991 • Profit Squeeze and Keynesian Theory, in: Marglin, S./Schor, J. (eds.), *The Golden Age of Capitalism: Reinterpreting the Postwar Experience*, Oxford: Clarendon Press 1990 (with A. Bhaduri) • *The Golden Age of Capitalism: Reinterpreting the Postwar Experience*, Oxford: Clarendon Press 1990 (edited with J. Schor) • *Growth, Distribution, and Prices*, Cambridge/London: Harvard University Press 1984 • *Value and Price in the Labor-Surplus Economy*, Oxford: Clarendon Press 1976 • *What Do Bosses Do?*, in: *Review of Radical Political Economics*, Part I: 1974; Part II: 1975.

**Policy responses to the Euro debt crisis:****Can they overcome the imbalances that caused the crisis?**

*Torsten Niechoj\**, *Till van Treeck\**

*Introduction*

The recession of 2009 following the financial market crisis of 2008 was severe, especially in Europe. World GDP decreased by 0.6 per cent, the GDP of the USA by 2.6 per cent, and in the European Monetary Union (EMU) it declined by 4.1 per cent (IMK/OFCE/WIFO 2011). The export-oriented German economy had to face a relatively strong negative growth of 4.7 per cent of GDP. By mid-2010, however, it seemed that the disastrous effects of the financial market crisis were successfully countered by stabilisation measures in countries all around the world: rescue programmes for banks were established in most of the European countries; some countries like Ireland and Spain tried to compensate for the effects of busted housing bubbles; and fiscal stimuli were initiated to dampen the downturn of the economy, e.g. by the introduction of a scrapping premium for cars in Germany, France and other countries.

But for Europe, the crisis was not over. This transformation of private debt of banks, house owners and consumers into public debt raised the state's debt-to-GDP ratio for the euro area as a whole from 66.3 per cent in 2007 before the crisis to 85.3 per cent in 2010

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