



Unorthodox Thoughts on the Economic Crisis and the Dictum of Protagoras*

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Abstract

The current economic crisis can be explained but we must remember that the crisis is the product of human behavior, both theoretical and practical, and not the product of some force of nature or mathematical law. An economic system is based upon production and consumption. A crisis arises whenever there is an imbalance between these two activities. Until the industrial revolution there was not sufficient production to meet the consumption needs of the world's population. After years of science and technology there is now a surplus of goods and services in advanced countries related to the ability of consumers to purchase them. Therefore, a huge effort has been made since the end of the 19th century to increase consumption, not by distributing wealth more evenly but by extending credit through various means, while also "teaching" people that unless they consume more they are "inadequate" human beings. The uneven distribution of wealth has meant that there are fewer opportunities for investment in production for the excessive wealth of the few, so that it is then directed to speculation of every kind. There is disagreement among economists about whether and how democratically elected governments should intervene to redress this imbalance between production and consumption. Thus, capital sits idly in banks while a lack of income plagues a growing percentage of the population, leading to a social crisis and loss of belief in the ability of the economic system to work properly. All this because we have forgotten Protagoras' dictum that the human being should be the measure of all things.

1. Production and Consumption in Economic Systems

An economic system is founded upon two basic activities: **production** and **consumption**. Between those two activities lies a system of distribution of goods and services that are produced for the consumers who require them. In the marketplace, goods and services are exchanged and information is collected on the desires of consumers in relation to those goods and services that are produced. A true democracy would be an ideal system for collecting such information, but nothing like that has been experienced for the past 2,500 years, and certainly not in our current mass society. In any case, there cannot be consumption without production, nor production without consumption; the two sides of the system are utterly dependent upon each other. Thus, most economic crises are directly related to some kind of **imbalance** between these essential activities, notwithstanding any problems in the

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intermediate activities supporting this system, such as those in trade, transportation, supply and demand, the financial sector, etc.

During most of the history of humankind, at least up until the 19th century in Europe and North America, the imbalance resulted from a shortfall in production, that is, from **underproduction**. Basic needs for food, clothing and shelter were unfulfilled for most people (to say nothing of their higher order needs for security, love and affiliation, esteem, etc.). It is for this reason that increased production is an obsession for most of the scientists and professionals who are concerned about the economy, irrespective of any other ideological proclivities they might have. Hence the emphasis on the idea of ‘development’, despite the obvious inability of nature to support the endless pollution that such development entails, without ultimately threatening the very existence of humans on planet earth.

Based on the outstanding ability of capitalism to accumulate, and ultimately **over-accumulate** wealth, and with that wealth to continuously increase production, we can observe that, by the end of the 19th century and throughout the 20th century and beyond, **overproduction** became a chronic systemic problem in the developed countries. It is in the nature of capital as it increases and accumulates, to be reinvested in those very activities that were profitable in the first place, irrespective of whether the market can absorb this increased production. Thus, the system has been trapped in this structural dilemma for a very long time now. However, and in part because of the nature of profit-making via investment, the problem of overproduction has usually been interpreted as a problem of **underconsumption**, and endless efforts have been taken to increase consumption since the early 20th century in America and later in Europe and taking place now throughout the world. These efforts to increase consumption have ranged from the obvious use of advertising and marketing (and even architecture) from the early 20th century on, to the more recent emphasis on installment buying, credit cards and consumer loans, all in an effort to redress the imbalance between production and consumption. Consumption, however, requires money in the hands of the consumers, that is, an adequate income to allow purchase of the goods that are being produced. Thus, overall market demand is a product of population plus income, or rather, times income, and thus the effort over the past century to increase the ability and/or especially the desire to consume.

2. Gambling as Investment

Another response to the problem of overproduction-underconsumption is to direct over-accumulated capital away from the productive sector or ‘real economy’ (i.e., the production of goods and services for consumption), into the financial sector, that is, into the stock market, banks, speculative real estate investments, and other high-risk investments during periods of overproduction (and over-accumulation). This flow was especially noticeable in the 1920s, leading up to the great crash of 1929, and as a more or less chronic tendency since 1980 in the advanced capitalist countries, as well as in rapidly developing economies of the lesser developed world.

The stock market is a giant casino where surplus capital is gambled, that is, where players invest in paper (and only indirectly in production, if and when that happens) with the hope

that, as in all casinos, the dice will land on their number—something which some players help to insure with ‘inside information’. Of course, economic theory claims that the stock market is a place where business can borrow money for investment, which is in part true, although it is also possible that large corporations may invest money from their own surpluses rather than, or in addition to capital raised in the stock market. In any case this does not alter the casino-like character of the stock market or the wide-ranging fluctuation of its prices as indications of overproduction (and over-accumulated capital) in the productive sector.

One would suppose that investments in banks would be less risky than those in the stock market because bank investments (i.e., in borrowers) are more closely examined. Experience with Savings and Loans Banks, with Hedge Funds, and more recently with subprime mortgages in the U.S.A. indicates that *when the over-accumulation of capital is great enough, the financial sector will support ever greater risks in order to find an outlet for surplus capital*. It can hardly be over-emphasized that such investments are not in any way productive; they contribute very little if anything to the massive human problems of hunger and inequality in the world, irrespective of the obvious progress in the satisfaction of material needs that has been experienced by the world’s minority who live in industrial countries.

3. There are no Autonomous Mechanisms in Society

Neoclassical economists believe that the production-consumption system is an autonomous mechanism that will automatically self-correct any imbalance that arises. They believe that, according to some version or other of ‘Say’s Law’, the income generated by workers in the production of goods and services will be sufficient for them to purchase those goods and services. Keynesian economists do not agree with this and believe that the government, through borrowing money when necessary, must play an active role in the economic system by employing un- and under-employed workers. These workers, with their enhanced income, would then be able to purchase goods and services, thus bringing the production-consumption system back into equilibrium. In other words, all of the efforts with advertising, marketing, credit systems, etc., have never been enough to increase consumption up to the point where it could redress the imbalance between production and consumption.

It was within this framework that Franklin D. Roosevelt implemented a Keynesian program with a good deal of success in the 1930s in the USA. This was true at least until the corporations began to voice a strong protest against government ‘intrusion’ into the private sector with its ‘unfair competition’. In addition, without the prospect of unemployment they found that workers would tend to lose their sense of insecurity and fear and begin to make further demands on their corporate employers. Thus, unemployment had fallen from 25% in 1932 when Roosevelt began his “New Deal” programs, to 12% in 1936, when a new congress elected with the ‘help’ of the corporations began to cut back on those welfare programs. The result was that by 1938 unemployment had once again risen to 18%. This is a clear indication that the accumulation of capital is also an accumulation of political power, which gives great importance to the term *political* economy, thereby emphasizing the political dimension of economic problems.

In the meantime, Hitler provided a solution to the economic problems in the USA, and in all the other crisis-ridden industrial countries in the West at that time, with an age-old, yet gruesome solution: WAR. Equally obscene, unfortunately, was the conclusion reached at the end of the war by the economic elite in US and to a greater or lesser extent in the other industrial countries. These elites used their political power to turn the Keynesian social welfare solution into a military (industrial) Keynesianism. Here governments seek to stimulate the economy by infusing capital into the system through subsidies to the production of **military armaments, military bases and other military related requirements**. One result of this is that such expenditures have absorbed a huge proportion of Western government budgets since that time. A further result is that military armaments, according to UN statistics, constitute the leading commodity traded in the world today. That these expenditures were also consciously used to oblige the former socialist countries to waste enormous amounts of their (more limited) resources on military expenditures in order to defend themselves simply provided an added incentive for these policies.

4. Neoliberalism and Keynesianism

Thus, the evolution of economic crises and the efforts to confront them have divided economists and made them embrace two approaches. The neoliberal approach (i.e., conservative), following the original neoclassical school, believes that the government should leave the free market to work through economic crises by itself and to face these crises with the least amount of governmental intervention (except for those companies “too big to fail”, of course). At most, the government might manipulate the cost of money by printing more or less of it or by adjusting interest rates, thus hopefully affecting the rate of investment in the private sector. This is the well-known monetarist approach. The Keynesians, on the other hand, believe that the government should involve itself actively in the economy through its fiscal policies, that is, by manipulating the tax rates and the government budget in order to reduce unemployment and increase the purchasing power of the population. However, government investments of the military Keynesian type, in spite of their being very profitable for private industry, cannot solve the problem of underconsumption (overproduction) in this way, simply because, among other things, the ‘high tech’ nature of this industry results in the replacement of workers (and their incomes) with technology.

Meanwhile, the over-accumulation of capital, a problem that could not be resolved internally in the developed countries, has encouraged capital to move to underdeveloped countries, following the earlier imperialist tradition of seeking cheaper food supplies and raw materials to lower the cost of production at home, and later to seek markets for the (over) produced goods that cannot be sold there. This movement of capital has contributed very little to the solution for the chronic problems of poverty and hunger in the Third World because, in order to maximize its profits, capital originating in the industrial countries is interested only in exploiting the cheap labor force and the environment, irrespective of any other restricted statistical indicators of development in these countries. Not that there is no economic growth in the Third World, but it comes very slowly in most of these countries, and with great cost to the environment and to the people. This is similar to the case in Europe and

North America in the 19th and early 20th centuries when capital was accumulated there in the same spirit, though with less evolved and therefore less destructive technologies.

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5. The Need for a New Approach

The inability of neoclassical economics, either with monetarism, Keynesianism or, ultimately through imperialism, to solve the internal crisis of overproduction and over-accumulation in the First World, and the adverse, if not tragic effects of this inability on the Third World, poses a serious ethical and theoretical dilemma. This provides yet another reason for Marxist economists to believe that none of these conventional approaches can save the capitalist system. They believe, indeed, that the indiscriminate application of positivist (i.e., natural science) epistemologies to society, as if it were the same as nature, would inevitably obstruct the understanding of the true nature of the capitalist system. With a structural analysis of the economy that follows the circuits of investment and profit-making of capital along with the unresolved problems that it faces at each turn, Marxist economists believe that capitalism has offered whatever it can to humanity and that it should now probably be eclipsed. But it is not only Marxists who are unsatisfied with neoclassical economic theory. There is now a substantial movement for a new heterodox approach to economic theory, a movement which began with graduate students at the universities in France. Now there are thousands of students *and faculty members* all over the world who are participating in the movement for a pluralistic, ‘post-autistic’ economic science. The purpose of the movement is to bring economists closer to reality and to the real problems of society and of human beings, problems which cannot be addressed with the sterile orthodox and mathematical approach of neoclassical economics.

6. Social Crisis

Further support for this new perspective can also be found in the fact that there is also a **social crisis**, which, of course, does not even appear in the cognitive paradigm of neoclassical economics, and which derives precisely from its theoretical-ideological emphasis on greed and fear as the only (implied) human values. This, along with the efforts to increase consumption, especially through advertising, has resulted in profound changes in the social psychology of human beings throughout the world. The main goal of the emphasis on greed and fear as moral values, and on advertising as the means to increase consumption, is to cause people to feel *inadequate* (since they are not wealthy enough and are unable to purchase and own the advertised goods and services). Thus, people in the developed countries *are not happy*. This can be seen not only in the statistics on social pathology, i.e., on crime, on the abuse, even murder of women, on divorce, alcoholism, drug abuse, depression, etc., but also from research that studies (un) happiness directly.

Here, of course, we are looking at a profound and far reaching philosophical problem, a problem that has preoccupied thinkers for many years. One thing we can observe in this respect is that when the ancient Greeks were rediscovered during the Renaissance, there was not much interest in the *philosophical* framework of science. That framework had made use of the theater, public discussion, education, etc., to emphasize the importance of ethics and emotions as an important aspect of human existence. *Science was, for the Greeks, a part of philosophy*. In the Middle Ages, religion had replaced ancient philosophy (and science), and from the moment that science replaced religion as knowledge (mainly about nature, but not restricted to it), the only remaining source of moral principles was severely restricted. Neither the positive sciences (natural and social), nor capitalism contain(s) any moral principles (except as mentioned above).

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7. A Moral Vacuum

Thus, today we find ourselves living in a moral vacuum. For economists, human beings are egocentric, amoral, rational mechanisms with unlimited time and information to maximize their satisfaction (utility), a satisfaction that is defined in terms of money, i.e., greed, as referred to above. Thus, in the developed countries we are experiencing not only a chronic economic crisis (of over-production and over-accumulation), but also a moral and emotional crisis that derives from the entire socio-philosophical framework that has been imposed upon us by the positivist philosophy, especially neoclassical economics.

8. Closed and Open Systems

Another aspect of the social crisis is the abuse of nature. Nature, of course, does not recognize the idea of ‘abuse’. Whatever humans do, nature (with its laws) will always find a new equilibrium. The changes, the abuse that humans are forcing upon nature, will only bring harm to fellow human beings. Thus, the environmental crisis is in reality a social crisis, and it is probably better to name it as such in order to avoid deceiving ourselves with an impersonal term. For neoclassical economics (and the corporations that are inspired and legitimated by this science), nature is an exogenous factor. Only when it appears as a direct monetary cost for the corporation will it appear as an economic calculation. Environmentalists often say that for many economists and most companies, the environment is but a ‘faucet and a toilet’: they simply open the faucet and take out the raw materials, and then throw the waste materials down the ‘toilet’. Where these materials come from and where the waste goes they neither know nor care.

Here neoclassical economists make two axiomatic errors: on the one hand, they presuppose that society is a *closed* system, i.e., that the deterministic relations among the parts will hold for ages (so that they can apply their mathematical tools), when, in fact, society is an *open* system where any relations or regularities which appear today can change tomorrow, in part because of the applications of social science knowledge, itself. On the other hand, they presuppose that nature is an open system (so as to serve their other presuppositions), when in fact, nature is a closed system (and only thus could the mathematics of the natural sciences be applied).

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The problem is that by the time the environmental crisis appears on the horizon of neoclassical economics and the balance sheets of most corporations, the changes in the environment may be so serious that the human costs of addressing the problems will surpass the economic capabilities of most national systems, with all of the gruesome results that are forecasted by the natural scientists who have concerned themselves with these problems in recent years.

9. The Essence of Being Human

We must conclude that the theoretical framework and vocabulary of neoclassical economics are inadequate for the task of understanding the scale of the global socioeconomic crisis. The movement for a broader heterodox and pluralistic (post-autistic) economic science will contribute greatly to improving that framework. Also, popular movements for a more equitable distribution of wealth will help, especially as they result in a reduction in the over-accumulation of capital and a reinforcement in the purchasing power of the masses. Ultimately, only when all science is incorporated into a philosophical framework with all the emotional and moral dimensions that are implied by the arts and the humanities, will knowledge be able to serve humankind once again in the sense that was apparent with the ancient Greeks, where humans were material but at the same time emotional and spiritual beings, and where, as Protagoras wrote, “Man (*anthropos*) is the measure of all things”.

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