

AFEE ANNUAL CONFERENCE PROGRAM 2015

BOSTON, MASSCHUSETTS

January 3 - 5, 2015

Provision of Social Costs and the free market: a Polanyian perspective

Gregorio Vidal (*Universidad Autonoma Metropolitana*)

Wesley C. Marshall (*Universidad Autonoma Metropolitana*)

Eugenia Correa (*Universidad Nacional Autónoma de México*)

Abstract

In this article, we analyze at a conceptual level some of the more relevant effects of the neoliberal takeover on the provision of social costs, including employment, health care, and nutrition. Adopting key perspectives of Polanyi but also institutionalism approach, we develop our examination under the seemingly perpetual conflict between markets and social reproduction. We argue that financialization has both expanded market spaces and changed relationships within those spaces. The growing domination of financial markets has meant that employment has become increasingly more precarious in the strict spaces of the labor market. At the same time, financialization has steadily eroded the social forms that exist outside of formal markets, greatly weakening the mechanisms through which societies can both defend themselves from predatory markets and reproduce themselves with some degree of purpose and hope for the future.

Key Words: Financialization, Polanyi, Social reproduction

Introduction

During the last decades, neoliberalism has acted as an invading force in many areas of society that had typically fallen outside of the market's supervision, including large parts of the government administration, education, and significant parts of judicial systems. Propaganda such as Milton Friedman's *Free to Choose* uses all possible rhetorical tactics to convince societies of the benefits of deregulation, while the most important actors in financial markets spearhead the pressure for “free markets”, which they conveniently abandon when government support is needed to stave off their bankruptcy. No government public policy is more expensive and less effective than bailouts applied in response to banking crises, whether they be in developed or developing countries. In decades past, it was conceivable for the majority of society to believe that there was only one set of market rules that applied to all with some fairness and impartiality. Yet as the most powerful corporations have now been openly recognized as both too big to fail and too big to prosecute, such a conception currently carries little credibility.

Since the seventies, the neoliberal counter-revolution has seen the step by step dismantling of the policies and institutions of welfare, along with the networks constructed for the reproduction of society. Social costs have been transferred to individual citizens, broadly deteriorating the provision of many goods and services that allow for an extension of the objectives of the welfare society. This transition has nullified expectations of achieving a decent life for large swaths of society. But especially relevant for this article is the transfer of an important part of the provision of such goods and services to the market, both through the privatization of enterprises and the provision of public services. In a

general sense, this process is recognized in the literature as commodification (Galbraith, 2012 and 2014).

We begin our brief analysis with some general considerations regarding markets and societies, concentrating on the provision of social costs. We then introduce some statistical measures of social depredation, highlighting the marginalization and social polarization that financialization has created. We then hone our interest on the rapidly degrading conditions of workers, both in terms of their market interactions and their role in the reproduction of society. In the current context of austerity driven public policies, we explore Polanyi's concept of the various social forms, which act counterweights to the free market in any economy, arguing that financialization has greatly reduced the self-defensive mechanisms of many of today's societies.

Markets and Society

The relatively stable social consensus, as well as the conviction of the elites that the provision of social costs for the reproduction of society was the responsibility of national states, was particularly functional at the end of World War II. Although under different formulas and organizations, national states were heavily involved in the most well known areas such as healthcare, education and pensions. But there were also less conventional areas of activity such as a cultural, scientific and technological research, housing, and even sports. In many countries it was not uncommon to find public companies organizing the

market and the prices of staple foods such as corn or wheat, but also in strategic activities for the market itself, such as the production and distribution of energy. The costs for the reproduction of society were therefore defined broadly, and were based on providing true market support through the socialization of the provision of social costs.

Today, a growing number societies, and particularly their younger members, can no longer meet even their most basic needs of health, education, and employment. Their expectations are often as short term and precarious as their employment and wages. For most of the world's societies, falling employee incomes, fewer and more precarious jobs, and the degradation of working environments are present throughout the fabric of social life, at home and in communities. There are many varied indicators of this process, although very little information is focused and systematized. Indeed, the very production of statistics is much more oriented toward providing information for the understanding of market trends than it is with providing elements that can help understand what is happening with society (for example, occupational histories, changes in the use of leisure time, survival strategies of the unemployed, care giving for children, the disabled, sick and the elderly, or, changes in perceptions regarding subjective wellbeing).

In any case, it is still possible to find signs of the predation of society by the market. For example, in developed countries, 22.2% of the adult population is overweight or obese, including 24% in Japan, 70% in the United States (US) and 63% in the United Kingdom (UK); in all of these cases the numbers doubled between 1980 and 2008 (World Health Organization). In the UK, US, Germany and many other developed countries, national populations spend more than two hours per day watching television, but just a half an hour

caring for children and the elderly (OECD, 2013). In turn, this group of countries has seen their unemployment rates rise above 8% since 2009, while the number of hours worked and wages remain stagnant and productivity continues to increase (OECD, 2014a; ILO, 2013). In addition, the number of people living in hunger in these countries has risen from 13 million in 2004-2006 to 16 million in 2010-2012 (FAO, 2012). Less than 12 billion dollars per year are needed to reverse this problem, representing 0.15% of global GDP.

In developing countries, examples of the same underlying phenomenon are different, such as 860 million people, or 15% of the developing world, suffering from chronic undernourishment in 2010-2012; the number continues growing in Africa (FAO, 2012). The disappearance of this specific problem in this group of countries would require around 2.5% of global GDP. More than 5 million children die each year from causes related to malnutrition. One in six children is born to undernourished mothers, which is a high risk factor for learning disabilities, mental retardation, poor health, blindness and premature death.

These are some of the signs that exemplify the growing difficulties of reproducing the life of societies. For example, the secular problems of malnutrition and obesity in developed countries are expressions of how the market has taken more and more of the time and lives of individuals and families. The production and consumption of junk food, for example, reflects the incredible takeover of the market - in no small part achieved through marketing and social psychology - of the time that individuals, families and communities used to use for their reproduction, including food, fellowship and pursuits of satisfaction. This is not to mention the most obvious effects on families and individuals: the excessive

yet always insufficient intake of industrial products masked as food and medicine that have been proven to cause health damage.

The market subjects more parts of social life to its interests than human reproduction can support. At the same time, the market continues to strip away livelihoods from those who still have them. Societies are therefore subjected to institutional changes, but also cultural and moral ones. At the same time, the expansive mobilization of capital and technification of information and communication services leave millions of people around the world without work and reduce wages at all occupational levels and in almost all sectors. Polanyi warned on the increasing marginalization and social polarization that the economic concentration and expansion of the market is currently achieving:

Our thesis is that the idea of a self-adjusting market implied a stark Utopia. Such an institution could not exist for any length of time without annihilating the human and natural substance of society; it would have physically destroyed man and transformed his surroundings into a wilderness (Polanyi 2001, 4).

Financialization of Daily Life and Labor

Financialization has placed the control of many of the largest companies in the world in the hands of an intricate network of financial conglomerates. The wages and salaries of employees have been the first (non-financial) prices to fall in every crisis; together with unemployment, these two indicators have registered significant decreases for at least two decades. Alongside the constant destruction of public employment in much of the world, these developments have enormous consequences on the demand for goods and services

and on quality of life, but they are most noteworthy in the rapid deterioration of labor skills, especially those of young people who cannot enter the labor market based on their acquired skills.

Financialization has changed the business world and the market as a whole, but it has also changed employment, labor and societies in its constant struggle for survival and reproduction. However, after the great crisis, the score is very unfavorable for societies that are losing institutions, people and even the capacity to govern. The economic instability and institutional fragmentation that financialization has brought has deeply modified the world of work and wage labor. Sennett (2006: 10) summarizes these profound changes in three orders of ideas: labor instability, the rapid obsolescence of skills and qualifications, and the flexibility of workers.

This all has important consequences in the workplace and in everyday life. Labor relations are short term, life projects are diluted or find successive obstacles that cause great stress and anxiety; uncertainty becomes normal and is incorporated into life, converting plans into short term constructions that cannot take into consideration the consequences of a future without form. Networks of mutual trust between workers also lose sense amidst uncertainty and competition to hang on to jobs. Furthermore, the lack of loyalty, the low confidence of workers and their ignorance of business and institutions produce a lack or absence of commitment towards the results - particularly notable in productive spheres. The constant change in the qualifications and skills that companies demand of workers causes steady turnover, short-term jobs and frustration and disappointment for workers and their families that are passed from generation to

generation. Workers have to constantly change the way they work, previous models have to be adjusted, and experience has to be discarded. By renouncing it, many other elements in the workplace environment also become disposable. The degrading social relations within companies reflect the workers' loss of faith in companies' ability to act as agents that can break the conditions of instability and uncertainty. Sennett states:

Throughout most of human history, people have accepted that life suddenly changes because of wars, famines and disasters, and also that to survive they have to improvise. In 1940, our parents and grandparents were overwhelmed by anxiety, having survived the disaster of the Great Depression and confronting the grim prospect of a world war ... What today is particular about uncertainty is that there is no threat of a historical disaster and instead disaster is integrated into the daily practices of a vigorous capitalism... (Sennett, 2000: 30).

The enormous economic and political concentration that has characterized financialization, coupled with the weakening of many of the organized social forms that allowed for counterweights to operate in economies, is breaking down the self-defensive mechanisms of society (Polanyi, 2001: 138-139). In this reading, what has happened is a serious breach of existing counterbalances in the society - market relationship. This can convert a crisis into a catastrophe ... (Polanyi, 2001: 140).

Provision of Social Costs

Human life as a whole has been deteriorating rapidly in recent years, particularly in the spaces opened by the conquest of the self - regulated market over weaker social counterbalances. Many current topics of study in social sciences express this process, for example those related to the extractive model and the deterioration of land and water, to

the emission of gases and climate change, or to business that puts short-term gain before the long run consideration of common survival. However, there is another cluster of actual social processes that also express this deterioration, for example: the poverty of opportunities; increasing urban violence and marginalization; the development of addictions; the lack of justice and increasing impunity; deteriorating health services, malnutrition, malnutrition and hunger; the generalized deterioration of education; and many more.

Stabilization policies that have dominated the developing world for decades and widespread austerity policies applied after the 2007 have clearly deepened these problems. Gradually, national and local governments responsible for many of the public goods and services for the reproduction of life, instead of diversifying and expanding them, have reduced or transferred them to the market. Considering just some of the latest results that are statistically grouped under the line item of health systems shows stark results.

In many countries, spending on both public and private health care, according to the OECD (2014a), has increased since 1995, measured as a share of GDP. However, health expenditures made directly by families have also increased. These include deductibles and co -pays in the case of insurance, and in the case of medical care and medicine, under the statistical indicator OOP (out-of-pocket). Private health expenditure is currently an important part of the total health expenditure mainly in developing countries, as OOP payments represent 50% or more of private sector health expenditures in African countries such as Uganda, Tanzania, Senegal, Nigeria, Kenya, Ethiopia, the Congo, the Central African Republic, and Angola, among others. In Latin American countries, this level is over 20% in

Argentina, Brazil, Chile, Colombia, Ecuador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, and Venezuela, among others. Middle Eastern countries where this level reaches greater than 55% include Egypt, Pakistan, and Sudan, among others; and Asian countries where this reaches more than 35% include India, Indonesia, China, Malaysia, the Philippines, South Korea, and Vietnam. In developed countries, the OOP is over 10% in Canada, the United States, Germany, Greece, Italy, Luxembourg, Norway, Poland, Portugal, Russia, Serbia, Spain, Sweden, Switzerland, Japan, Turkey, Ukraine, and the United Kingdom.

Public expenditure in education is becoming concentrated in the early years of training, and private sources and families are increasingly funding university education. According to the OECD (2014b), institutions of higher education have 32% of funds coming from private sources, an especially important fact given the rate that tuitions and fees have grown in recent years. Indeed, college loans are one of the major renewed areas of financial markets after the crisis, even while it creates a new bubble. Financialization has become one of the most deeply powerful forces in these social changes.

The expectations of achieving a decent life for each and all requires the reintroduction of the forces that are giving life back to double movement in the conception of Polanyi (2013). Nor is this inconsistent with other thinkers: “it is not an accident that rising inequality almost always follows the deregulation of wages, prices rents and utility rates” (Galbraith, 2008, 178). But especially important is the transfer of a significant part of the provision of such goods and services to society and other institutions. A new socialization of the production of goods and services for social reproduction is essential to

put a cap on corporate profits and to regulate the market. Financialization has come to destroy social limits over the market as it produces rising inequalities and the destruction of human capabilities and future possibilities.

References:

Food and Agriculture Organization (2012) "The State of Food Insecurity in the World 2012"
<http://www.fao.org/docrep/016/i3027e/i3027e00.htm>

Galbraith, K. James (2008) *The Predator State*, Free Press, NY.

Galbraith, K. James (2012) *Inequality and Instability: a study of the World economy just before the great crisis*, Oxford University Press. UK.

Galbraith, K. James (2014) *The End of Normal. The Great Crisis and the Future of Growth*. Ed. Simon&Schuster, NY.

ILO, (2013) Global Wage Report 2012/2013, http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_194843.pdf (accessed, December 05, 2014)

OECD (2014a) Database,
http://stats.oecd.org/index.aspx?DataSetCode=HEALTH_STAT (accessed, December 05, 2104).

OECD (2014b) Education at Glance, 2014. <http://www.oecd.org/edu/Education-at-a-Glance-2014.pdf>

OECD (2013) National Time Use Surveys.
<http://www.oecd.org/gender/data/balancingpaidworkunpaidworkandleisure.htm>
(accessed, December 05, 2014)

Polanyi, Karl (1944/2001) *The Great Transformation*, Beacon, Boston.

Polanyi, Kari (2013) *From the Great Transformation to the Great Financialization*, Zed Books, Canada.

Sennett, Richard (2000) *La corrosión del carácter*. Ed. Anagrama, Barcelona.