Uncertainty, Control, and Polanyi's Protective Response

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Abstract: Post-Keynesian Institutionalist economists like Wallace Peterson and John Kenneth Galbraith recognized that the impact of uncertainty on economic well-being depends in part on the degree of control people have over the sources and consequences of it. Given the inability of government and other large institutions to reduce uncertainty or to provide citizens with the ability to manage it, mediating structures are considered as an alternative means of promoting economic security. The paper concludes by describing and evaluating several of these alternatives.

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In his presidential address to the Association for Evolutionary Economics, Wallace C. Peterson (1977) helped establish Post-Keynesian Institutionalism (PKI) by reminding economists about the similarities between the ideas of John Maynard Keynes and the American Institutionalists like Thorstein B. Veblen. Peterson argued that because the neoclassical synthesis, which dominated macroeconomic thinking at that time, was unable to effectively address the problem of stagflation, a new approach emphasizing the importance of economic inequality, the growing power of corporations and government, and pervasive uncertainty was needed. Peterson (1977, 218) cautiously predicted that we were "on the verge of a second Keynesian revolution" from which a more relevant theory would arise. Indeed, as Charles J. Whalen (2008) describes in his account of the development of PKI, Peterson and like-minded scholars helped refocus economic thought in ways that would advance social provisioning.

The revolution that soon occurred, however, was quite different from Peterson's prediction. Americans elected Ronald Reagan, who was instrumental in establishing a neoliberal era characterized by a further shift in power away from the federal government and labor unions and in favor of business interests. Although a combination of restrictive Federal Reserve policy and stimuli from federal budget deficits in the 1980s helped end stagflation, conditions like stagnant wages, chronic unemployment, deindustrialization, and financial instability developed or worsened. Since that time, the inability (or unwillingness) to resolve these problems contributed in part to the ascendency of politically-conservative movements like the Tea Party and the election of President Trump in 2016, whose policies continue to consolidate and extend corporate power. Given the adverse economic and social consequences of the Great Recession, many expected a countermovement to limit the encroachment of self-regulating markets like that described by Karl Polanyi ([1944] 2001). Although insurgencies like Occupy Wall Street arose, they had little political impact. As Robert E. Prasch (2011, 57) notes: "I have often had occasion to quip that the largest error of Marxian sociology is to presume that the downwardly mobile will be oriented to the left of the political spectrum – casual observation suggests that they are more inclined to the right."

This paper examines the possibility that the types of protective responses undertaken recently may be related to a perceived inability to control economic uncertainty. As Peterson's opening remarks suggest, economists have long recognized the relationship between uncertainty and control (1977, 201): "We live in troubled times, in a troubled world. It is a world that we do not understand very well. Even less are we able to control events and shape them to our liking." John Kenneth Galbraith (1978, 9) also notes this connection: "Specifically in the modern democratic context, people seek to gain greater control over their own lives. This extends to all of life's dimensions. They do not neglect the most obvious of all goals, which is greater control of their income." Galbraith then outlines possible methods of control: (1) with one's motivation, talent, and personal resources; (2) as members of organizations like labor unions; and (3) through government and public policy. Although these are not mutually-exclusive, how people react to uncertainty depends upon both their socioeconomic background and the nature of today's institutions. Unlike Polanyi's description of 19th century exploited workers who formed unions or pressured politicians for relief, many in today's middle class must confront economic insecurity individually, and thus support politicians who promise to quickly alleviate economic anxiety while protecting their freedom to exercise control over noneconomic matters like religious practice and gun ownership. This suggests that policies to reduce economic uncertainty should provide the people involved with a voice in how the programs will be designed and implemented.

The paper concludes by recommending the establishment of mediating structures that could accomplish this goal by bridging the gap between public bureaucracies and communities. It describes two initiatives that meet this criterion. One is a federally-funded job guaranty (JG) program that would be administered by local government and nonprofit institutions, and the other is a unique private partnership between universities and local nonprofits that address long-term unemployment concerns by mitigating the effects of technological progress.

Uncertainty, Control, and the Protective Response

According to Jens Beckert (1996, 814), uncertainty is ".... a situation in which actors cannot predict outcomes and cannot assign probability distributions to possible outcomes." This type of uncertainty is also known as fundamental or as Mark Blyth (2002) terms it, "Knightian" uncertainty. Unlike mainstream theorists who assume unrealistic levels of foresight and rationality, most PKI economists emphasize how uncertainty affects the economy by increasing the demand for liquidity, disrupting plans for business fixed investment, and by discouraging spending on consumer durables. What conditions generate uncertainty? David Dequech (2003) describes several such as cognitive limitations and insufficient information that inhibit rational decision-making. This paper focuses on another source described by Beckert: the inability to imagine possible outcomes because decision results are determined by a complex matrix of interrelationships that change over time. Thus, to reduce uncertainty, Beckett (827-828) argues that people resort to (1) tradition, habit, and routines; (2) norms and institutions; (3) social networks and organizational structures; and (4) power. The combination of factors invoked often depends upon the characteristics of the decision-maker and the nature of the institutions they interact with.

For example, Engelbert Stockhammer (2006-7) points out that members of different social classes vary in their approach to managing uncertainty. Capitalists ponder the possibility that expected investment returns may never materialize, while workers consider the likelihood of unemployment. To some degree, the extent of uncertainty experienced is a function of one's ability to control the factors responsible for this condition, as well as the influence they have over possible outcomes. Businesses counter uncertainty by insuring, diversifying, hedging, or shifting uncertainty to others. Regarding the latter, Polanyi notes that capitalists commodified labor, nature, and money to ensure sufficient supplies of resources to help safeguard returns from irreversible investments in productive capital. Laborers, however, possess fewer options, and as Galbraith notes, they either must confront the future alone, as a member of an interest group, or through government intervention. As described below, none of these approaches have been effective recently.

Regarding federal government intervention, many people mistrust Washington bureaucrats and consider them out of touch with their communities. Anne Mayhew (2017) argues that this disconnection is important since voters are more concerned about the prospects for their communities than they are about their personal wellbeing. Moreover, since the Supreme Court decision in the *Citizens United vs. FEC* case in 2010 changed campaign finance rules, voters justifiably view politicians as controlled by corporate donors, further alienating those who may look to Washington for economic assistance. For example, John P. Watkins (2017) notes that officials chose to bail out insolvent financial institutions during the Great Recession rather than aid financially-distressed households, despite the fact that it was these same banks that played an outsized role in causing the meltdown. This type of favoritism has intensified during the Trump Administration, which is engaged in an unprecedented attack on federal law and regulations that protect workers, consumers, and the environment. These conditions, combined with weak private-sector unions and splintered pressure groups have generated little progress in limiting neoliberalism despite the economic and social damage from the recent financial crisis (Dale, 2012; Herman, 2012).

How do people face uncertainty without the support of government and other institutions? Galbraith explains that some people have a "unique personal capacity" to exert control over the unknown. Although he does not specify what this "capacity" entails, it likely includes financial wealth and job-related skills in high demand. For the less fortunate, however, economic uncertainty may lead to suboptimal choices. How people respond may be a function of relative deprivation during their lifetimes. For example, Chiraag Mittal and Vladas Griskevicius (2014) conducted experiments to analyze whether childhood socioeconomic conditions influence how people respond to economic uncertainty later in life. Those who matured in adverse conditions perceive the source of uncertainty as external and beyond their control, and they respond in ways that are likely to provide a quick resolution despite potentially adverse long-term consequences. Those with a more privileged upbringing, however, feel a sense of control over uncertainty and their reactions are oriented toward maximizing their long-term welfare. Viewing this process from a somewhat different perspective, Eric Hoffer (1951) describes the "new poor," who unlike the disadvantaged group in the Mittal and Griskevicius study, grew up in comfortable households but now have difficulty making ends meet and are uncertain - if not pessimistic- about maintaining their standard of living. Having little faith in established institutions, these people often blame others for their diminished status and are attracted to mass movements to address their problems. Interestingly, people experiencing economic difficulties both earlier and later in life are likely to be attracted to politicians like Donald Trump, whose nationalist, populist message resonates with those looking for someone who can provide fast economic solutions. As recent experience shows, many people continue to wait for this help. Given these circumstances, are there alternative institutions that could reduce uncertainty and increase control?

One possibility is the establishment of mediating structures. Peter L. Berger (1976, 401) defines these as "… institutions which stand between the individual in his private sphere and the large institutions in the public sphere." The latter, which Berger calls "megastructures," are large, powerful corporations and government entities that are "remote, often hard to understand, or downright unreal, impersonal, and ipso facto unsatisfactory as sources of individual meaning and identity (402).” Moreover, it is through their private lives that people develop their sense of self, but once this process is disrupted either by control exerted by megastructures or by technological and social change, Berger argues that mediating structures such as family, church, and community are needed to provide stability since many individuals are “underinstitutionalized.” Berger contends that it is unnecessary for mediating structures to be traditional, as long as they provide the sense of certainty that sustains social and political cohesiveness. Regardless, such institutional changes must be carefully introduced to achieve the necessary support. Fadhel Kaboub (2007) notes that JG programs may run counter to prevailing habits of thought and may disrupt social structures and mores, thus generating a backlash. For this reason, he cautions that these programs should involve minimal dislocation by relying as much as possible on existing institutions and social arrangements. The concluding section describes some mediating structures that adhere to Kaboub’s recommendations for institutional change.

New Types of Protective Responses

At the conclusion of the Reagan era, PKI economists Charles K. Wilber and Kenneth P. Jameson (1990, 249) wrote the following passage that is perhaps even more appropriate today: “The promotion of an individualistic culture of enterprise, the naïve reliance on government power joined with its use for personal goals, and a shift in distribution of income toward capital which have characterized recent policies have destroyed any social consensus and have exacerbated social conflict.” The result of this culture is uncertainty experienced by those in the middle class, and as Hyman P. Minsky (1996, 364) observes: “The tolerance for uncertainty is limited. When uncertainty leads to an unsatisfactory result, then it becomes the duty of society in general to protect its citizens against its consequences: a sacrifice of narrow technical efficiency may be called for." As an alternative to today's "divide and conquer" policies of the Trump Administration, policymakers should consider Wilber and Jameson's recommendation for a new social contract based in part on the principle of subsidiarity that directly addresses the problem of economic uncertainty and the sense of helplessness experienced by many who are forced to confront it.

Subsidiarity is a form of civic engagement that recommends addressing problems at the lowest levels of a social hierarchy. For example, problems that families or communities can successfully resolve should be their responsibilities rather than those of distant bureaucracies. For example, David A. Zalewski and Charles J. Whalen (2011) propose a macroeconomic stabilization rule through which the federal government would share revenues with state and local governments – especially during recessions –to fund JG programs that would be designed and administered at local levels to meet the needs of communities. Pavlina R. Tcherneva (2012) provides justification to support this type of program by pointing out that "trickle-down" fiscal stimuli in the form of tax cuts and infrastructure programs do little to increase employment. Instead, she recommends JG programs that provide a buffer stock of employment rather than one of unemployment. Similar to Zalewski and Whalen, her proposal calls for the federal government to fund initiatives that would be designed and implemented by local nonprofit and social entrepreneurial ventures rather than operate as a top-down enterprise. Tcherneva (2012, 5) describes it as "an approach that fits fiscal policy to people, communities, and their needs, rather than a policy that tries to fit people and communities to a "macroeconomic agenda."

Implementing radical change like JG programs is likely to encounter significant political resistance. Katherine S. Newman and Elisabeth S. Jacobs (2010) recount how FDR had to overcome strong opposition to employment programs during the Great Depression. Because much of the criticism involved financing, this would likely be a concern today if funds were acquired through taxes or monetary expansion. According to Newman and Jacobs, it took great political skill and perseverance to enact New Deal and Great Society legislation. Thus, it is desirable to develop private sector initiatives until the next FDR or LBJ takes office. Jeff Howe (2017) describes one such effort begun by Daniela Rus who is head of MIT's Computer Science and Artificial Intelligence Laboratory and MIT grad and Kentucky resident Sam Ford that resulted in partnerships between universities including MIT and the University of Southern California and community groups in rural Kentucky. Howe (2017, 19) writes: "This emerging working group aims to change a culture. Kentucky has a lot to learn from MIT, for sure, but our whole premise is that MIT also has a lot to learn from Kentucky." Perhaps the greatest value of this collaboration is dealing with uncertainty associated with rapid technological change. As Howe observes: "It's certainly clear America can't leap into a digital, automated future if most of its citizens can't find their footing in the present." It is through mediating structures like those formed by MIT and Kentucky community groups like the nonprofit Shaping Our Appalachian Region (SOAR) that trust can be established between coastal "elites" and "flyover" America so that cultural change will emerge to ensure shared prosperity.

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