Social Cohesion vs. Social Change:

A Note on Theoretical Debates

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Eric Roll, among others, has noted that the history of economic thought is divisible into two basic types of economic theorizing. One type has presumed the possible existence of and also advocated for social cohesion. It thus sought to determine those specific conditions and institutions (systems of property, production, distribution, etc.) that would enable and foster social cohesion. For the other type of economic theory, social struggle was rather the presumed reality and social change has been the goal. It thus sought rather to determine the economic contradictions animating social life with a view toward intervening in them with a specific, partisan agenda for social change. Social cohesionist economics has long contended with social change economics.

Where and when markets became a socially significant mode of distributing productive resources and outputs of goods and services, economic thought devoted to markets has been correspondingly divided. One type has generally appreciated markets as mechanisms – appropriate, conducive, and more or less sufficient - for social cohesion. The other has found markets to be rather objects for social struggle and sites of social change. The last century of economic thought illustrates the point.

Among social-cohesionists, one strain of economists has celebrated markets by holding that economic efficiency is assured when markets impose on firms the rule to produce to the point where marginal cost equals unit price. For these market celebrants, markets imposing such rules secure the economic efficiency that secures social cohesion. However, another strain of social- cohesionists has been critical of markets. In one of their enduring lines of argument, these critics reiterate that the firm's individual, private marginal cost is not equal to what came to be called the social marginal cost. Simply put, a firm could not know, let alone measure, all the present and future costs associated with any of its production decisions. Nor did private profit maximization require the firm to do so. The firm needs only to calculate the costs it actually has to defray. Other costs borne by others are none of its concern. Thus, when the firm equates output unit price with its private marginal cost, its profit maximization is not equivalent to economic efficiency in any comprehensive, society-wide sense. Many market-critical economists have made the same point – and elaborated it in countless ways - by differentiating costs "internal" to firms' calculations from "external" costs or "externalities."

Not surprisingly, the market celebrants developed a response to the market critics. First, some celebrants pointed out that externalities should include not only costs but also benefits. As Coase noted, there could well be an infinity of present and future social costs and benefits associated with any firm's production decision beyond what that firm could know or measure or pay or receive. This served nicely to muddy the waters of debate between the two sides. Since firms' private cost calculations excluded not only some social costs but also some social benefits, no net excess of social costs over benefits need be presumed. Thus, economic ***in***efficiency could ***not*** necessarily be inferred from firms' following the rule of equating private marginal cost with unit price. While not as happy a conclusion as the earlier notion that social efficiency was guaranteed by firms' private, self-interested profit-maximizing behavior, this weaker notion - that social inefficiency was not guaranteed either - satisfied many among the market celebrants who thus pursued their celebrations.

Meanwhile, the market critics proceeded too, little dissuaded by the Coasian response. Many of them have stressed that externalities justify state interventions aimed to correct or improve upon firms' decisions based on private marginal costs and benefits. The market critics' social-cohesionist commitments were clear since they warranted such state intervention in terms of furthering social cohesion. For market critics, state intervention could and should move the economy "closer to" comprehensive, society-wide economic efficiency. The intervention would transform at least some "external" into "internal" costs and benefits actually calculated by firms or else overrule private firm decisions with more socially efficient state decision. State and market together would then achieve the comprehensive efficiency and hence social cohesion that the private market alone failed to secure.

The debates over private versus social marginal costs and benefits blended smoothly into the more general neoclassical vs Keynesian debates over state interventionism. One group of social-cohesionist economists contends repeatedly with another group: market celebrants against market critics. The shared presumption and commitment on both sides is the notion of markets, economies, and societies as potentially cohesive. For the celebrants, free markets provide the ideal vehicle for social cohesion, whereas the critics see the need for limited state intervention to enable markets to support that social cohesion. Celebrants and critics alike think markets need not and should not be sites for social struggle and continuous social change.

For many decades now, the debate between the two strains of social-cohesionist economics has continued and oscillated among hot, cold, and lukewarm levels of intensity. Market efficiency celebrants rail against their externality critics while moderates on both sides locate and advocate middle positions. Partisans in larger social struggles variously select, exaggerate, and reproduce the various positions in the debates to serve their respective goals. Just so has the "science" of economics always been socially useful.

In recent decades, the same basic debate has been relaunched yet again but in a somewhat altered inflection dressed in an altered language. Market efficiency critics discovered the "moral hazard" problem. These critics often cited insurance contracts as a prime example. Because such contracts reduce the private costs of risky behavior, that behavior will occur more often (than if insurance were unavailable) and thereby impose more social costs. Moral hazard problems represent rediscoveries of the divergence between private and social marginal costs.

As with the debates over the problem of private-vs-social marginal costs, moral hazard problems serve some theorists as the basis to undermine claims that individual private actions tend toward the socially optimal (cohesive) because of their "efficiency," i.e. their optimization of an objective calculus of their likely costs and benefits. Once again - and to no-one's surprise - some theorists use moral hazards as warrants for state intervention, etc. Little new arises in the moral hazard literature since it re-enacts the same split in the social-cohesionist camp of economists that was displayed in the private versus social marginal cost discussions. There is no escaping the general problem that neither individuals nor groups of individuals can ever know, let alone measure, all the costs and benefits of any action or event in any economy. Thus, the presence or absence of moral hazard problems cannot be compared in terms of their effects on social efficiency any more conclusively than the effects of state interventions versus non-interventions into the workings of an otherwise private economy. Yet there is a refusal to face the foundational logical impossibility entailed in any effort to calculate a comprehensive cost-benefit analysis for any economic action or event. That refusal is the necessary premise for inventing and elaborating new variants on the old debates over private versus social marginal costs.

How then does the other basic type of economics – focused on social change rather than social cohesion – treat markets and efficiency? The first part of that type's answer entails its systematic, logical criticism of the efficiency fetish (see my "'Efficiency': Whose Efficiency'" in the *post-autistic economics review*, no. 16, 2002). The second part argues that social struggles over a large range of issues – from cultural and political processes to economic and natural processes – can and often do include conflicts that occur in markets. For an example taken from the Marxian tradition, employers who seek to enlarge the gap between the value added by their employees in production and the value of wages paid to them will struggle in the market to reduce the going wage rate. They will seek to reduce demand for productive labor power while increasing its supply; they will seek institutional constraints that lower wage rates or wage-linked "benefits," and so on. The social-cohesionist economists' debate - over whether market wage rates do efficiently reflect the marginal productivity of labor and the marginal disutility of effort and whether state interventions might move the economy closer to such efficiency outcomes – could not be more irrelevant to what concerns the social change economists. The latter treat markets as sites for the struggle of contending social forces: in this case, capitalist employers and their productive employees. Efficiency, for the social change economists, is the fetishized distraction of economists' attention from the realities of social struggle and toward the twin illusions of comprehensive efficiency and the social cohesion that they imagine its achievement will secure.

Once again, we may note certain parallels between the social-cohesionist debates over efficiency and those over state intervention in the economy. In the latter, neo-liberals and Keynesians argue over whether the social cohesion of modern capitalism is more secure with laissez-faire or with state intervention. In the former, market celebrants and market-critics argue over whether markets alone or markets with state intervention get closer to comprehensive economic efficiency and thereby better secure social cohesion.

The chief alternative to both sides of the social cohesionist debates (neo-liberals' versus Keynesians as well as market celebrants versus market critics) is, of course, Marxian economics in so far as its grasped as a basically different theoretical framework focused generally on social struggle and change and more particularly on class structures and their transformation (S. Resnick and R. Wolff, *New Departures in Marxian Theory*, 2006). When understood in that way, Marxian economics is the basic adversary of all variants of social-cohesionist economics.

SUGGESTED CITATION:
Rick Wolff, "Social Cohesion vs. Social Change", *post-autistic economics review*, issue no. 40, 1 December 2006, article 5, pp. 54-56, http://www.paecon.net/PAEReview/issue40/Wolff40.pdf