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The Journal of Socio-Economics 33 (2004) 679–694

The Journal of
Socio-
Economics

www.elsevier.com/locate/econbase

Human nature and economic policy: lessons for the transition economies

Robert H. Frank^{*,1}

Johnson School of Management, Cornell University, Uris hall, 4th Floor, Ithaca, NY 14853, USA

Abstract

Both economic regulation in market economies and state ownership and control of the means of production in socialist economies have been interpreted as means of protecting people from economic exploitation by the owners of capital. In this paper, I argue against this interpretation, suggesting that both sets of institutions are more plausibly viewed as protecting people from destructive competition amongst themselves.

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JEL classification: E21; J81; J83; K23

Keywords: Savings; Workplace safety; Relative income

The United Technologies Corporation once ran an ad in the *Wall Street Journal* saying that “when forty million people believe in a dumb idea, it’s still a dumb idea.” Just such an idea was used to justify the economic role of the state in both the capitalist and Marxist economies of the twentieth century.

In each system, the state was seen as an essential force for protecting people from the economic exploitation said to characterize unfettered private markets. Of course, the actual methods by which the state pursued this goal differed dramatically in the two systems. Communist states assumed direct ownership of the means of production, whereas capitalist governments have imposed sweeping regulations on the owners of capital. But the moti-

* Tel.: +1 607 255 4017.

E-mail address: rhf3@cornell.edu.

¹ Much of the themes in this essay are developed at greater length in my 1985 and 1999 (Frank, 1999) books.

vating idea in each case was the same – to protect the downtrodden from exploitation by powerful economic elites.

On the experience in Eastern Europe and the Soviet Union, it appears that state ownership is not a viable way to protect people from exploitation, or indeed from any other harm. By comparison, the regulatory approach of modern Western economies has proved a more effective way of organizing economic life. And yet this approach, which is also based on an uncritical acceptance of the exploitation argument, is itself deeply flawed. I will argue that our current understanding of economics and human nature supports a fundamentally different, but no less important, role for the state in economic life. This role is to protect people not from exploitation by the owners of capital, but from destructive competition amongst themselves.

A clear understanding of the logic of this role is especially important at a moment in history when most Eastern European countries are being urged to model their emerging economies after the economies of the West. There are many undeniably attractive features of Western economic institutions; but for Eastern Europe to adopt these institutions in toto would be to miss an opportunity that is not likely to be repeated.

1. Competition and exploitation

Given the experience of many workers in the early stages of the industrial revolution, the idea that exploitation was the overriding problem in unregulated private markets has considerable intuitive appeal. Witness Upton Sinclair's vivid account of life in the Chicago meat packing factories at the turn of the twentieth century:

Some worked at the stamping machines, and it was very seldom that one could work long there at the pace that was set, and not give out and forget himself, and have a part of his hand chopped off. There were the 'hoisters', as they were called, whose task it was to press the lever which lifted the dead cattle off the floor. They ran along a rafter, peering down through the damp and the steam; and as old Durham's architects had not built the killing room for the convenience of the hoisters, at every few feet they would have to stoop under a beam, say four feet above the one they ran on; which got them into the habit of stooping, so that in a few years they would be walking like chimpanzees. Worst of any, however, were the fertilizer men, and those who served in the cooking rooms. These people could not be shown to the visitors – for the odor of the fertilizer-man would scare any ordinary visitor at a hundred yards, and as for the other men, who worked in tank-rooms full of steam, and in which there were open vats near the level of the floor, their peculiar trouble was that they fell into the vats; and when they were fished out, there was never enough of them left to be worth exhibiting – sometimes they would be overlooked for days, till all but the bones of them had gone out to the world as Durham's Pure Leaf Lard.²

The miserable conditions of factory workers, juxtaposed with the often opulent conditions enjoyed by owners, must have made it difficult not to believe that owners were

² Sinclair (1906), p. 106.

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