SECTORAL CONFLICTS IN THE U.S. AND THE SOVIET UNION: A MESOECONOMIC ANALYSIS

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INTRODUCTION

The panorama of the field of economics in the 1990s is very much like the landscape of the Italian city states of the quartociento. The monetarist/Neo-Classical and (Neo-) Keynesian public finance camps appear more interested in fighting one another than in establishing a unified corpus and field capable of solving mounting problems and in saving orthodox economics from widespread attacks and questioning. Economists frequently appear more interested in attacking each other than in confronting the common enemies of economic disintegration in the former command economies of Eastern Europe and the Soviet Union, poverty in Africa, Asia and Latin America, the twin budget and trade deficits in the United States and environmental degradation throughout the globe.

The sectoral, mesoeconomic approach suggested in this paper represents a modest, initial effort to build a framework as well as advance a theory capable of reconciling and unifying the macro and micro approaches, the various macrocamps, as well as the historical, institutionalist, structuralist, marxist and developmentalist schools with mainstream economics. The present effort is based on the firm conviction that each economic school correctly emphasizes the important role of one or more mesoeconomic sectors, values, and strategies and therefore contains a high degree of partial validity. At the same time, however, each theory lacks general validity by ignoring or neglecting one or more other equally important mesoeconomic sectors, values and strategies. A truly general economic theory, therefore, cannot be developed unless *all* mesoeconomic sectors, values, strategies are analyzed, identified and integrated. Although such a task is difficult, it is not impossible. Each economic school has created an invaluable endowment of knowledge in respect to overlapping sets of mesoeconomic sectors, values and strategies. The, as yet, unresolved challenge is to establish a general economic theory by integrating each sectoral, mesoeconomic approach, retaining their positive contributions until a new economic edifice is built that is capable of meeting the ever changing challenges. "Give me a lever long enough, and a fulcrum strong enough, and singlehanded I can move the world," Archimedes said. I am proposing the mesoeconomic lever to move economics from its present unfortunate state of partial disintegration towards general integration and to diagnose as well as remedy the American and Soviet Malaise. In the next two sections a brief attempt is made to define mesoeconomics. The remaining parts of the paper apply the mesoeconomic approach and the theory of sectoral clashes and coalitions to the U.S. and the former Soviet Union.

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MESOECONOMICS

The word "meso" means intermediate, something which is neither large or macro nor small or micro. Mesoeconomics means economics in the middle between macro and micro, an intermediate economic analysis of groups of economic actors.

Mesoeconomics examines all the demand and supply forces and factors that determine sectoral values. Sectoral values have an output and an input dimension. Mesoeconomics is based on the principle that sectoral output values are unique in terms of their capacity to satisfy needs and that in reality they are shaped by separate sets of forces even though in abstract theory all sectoral demand and supply forces can be argued to be similar, if not identical.

Mesoeconomics advances the hypothesis and is based on the proposition that groups of individual producers and/or consumers may find it to their advantage to engage in sector-based and/or sector-oriented group action to improve their income and/or welfare by influencing the "market price" of the sectoral input and/or output value.

The uniqueness of sectoral values, which provides a need as well as justification for mesoeconomic analysis, is in part the consequence of distinct and separate relationships between output and inputs in various sectors.

Thus, first there are sectors, such as public administration and defense, producing a collective "output" which is neither sold nor marketed. Their market value or "market price" cannot be determined and estimated on the basis of the criterion of market transactions. Instead, gross output and inputs and value added are estimated by using the cost of production criterion. The "market value" of sectoral output is imputed on the basis of the cost of gross or primary inputs. The unique relationship between "output" and inputs requires appropriate as well as correspondingly unique mesoeconomic policies of tax, credit and sales finance. Neither micro nor macroeconomics can provide an adequate picture of the true contribution of "collective commodities" to the growth of other sectors.

Second, there are sectors, such as health, education and welfare, where the gross or added value of output can be estimated in part on the basis of the market transactions criterion and in part imputed on the basis of the cost of production or the cost of primary and secondary inputs criterion. Both the unique nature of output and of financing production elicits group behavior that can be explored better with meso than either macro or micro analysis.

Third, there are sectors, such as agriculture, mining, manufacturing, construction, finance, trade, transport, gas, water and electricity, where sectoral values are determined and can be estimated dually and independently from both the output and input sides on the basis of the market transactions criterion. Mesoeconomic analysis is particularly important in analyzing the interdependent forces shaping the meso, intermediate, component values of composite commodities. Prevailing microeconomic analysis, which is based on the faulty notion of pure goods or services, cannot deal with the unique intricacies of composite utility, demand, supply, commodities, production, consumption and investment.

According to mesoeconomics, aggregate rigidities, stagnation, inflation and government budget and trade deficits can be explained best in terms of meso, sectoral rigidities. If and when, as a consequence of sectoral clashes, one or more sectors producing complementary, meso components of composite commodities experience induced output supply rigidities, aggregate macro supply will also be rigid. Inflation, stagnation, trade and budget deficits are likely to arise even if one or more other complementary sectors display excess capacity, open unemployment and high supply elasticities.

Mesoeconomics traces the links between micro and macro units. It examines the signal transmission mechanisms between micro and macroagents. It analyzes, identifies and traces all types of impediments, blockages, outages, failures or breakdowns in the two-way signal transmission mechanisms between microunits and macro-aggregates. Mesoeconomics identifies the causes of failure in the effectiveness of the interaction mechanisms between micro and macro. It formulates the strategies of curing such failures and removing meso-impediments between micro and macrovalues, agents, entities and variables.

Mesoeconomics deals with, describes, identifies, explores and examines the diverse, fascinating, often destructive varieties of the meso-impediments to growth identified as the sectoral clashes and conflicts disease. Mesoeconomics aims to provide the meso, sectoral framework within which public policy can be evaluated in terms of both its positive contributions as well as its negative obstacles and impediments to the micro or macrofunctioning of the economy.

According to the mesoeconomic analysis, every economic medicine has, in addition to its preventive and curative properties, expected or unexpected side effects. A sectoral clash disease arises whenever the negative side effects of governmental mesoeconomic policies greatly outweigh any positive effects. In such instances, the allegedly superior economic cure creates the sectoral clash disease that outweighs, is more pervasive, destructive and lasting than the original economic illness it was supposed to cure. Mesoeconomics examines the mesodynamics of imperfections, deviations and obstacles to the smooth functioning of the economy which are introduced by government which had responded to pressures by interest groups or independently implemented strange economic cures advocated by some economic celebrity.

THE MESO THEORY OF THE SECTOR

A sector is defined as a group of economic agents, which are normally referred to as producers, engaged in transforming the services of the inputs or the inputs themselves into relatively homogeneous outputs. The defining characteristics of a sector therefore include (1) the utilization of factor services (2) to produce an output which is considered (3) relatively homogeneous. A fourth characteristic is that (4) a sector includes all producers of a homogeneous output. The sectoral group of producers can be made up of large or small numbers or even just one producer. The primary characteristic "binding" producers into a sectoral group is the homogeneity of their output — i.e. the homogeneous nature of the economic transformation which they perform, rather than the number of producers or methods of production, even though these may be shaped by the nature of the product.

For purposes of the theory of sectoral coalitions and clashes the following hypotheses are advanced or propositions made.

The hypotheses advanced are (1) producers engage in the production of meso outputs, meso elements or intermediate components of composite commodities;[1] (2) the meso or intermediate outputs of sectors that make up the composite commodities are sufficiently differentiated to permit the grouping of producers according to their sectoral affiliation; (3) conditions may arise under which producers belonging to the same sector can maximize profits through collusive agreements among themselves rather than competition; (4) workers and capitalists belonging to a sector may have a higher degree of communality than workers across sectors or capitalists across sectors; (5) sector-based and sector-oriented coalitions between workers and capitalists may either cooperate or clash; (6) the actual mesovalues of sectoral outputs are determined by distinct, separate, unequal, heterogeneous, cooperative and/or antagonistic behavior patterns of sectoral groups as well as government behavior; (7) collusive, competitive, antagonistic or other forms of group behavior by profit maximizing producers or utility maximizing households can lead to sectoral, meso output values that deviate from their natural levels; and (8) the "treatment" of the meso, sectoral values by producers or consumers can and does affect the mesodemand and mesosupply elasticities of sectors, therefore also aggregate demand and supply and ultimately macro as well as micro welfare and growth.

Sectoral or mesoeconomic cooperation makes a positive contribution to growth by increasing supply elasticities. Sectoral or mesoeconomic clashes or conflicts impede development by creating or contributing to sectoral supply inelasticities and rigidities.[2] Sectoral conflicts characteristic of centrally planned economies have arrested growth in the Soviet Union. Sectoral clashes have also slowed down growth in the U.S. by giving rise to unequal degrees of paralysis and disintegration in "medicine-health", agriculture, industry, finance, insurance, construction, oil mining, legal services and government. The sectoral-clash disease can emerge in a wide variety of strains and afflict all economic systems.

SECTORAL CLASHES IN THE U.S. AND SOVIET UNION

Both the U.S. and the Soviet Union have been characterized by actual constellations of sectoral output and input values that have deviated from their natural levels. Actual sectoral values have been distorted, diverging from their natural magnitudes. These distorted deviations have resulted from joint, often mutually reinforcing actions of government and sectoral interest groups.

Their respective patterns of actual sectoral values have been quite distinct, however, as have been their outcomes and consequences, as measured by the growth of income and employment, distribution of income and so forth.

Agricultural output values have been distorted in both — too high in the U.S. and too low in the Soviet Union. Industrial output values have been growing too slowly, by being crowded out by military expenses-sectoral output values in both, and by medical *pleonexia* in the U.S.. The output value of the financial services sector was destroyed under Marxism and neglected by government in the U.S.. The Soviet Union suffered from secular financial atrophy. The U.S. was reeling from the savings and loan association, banking, junk bond, Third World debt and insurance crises.

In both countries, political constitutions designed and capable to prevent sectoral warfare and unjust sectoral, economic value distribution patterns have failed to do so. They did not anticipate and therefore could not prevent the promulgation and implementation of agricultural, industrial, mining, transport, trade, information, financial, health, education and, above all, governmental mesoeconomic policies that initiated and perpetuated sectoral conflicts.

THE AMERICAN SECTORAL CLASH DISEASE

The treatment that a patient receives must correspond to the diagnosed disease, if it is to be effective. A patient with clogged arteries will not recover his health with a regimen of fatty food and sudden, long distance running. First, his arteries need to be unclogged. He may even need new arteries. Second, policies preventing renewed clogging need to be introduced. Third, policies acting as stimulants should not contribute to clogging.

According to the mesoeconomic diagnosis presented here, the U.S. stagdeficits malaise is caused by a sectoral clash disease. The American economic heart is not functioning properly because of clogged mesoeconomic arteries. The U.S. economy is suffering from clogged medical, financial, agricultural, insurance, industrial, legal and governmental arteries.

The clogging of the vital economic arteries of the U.S. is caused by defective past and present mesoeconomic "medical-health", financial, agricultural, insurance, industrial, legal and governmental policies. Above all, it is the governmental mesoeconomic policies that have led to the pernicious sectoral clash disease through defective, discriminatory regulatory sectoral policies and budget deficits. The regulatory policies caused the medical artery clogging by granting unprecedented monopoly power and unlimited government finance to the broadly-defined medical sector; they contributed to the agricultural artery rigidities by providing mega subsidies and widespread disincentives to production; they induced the industrial retreat and partial paralysis by encouraging the medical sector to charge ever rising premiums and thereby reducing the international competitiveness of the sector's meso component of composite commodities; they initiated the financial and insurance arteries clogging through contradictory and destructive regulatory-deregulatory mesoeconomic policies that permitted the unwarranted intermingling of monetary, capital, credit, donation, concession and theft markets; and they contributed to a universal artery clogging by fostering a legal services and litigation cost explosion that has crowded out national industrial and other activities replaceable by imports and has contributed, along with the medical greed and dominance, to a flight of sectors and producers to economies free of the sectoral clash disease.

In recent decades, financial and real arteries have been blocked through the ill-conceived doctrine of "intermingling capital with unrequited transfer markets." This doctrine has unleashed an unprecedented, both open and concealed, attack against private property, basic economic rights and financial services.

This doctrine promotes, condones and advances the intermingling of capital markets, which are based upon and deal in the requited transfer of financial resources, with the unrequited transfer markets, which are based upon and deal in the voluntary as well as involuntary unilateral, unrequited transfer of financial capital.

The most pernicious form of intermingling of bilateral capital with unilateral transfer markets emerges when *ex ante* credits or loans become *ex post* gifts, donations, grants, or concessionary loans. Both national and international governmental mesoeconomic policies in the last three decades have pushed the previously benevolent mesoeconomics of capital, credit, money and finance into an involuntary, unholy, destructive marriage with the mesoeconomics of unilateral transfers, involuntary concessions and outright theft. This intermingling is manifested in the savings and loan association, the junk bonds, the petrodollar credits to "Third World" countries and the inflation crises of recent decades. This intermingling has added hundreds of billions of dollars to the expenditures and deficit of the federal government which passed on to the present and future taxpayers the capital liabilities "abandoned by the Milkens, Keatings, Boeskis and other fraudulent Barons of 'Unrequited Finance'." Without a radical mesoeconomic revolution untangling the intricate web meshing capital with unilateral transfer markets, the financial as well as real sectoral arteries of the U.S. will remain clogged and anemic growth and recovery will suffer. Such a revolution must have as one of its primary goals the removal of neglect and even discrimination of the financial services sector.

The American sectoral clash disease is neither mortal nor irreversible. But it cannot be cured through traditional macro monetary or fiscal policies. Its cure can be achieved only by a mesoeconomic restructuring of the governmental sectoral economic policies that have destroyed the level playing field needed for recovery and sustained economic growth. Only a complete, radical mesoeconomic overhaul can reverse the secular decline of the U.S..

SECTORAL CONFLICTS IN THE SOVIET UNION AND ITS SUCCESSOR REPUBLICS

The Soviet Union was effectively paralyzed during its turbulent lifetime by pervasive sectoral conflicts embedded in its celebrated Marxist Communist Constitution. In principle, the Communist Manifesto and Macroorder were conceived as the ideal tool to orchestrate a lethal attack against and provide a perfect substitute for both the allegedly doomed classical, utilitarian capitalist political and economic order advocated by Adam Smith, John S. Mill, Jeremy Bentham, Edgeworth, Henry Sidgwick and Pigou, and the allegedly equally hopeless Social Contract approaches advanced by Kant, Rousseau and Locke. In reality, however, instead of providing the promised salvation from capitalist exploitation, inequality and underdevelopment, it effectively created insurmountable roadblocks to prosperity, compassion, cooperation, peace and fairness by releasing the Marxist strain of the sectoral clash disease.

Even though Marxism's theoretical foundations were macroeconomic in nature, focusing on such classical aggregates as wages, profits, consumption, investment, labor surplus, and the rates of profit and exploitation, both its policies and actual shortcomings were mesoeconomic in nature. Marxist economic policies gave rise to the following, among others, distorted meso, sectoral values and induced rigidities.

First, the output values of the Central and General Governments were neglected and distorted. Their level and composition were far below and distinct from what they would have been if government were perceived and created as a "conception of social cooperation among equals for mutual advantage" [Rawls, 1972, 14].

The former USSR finds itself in a state of governmental paralysis. This is a consequence of the shock unleashed by the elimination of the pre-Gorbachev Marxist-Stalinist sectoral conflicts and the inability to formulate and implement a plan for a smooth transition to a free market, mixed economy devoid of sectoral conflicts. Neither its past, pervasive Marxist sectoral clash disease nor the urgently needed remedies have as yet been identified by the macro oriented consulting teams of the Harvard-World Bank-IMF triad.

Second, they suffered from Marxist discrimination of the output value of the financial sector. The latent, pervasive discrimination of the financial services sector in

centrally planned economies has given rise to a supply rigidity of financial services of unprecedented severity and proportions. The Marxist mesoeconomics of financial services were formulated on the basis of a doctrine that thoroughly confused the factor-type services of financial capital with the commodity-type unit-of-account, instrument-of-transactions and store-of-wealth services of the financial sector. Marxist doctrine failed to distinguish between and separate the factor-type value of capital services from the commodity-type values of the output of the financial services sector. As a consequence, the Marxist macroeconomic antipathy, denigration and warpath against capital services and the capitalist class supplying them was incorrect, and it unfortunately also converted into an unbridled mesoeconomic animosity, hostility and antagonism against the financial services sector itself. The *Krieg* against the private ownership of capital and the owners themselves also became a *guerre à mort* against the output value, the production activity of the financial sector itself. Financial services and the financial sector itself were thus mortally wounded.

The induced financial sector supply rigidity became a major impediment to growth that could not be removed unless the Marxist system first were renounced and eliminated. Marxist ideology and structure were incompatible from their very inception with cooperative, neutral, growth promoting financial mesoeconomic policies. Without healthy, cooperative, competitively produced financial services, however, macroeconomic prosperity was unattainable. The inescapable choice was between Marxist mesoeconomic financial and aggregate, macro stagnation, on the one hand, and non-Marxist financial mesoeconomic and aggregate macroprosperity, on the other hand.

Abandonment of the discriminatory, Marxist, financial mesoeconomic policies does not provide an automatic guarantee that the new Republics will introduce growth-promoting, positive financial mesoeconomic policies. Development of modern, efficient money and capital markets will require the introduction of comprehensive mesoeconomic policies of the financial as well as of the government service sector. Only if government budget policies become independent of destructive, inflationary, complementary financial credit and only if basic economic rights, such as those of private property, sanctity of contracts and so forth, receive sacrosanct constitutional guarantees, can positive financial mesoeconomic policies exist.

Third, Marxist economic thinking caused systematic neglect, discrimination, distortions and rigidities of agriculture, wholesale and retail trade, transportation, storage, information, health, education and environment services. Unless the underlying, destructive sectoral mesoeconomic policies are rapidly replaced by new, sectoral-clash-free, nondiscriminatory ones, micro, meso and macro paralysis and disintegration of the former Soviet Republics will only become worse.

A central characteristic of Soviet sectoral conflicts has been their suppressed, hidden nature. Largely concealed were the disintegration and paralysis of all markets for sectoral output values, for the composite commodities of which they are vital components, and of their underlying factor services. The central feature has been one of repressed, suppressed mesoeconomic disintegration and paralysis.

Democratization and *perestroika* revealed this repressed mesoeconomic disintegration and paralysis and transformed it into open, unbound disintegration, paralysis and retrogression. The unmet challenge is to move as rapidly as possible from the now largely open, unfettered, rather than concealed, repressed mesoeconomic paralysis, disintegration and even retrogression to a new regime of mesoeconomic integration, cooperation and growth. The sooner all vestiges of rampant, open or concealed sectoral clashes and conflicts are removed the faster the newly independent republics of the former Soviet Union will enter the path of normalcy, recovery, integration and stabilization. Any return to concealed, repressed sectoral conflicts will only provide a temporary palliative without curing the underlying, pervasive disintegration and paralysis. As such, it would not provide a lasting remedy to the type of sectoral clash disease and induced sectoral and aggregate paralysis, disintegration and retrogression characteristic of centrally planned, command economies.

The degree of successful transformation from either concealed or open, Marxist-related sectoral clashes to a regime of sectoral cooperation, neutrality and freedom will depend on the speed at which appropriate mesoeconomic policies are formulated and implemented.

Even though the strains are distinctly different, the basic nature of the mesoeconomic sectoral clash disease afflicting both the U.S. and the former Soviet Union is the same. Unless this pernicious, debilitating disease is correctly and thoroughly diagnosed and corrective mesoeconomic remedies are formulated and implemented, the recovery prospects of both will remain dim.

NOTES

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1. For background information on the ideas and concepts presented in this paper, see Mamalakis [1991, 1989, 1971, and 1969].
2. Thus, the present mesoeconomic analysis aims to reach a higher level of abstraction than Mancur Olson's [1971, 1982] well-known analysis of aggregate rigidities and collective action.

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