Book Synopsis

From Craig Weightman

Capitalism Hits the Fan

The Global Economic Meltdown and What to Do About It

By Richard D. Wolff

Capitalism (private enterprise) and communism (state control of enterprise) are simply capitalism in two different forms, not two different systems. Both the political right and the political left support the capitalistic model. With the left, government regulations are encouraged to control private enterprise excesses; while the right seeks to reduce regulation to let free enterprise operate freely until the next crisis. On the left the private board-of-directors desired by the right is simply replaced by a public board-of-directors – and the essential character of a conflict between this board and workers is retained. With the power of the board-of-directors left intact, companies continue to be incentivized to evade or roll back any existing regulations set in place by the government.

From the history of capitalism over the last few centuries there can be lessons drawn.

- Capitalism is a cyclical system, with continuing bubbles and crashes.
- These crises will reoccur until finally one provokes a reaction that includes ending the exploitation inside enterprises – the essential conflict between management (in the form of the board-of-directors as owners) and the workers producing the products.
- The alternative to exploitation requires workers themselves – democratically and collectively – to appropriate and distribute the surplus (read profit) they produce.

In the United States austerity programs are repackaged as deficit reduction programs, but their aim is the same; chiefly to 1) shift the burden of paying for the crisis onto the total population, 2) reduce the economic footprint of the government, and 3) reduce creditors' – i.e. those already having large disposable incomes – concerns about rising U.S. debt levels. The discussion today focuses on overcoming government budgetary imbalance, rather than why this imbalance occurred. If cyclical capitalism crises cause government budgetary imbalance, then should we not examine economic models other than capitalism?

The author's (and Karl Marx's) socialism is neither capitalism nor communism, but a form where the board-of-directors in any enterprise is replaced entirely with workers within that enterprise and some workers from other enterprises. The workers can be from any jobs within the company, but are not independent, entrepreneurial free-agents paid for their outside expertise and connections. These then would be the people making the decisions about allocating the company profits and shifting investments.

Essentially, something other than the ownership of the means of production (i.e. from private to state at the macro level) must change if transition to another, basically different economic system is to occur – probably some sort of cooperative enterprise (inside the enterprise itself, in-other-words at the micro level). Businesses would actually become more democratic, rather than the hierarchical and dictatorial structures they now are.

Part 1: Roots of a System's Crisis

With F.D.R. the political pendulum swung left, but there was no effort to change the fundamental nature of business (i.e. the power and duties of the board-of-directors). The result was a continual effort to first evade the regulations imposed, then demonize the left, and finally to role back those regulations entirely in the eighties and nineties.

The evolving conservative coalition was made up of several factions with different objectives
- Economic interests seeking to roll back the New Deal
- Neo-conservatives who wanted to reshape the world in their own image
- Social conservatives who wanted to return to a perceived era of ideal social conventions
- Those who wanted to maintain the U.S. culture (i.e. white power, immigration opponents, and isolationists)

From 1820-1970 real wages rose and created an 'American Dream' where success was measured by a rising standard of consumption. Income inequality has been growing since the 1970s, but workers are still trying to maintain a rising standard of consumption.
- Working wages are flat or declining, while productivity and profits have rapidly risen.
- Workers have resorted to…
  - First working longer hours
  - Then women moved into the workforce, creating two income families and adding child care as a new profession.
  - Finally families took on more debt as debt instrument instruments became cheaper.
- Executive wages have risen dramatically while women's wages remain measurably below those of equivalent men.
- Companies started saving by shipping jobs overseas and reverting to temporary labor, requiring few, if any, benefits.
- Less money was spent on innovation.
- More money and power was brought to bear to reduce taxes on investors and the wealthy (largely the same group).

Public education has drastically increased in cost and focused on things important to the wealthy.
- Bankruptcy laws now exempt student debt.
- Finance learning focuses on job skills, rather than on overall education or learning skills.

Property and income tax rates – things largely tied to the rich – are declining, while sales and payroll taxes – proportionately impacting the less wealthy to a greater degree – are increasing. Intangible property – stocks and bonds, which are largely held by the wealthy – are almost never taxed on an annual basis and, when sold, are taxed at a lower rate (long term capital gains).

Part 2: Economics of the Crisis

Throughout its history capitalism has swung between private and state forms. The economic events precipitating these swings have been various mixes of recession and widening inequality. The three sorts of oscillations – economic, political, and cultural – function simultaneously as causes and effects of one another. The ingredients of panics are repetitive.
- Past panics fade from memory
- Financial institutions figure out how to circumvent regulations
- Rising asset prices enable easier credit and vice versa
- Risks are under estimated
- Large fortunes are made and flaunted
- Something goes wrong or cannot be supported

The problem is capitalism's 'class structure' where the workers are producing profit for the managers (board-of-directors) and have no say in how that profit is distributed. This tiny group of people, be they private or the state, controls all corporate decisions and they have no real restraints regarding any responsibility toward the workers or the local society within which the company functions. Enterprise competition and employer-employee conflict are core components of capitalism and are not seriously questioned in this country.

The boards-of-directors have responded to the increasing profits resulting from developments since the 1970s by…

- Enormous increases in the salary of upper level company officers and themselves
- Increased dividends paid to stockholders
- Transferring production abroad to increase profits further
- Lobby politicians for favorable action (i.e. increasing immigration, lowering taxes, reducing regulation)
- Depositing surplus profits overseas to avoid U.S. taxes
- Investing in loans to consumers; thus profiting twice from their workers – once by taking the profit surplus from the flat wages and second by taking interest from the loans made to those same workers to keep up their standard-of-living.

One obstacle preventing a crises of capitalism is the cultivated belief that no alternative to capitalism exists – Mc-Carthyism in the 1950s was one way to make any discussion of capitalism 'off-limits'. Another subtle obstacle is the belief that shifts from private enterprise to state-regulated/owned enterprises/utilities is a solution. This alternative effectively leaves the internal organization of the enterprise in place.

Pensions were originally established to hold down wages and push payments into the future. These pensions were first underfunded by corporations, then funds were set up outside the corporations (401k), and finally they became funded by the employee, totally negating the advantage the workers had gained when they were first set up.

In contemporary capitalism, the interdependence of the corporations and the state makes it absurd to look to either one for solutions to the problems their cozy relationship generates. Today's basic social problems emerge from the interaction of this kind of economy and this kind of state. For example, the government 'bailed out' the financial institutions, but did nothing to assist homeowners in getting any mortgage relief.

Lotteries are another example of a regressive tax system

- The lower your income level the more likely you are to purchase lottery tickets.
- The more education one has the less you are likely to spend on lottery tickets.
- Lotteries take huge sums of money from masses of people who would otherwise spend that money on goods and services – yielding more jobs - and give that money to people more likely to invest it.
- Lotteries also reinforce the concept of individual action to benefit only that individual, rather than collective action to solve group problems.
- Finally, we can socially target those most able to pay with taxes, but we can not control who buys lottery tickets – except that experience shows it is those least able to afford it.
- Lottery revenues are distributed as follows:
    - 50%-70% goes to the winners
    - 20%-40% goes to public services – often education, which is then cut from the state budget
    - 10%-20% goes for expenses – much of this is commissions paid to retailers for selling the tickets

Immigration and class issues

- Migration between countries occurs if and when it 'resolves' social class contradictions inside both, but it also aggravates other problems.
    - Globalization often worsens wealth and income inequalities.
- U.S. corporate recruiters and employers of immigrants bear no responsibility to finance and ease immigrants integration into the local community – this burden falls on the government.
- Those who have gained wealth, income, or consumption by globalization have paid for it with increased levels of risk.
    - One index of increasing risk is the amount of cash corporations hold, rather than invest or use for expansion. In 1980 that was about 10% and by 2004 it had risen to 24%. This money thus was not available to grow the economy.

Part 3: Politics of the Crisis

Past reforms have failed, not because some shaky borrowers and a few shady lenders evaded them, but because our economic system drives all players to take and hide risks that markets then spread globally. It is a systemic failure when 90% of lending corporations ignore past reforms aimed to control their behavior, and thereby prevent economic disaster. The roots of dysfunction lie in the corporate structure of capitalist enterprises.

Contemporary lenders are chiefly large corporations, whose small board-of-directors appropriates an immense mass of profits. Hence reforms are seen to be things to be avoided or worked around in order to increase profit.

Economic regulation fails because of two fatal flaws in the capitalistic way of doing business.

1. Regulations are poorly enforced or are ignored completely.
2. Corporations work to evade, weaken, or eliminate all regulations; then demand help when their actions create an economic bubble that collapses.

We cannot solve this systemic failure of regulations to stop capitalist crashes by more, different, or stricter regulation. The system is designed to defeat this approach. Nor can we accomplish anything by a state takeover of the enterprise – leaving in place the board-of-directors structure.

The point of ‘flexible labor markets’ is to enable employers to pay workers less, control them more, fire them more easily, and outsource where and when they choose. The logical flaw in neoliberalism is that no one can know in advance all the economic and social effects of a ‘flexible labor market’. Employers persue neoliberal reforms to make more money and enhance their power, but employers cannot control all the other effects of neoliberalism – they leave these problems to the government, which they are also trying to shrink.

Private capitalism has repeatedly tended to overproduce or create asset bubbles, followed by a burst causing horrific social consequences. From this we understand that this tendency toward crisis is an inherent quality of capitalism.

There needs to be a new concept and vision for socialism

- Workers in every enterprise must function collectively as their own board-of-directors and as private owners of their enterprise – this approach to managing a business has been successfully employed.
- Democratically elected local, regional, and national political bodies would share, with each enterprise’s workers, the power to determine production methods and the disposition of outputs and revenues.
- Democratically elected representatives of workers in each enterprise would share with residentially elected political bodies the power to determine political issues.

The point is not to enact these precise ideas, but to open the discussion to broader public solutions.

Hiring the unemployed for state jobs where no private sector jobs currently exist is another alternative to today’s approach – and was successfully implemented in the 1930s. Their wages would be put into immediate circulation – something which the banks have failed to do under the current bank ‘bailout’ plan.