CAPITALISM HITS THE FAN

The Global Economic Meltdown and What to Do About It

Richard D. Wolff

An imprint of Interlink Publishing Group, Inc.
www.interlinkbooks.com

First published in 2010 by

OLIVE BRANCH PRESS
An imprint of Interlink Publishing Group, Inc.
46 Crosby Street, Northampton, Massachusetts 01060
www.interlinkbooks.com

Copyright © Richard D. Wolff, 2010

All rights reserved. No part of this book may be reproduced, stored in a retrieval system or transmitted, in any form or by any means, electronic, electrostatic, magnetic tape, mechanical, photocopying, recording or otherwise, without the prior permission in writing of the publisher.

Library of Congress Cataloging-in-Publication Data
Wolff, Richard D.
Capitalism hits the fan : the global economic meltdown and what to do about it / by Richard Wolff.—1st American ed.
p. cm.
Includes index.
ISBN 978-1-56656-784-8 (pbk.)
1. Financial crises—United States—History—21st century. 2. Capitalism—United States—History—21st century. 3. United States—Economic policy—2001– I. Title.
HB3722.W64 2009
330.973—dc22
2009025488

Cover image © Littlemacproductions/dreamstime.com

Printed and bound in the United States of America

To request our complete 48-page full-color catalog, please call us toll free at 1-800-238-LINK, visit our website at www.interlinkbooks.com or write Interlink Publishing, 46 Crosby Street, Northampton, MA 01060
e-mail: info@interlinkbooks.com

CAPITALISM HITS THE FAN

The Global Economic Meltdown and What to Do About It

"Rick Wolff offers a rich and much needed corrective to the views of mainstream economists and pundits. It would be difficult to come away from this... with anything but an acute appreciation of what is needed to get us out of this mess."

—Stanley Aronowitz, Distinguished Professor of Sociology and Urban Education, City University of New York

Capitalism Hits the Fan differs sharply from most other explanations offered by politicians, media commentators, and academics. Step by step, Professor Wolff shows that deep economic structures—the relationship of wages to profits, of workers to boards of directors, and of debts to income—account for the crisis. Government bailout interventions have thrown too little money too late at a problem that requires more than money to solve. As this book shows, we must now ask basic questions about capitalism as a system that has now convulsed the world economy into two great depressions in 75 years (and countless lesser crises, recessions, and cycles in between). The book's essays engage the long-overdue public discussion about basic structural changes and systemic alternatives needed not only to fix today's broken economy but to prevent future crises.

RICHARD D. WOLFF is a professor of economics at the University of Massachusetts, Amherst and a visiting professor in the Graduate Program in International Affairs at The New School in New York. He has written, co-authored, and co-edited many books and journal articles (see www.rdwolff.com).

CURRENT AFFAIRS/POLITICS/ECONOMICS
ISBN 978-1-56656-784-8 $18.00

OLIVE BRANCH PRESS
An imprint of Interlink Publishing Group, inc.
www.interlinkbooks.com

Wall Street vs. Main Street: Finger Pointing vs. System Change

14 October 2008

Amid the current capitalist crisis, fear spreads and scapegoating surges. Media and politicians charge the predictable suspects. Arrests may follow. Few recognize the system as the problem, rather than this or that group reacting to the system's demands and pressures. True, the word "capitalism" now arises in public discussion. But there it means big business, big banks, or Wall Street, rather than the system that ties together all streets, businesses, workers, households, and the government.

Cruder right-wingers scapegoat the homebuyers now unable to pay for their sub-prime mortgages. The slightly more sophisticated denounce government intervention—to help minorities and the poor become homeowners—for whatever ails the economy. The crudest of all blend Wall Street, bankers, and crooked Washington insiders into conspiracies to profit personally and/or sell out the US to world communism or terrorism or maybe Muslims.

On the left, favorite whipping boys include Wall Street, bankers, hedge funds, overpaid executives, crooked corporations, and compromised politicians who let bad things happen "to our economy." More sophisticated leftists accelerate condemnations of "neoliberal deregulation." Ever since Reagan's election, they say, government failures to regulate markets and control private enterprises facilitated the wild financial misdeeds that have now brought us low.

Neither side treats the capitalist system as the basic problem. Rather, both mostly agree that the interacting network of corporations with their boards of directors, salaried managers, and wage workers are the necessary and appropriate foundations "of our economy." As that network, capitalism strikes them as inevitable, and thus *not* the appropriate target for right or left. Instead, they debate how much blame should attach to this or

that group for "causing" the crisis: poor people or too much government intervention or too little or the overpaid rich with hedge funds or the corrupt bad apples fouling the system. Fingers point to culprits spoiling a capitalism—"our economy"—that would otherwise work just fine.

Consider the Wall Street vs. Main Street debate. Many leftists and not a few rightists accuse Wall Street of "causing" the sub-prime mortgage mess (as if countless Main Street banks and mortgage brokers had not pushed profitable mortgages onto locals unable to afford them). They scowl that Wall Street invented "derivatives," those dangerous new financial gimmicks (as if Main Street types did not invest in and profit from them). Leftists claim that Wall Street got politicians to deregulate the economy (as if many Main Street businesses did not likewise support and profit from deregulation). Many rightists claim that *insufficient* government deregulation, because of Wall Street influence, caused the crisis (as if Main Street did not benefit from that government intervention). Rightists and leftists both largely blame Wall Street and Washington for together producing the housing and real estate bubble (as if Main Street did not cheer the rising prices and building of houses, the booming demand for household products, the resulting jobs, incomes, and tax revenues, etc.).

As capitalism's latest boom goes bust, Wall Street and Main Street shift from mutually profitable cooperation to a struggle over survival. Main Street fears Wall Street will use its power, money, and influence to dump the pains of economic crisis onto workers and governments (by cutting wages and jobs, paying fewer taxes, and demanding more government aid and bailouts). This will hurt Main Street. Capitalism works to shift economic costs down the economic structure and economic gains upward. So Main Street fights back with public opinion campaigns to blame Wall Street for the crisis. In this falling out among thieves, left and right mostly take sides rather than reject the system that spawned those thieves. The alternative position would be to demand system change.

System change does *not* mean what Paulson and Bernanke now plan: to buy shares of private US banks. In this partial "nationalization" of the banks, the US government will buy and hold bank shares and possibly place state officials on the banks' boards of directors. Private enterprises thereby become, partly and probably temporarily, public enterprises. This change is big for Bush, Paulson, and Bernanke because they always denounced public enterprises as socialism or communism.

But replacing *private* members of bank boards of directors (elected by and responsible to private shareholders) with *public* members (named by and responsible to state officials) does not basically change the system. The workers still work 9 to 5; they still follow the board's orders; and the goods, services, and profits they produce belong to the boards of directors to serve their interests. Those boards, whether private or public, still give the orders, sell the products, receive the revenues, and decide how to use the profits. The profound inequalities between workers and board of directors remain. The profound absence of democracy in the capitalist workplace remains. Both public and private boards of directors have historically sought to evade, weaken, or eliminate state controls and regulations limiting their freedom of action and their profitability (in the USSR as well as the US).

Capitalism has everywhere oscillated between private and public phases. Private capitalism minimized government interventions and mostly kept state officials off boards of directors. In capitalism's public phases, governments intervened and sometimes replaced private with public members of boards of directors. Crises of one phase often provoked transition to the other. The 1929 crisis of private US capitalism ushered in Roosevelt's New Deal state intervention (establishing Social Security, unemployment insurance, and other costly—to business—programs and regulations). The 1970s crisis of state-regulated capitalism returned the US to another private capitalist phase, the Reagan-Bush era, which undid most of the New Deal. What will follow today's crisis of private capitalism?

Will the pendulum swing back to state re-regulated capitalism? If so, the US business community will utilize decades of accumulated expertise in how to evade, then weaken, and finally eliminate state regulation. Re-regulation will thus likely be short-lived. Or might the alternative of system change become important?

System change would supplement re-regulation with a transformation inside enterprises. Suppose old boards of directors were replaced by new boards whose members understood and shared the goals of regulation rather than seeing regulation as limitations to be undermined. This might happen if the new boards comprised the collectivity of the workers themselves. Job descriptions of all workers would henceforth combine the particular labor of each with her or his full participation in the collective tasks of the board of directors.

In this way, workers-as-also-bosses could both shape economic regulations—alongside other workers running other enterprises—and then carry them out inside each enterprise. The conflict of interests between employers and employees would be transformed once these were no longer different and opposed groups. This would be real system change. Without this, boards of directors, private and/or public, will continue to function in the future as they have in the past. They will undermine regulations aimed to make the economy serve society, will continue to run their enterprises undemocratically, will maintain economic inequalities, and will continue to generate economic crises like the one imposed on us all today.

It's the System, Stupid

31 December 2008

At the capitalist system's core lies its central conflict. On one side, corporate boards of directors pursue ever *more* surplus extracted from productive workers. On the other side, workers seek ever more wages and benefits and better working conditions that *reduce* the surplus available to employers. Perpetual class conflict results between capitalists and workers over the size of that surplus. The conflict's form varies from hidden to open and from mild to violent.

Boards of directors continually find ways to reduce wages. Yet they complain when consumers whose wages fall cannot then buy all the commodities that capitalists need to sell to them. Indeed, insufficient consumption often contributes to causing or worsening a recession. The contradiction here is one that many capitalists seem unable to see, let alone trace to the class structure of capitalist production and its resulting conflict. Workers continually seek to improve their incomes, benefits, and job conditions. Yet they confront employers who respond by outsourcing jobs to cheaper or more subservient workers or by eliminating jobs through automation, even at the cost of jeopardizing commodity sales to workers, leading to or worsening recessions. The contradiction here—workers who achieve gains risk losing their jobs—underlies another of capitalism's systemic conflicts. As discussed further below, were workers to become their own collective boards of directors, they would not likely reduce wages or outsource jobs. Workers appropriating their own surpluses would accompany automation with serious job retraining and transitional support to displaced workers—rarely done when capitalist boards of directors automate.

Conflict between corporate directors and productive workers helped to produce both the wage stagnation of the last 25 years and the resulting surplus bubble that swelled and then burst in 2008. Class conflict has always contributed to capitalism's systemic instability. Just since the Second World War

ended in 1945, there have been 11 recessions (including the latest that began in December 2007) according to the National Bureau of Economic Research, the official recession monitor of the US. Capitalism's instability was a constant, even though national politics and culture changed repeatedly after 1945, as the Cold War flared and ebbed. Capitalism's class structure kept hammering its rhythm of boom and bust cycles into our lives.

Each recession since 1948 cost *millions* of lost jobs that hurt the workers involved, their families, neighbors, and communities (including their employers). Large portions of productive capacity (machines, equipment, offices, stores) were idled: output worth *billions* that might have been produced never was because of recession. Had that output been produced and used to alleviate social problems (poverty, homelessness, inadequate childcare, deteriorated infrastructure, etc.), we would be living in a very different country. Recessions always cut revenues for local, state, and federal governments, forcing reductions in public education, healthcare, and so on. Recurring instability mocks as well as invalidates all that noise about "capitalist efficiency."

It would be reasonable to identify, investigate, and publicly discuss every possible cause of such instability. The goals would be to offset, moderate, or eliminate its effects or, better yet, the instability itself. But a taboo blocks consideration of one such cause, namely capitalism's class structure. For the last half-century, analyses and policies debated by most business, political, academic, and even labor leaders avoided connecting economic instability to capitalism's class structure. Instead, many faulted politicians (blaming Democrats or Republicans), unions, or big business. Others focused on human weaknesses ("greed," "irresponsible" borrowing, etc.). Still others blamed inadequate state "regulation" of private business. With most analyses blind to class structure as a cause, *change* in the class structure of production rarely figured in proposed solutions for capitalist instability.

The policies actually debated are all variations of (1) US state responses to the 1930s Great Depression and (2) Japanese

state interventions in its long post-1990 recession. Proposed state actions in today's global recession include "bailouts" of selected industries (especially finance); (re)regulations of enterprises and markets; central bank reductions in interest rates and expansions of money supplies; and federal tax cuts and "stimulus" spending. Such interventions sometimes helped the US through past recessions. They never solved the basic problem of *recurring* recessions.

Class struggles often provoke capitalism's cyclical booms and busts. The more severe recessions bring state interventions and regulations to help capitalists survive capitalism's convulsions. Once the immediate economic crisis is past, capitalists proceed to undo state interventions again. So long as capitalists appropriate surpluses, they always use them to evade, weaken, or destroy state interventions that constrain them. Meanwhile they try to keep public debate and policy away from systemic solutions to recurring recessions.

And so, capitalist cycles recur. Each economic cycle imposes huge painful social costs. In a parallel ideological cycle, most politicians, mass media, and academics swing ridiculously between hyped celebrations of deregulation and (re)regulation as "the solution to our economic problems."

Capitalism's instability is systemic. To address it without considering systemic change is to continue the history of failure to "solve" that instability. Capitalism's core class conflict between workers and boards of directors was never fundamentally changed by state bailouts, (re)regulations, or monetary and fiscal policies. Capitalism's class structure is likewise not *systemically* changed even if we replace boards of directors privately elected by shareholders with boards of state officials instead. State capitalism (USSR), too, not just private capitalism (US), displayed instabilities driven by class conflicts between surplus producers and appropriators. Notwithstanding differences between the instabilities of state and private capitalism, both still yielded inefficiencies and wastes that each so assiduously documented in the other.

One possible systemic change eliminates capitalist class conflict by reorganizing enterprises to position productive workers as their own collective board of directors, thereby removing one key cause of capitalist instability. Such post-capitalist boards' decisions (about technical change, capital accumulation, wages, and so forth) would differ markedly from capitalist boards' decisions. Post-capitalist boards of directors would differ from capitalist boards in their relations to the state as well. A systemically post-capitalist economy would have its instability problems, but they too would differ from capitalism's.

The point is *not* that this systemic change is the only one that could (or could alone) seriously address capitalism's instability. The goal here is to expose the widespread—and politically self-defeating—refusal, even on the left, to acknowledge such systemic causes. The center and the right will forever debate and oscillate between non-systemic causes and policies (bailouts, regulations, stimuli, etc.). The left's unique contribution could and should be to insist that systemic solutions—e.g., changed class structure of enterprises—be part of public discussion and public policy.