Regulations Do Not Prevent Capitalist Crises

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A huge chorus now clamors to heap new regulations on banks, credit markets, international capital flows, and so on. Regulations, for many in politics, the media, and academia, seem to have become the magic bullet that will not only "solve" the current economic crisis but also prevent future meltdowns. Many labor union and left voices agree.

FDR advocated his New Deal regulations in the same terms during the 1930s. Yet FDR's regulations failed to get the US out of the Great Depression and they obviously failed to prevent subsequent economic crises. Today's is the second major crash in 75 years, while nearly a dozen other, less severe downturns also occurred since the Great Depression. Regulations have repeatedly proved incapable of ending capitalism's inherent instability, its proclivity to boom and bust cycles with huge social costs.

Economic regulations fail because of two fatal flaws. First, they may be poorly enforced or simply ignored. When political conditions permit leaders to be selected and/or controlled by the enemies of regulation, they can block the state's enforcement of regulations. Second, even when politicians try to enforce regulations on corporations, they successfully evade, weaken, or eliminate most of them. It is the organization of capitalist enterprises that explains both flaws and their repeated sabotage of regulations.

Counter-recessionary regulations always more or less constrain corporations' freedom of action in pursuing market share and profits. However, past regulations stopped short of changing the basic structure of capitalist corporations (and so do those proposed by Obama). Thus, the vast majority of people participating in corporate enterprises, the workers, always exercised little or no control over the decisions governing what the enterprises would produce, how and where they would produce, and what would be done with the resulting profits.

Those decisions were always made by each corporation's board of directors, usually 15 to 20 individuals chosen by and responsible to the corporation's *major* shareholders. Shareholding in the US is highly concentrated. Federal Reserve data show that the vast majority of US families own either no shares or so small a portion of outstanding shares that they exercise little or no influence over the selection or the decisions of boards of directors.

Inside capitalist enterprises, the huge majority—the workers—depends on the jobs, incomes, and working conditions determined by the tiny minority, the board of directors. While the tenth of US workers who are unionized wield some limited influence over boards of directors, most US workers cannot participate in deciding the what, how, and where of production or how enterprise profits are used. The capitalist organization of enterprises is undemocratic. This lack of internal democracy dooms counter-recessionary regulations to failure.

From FDR to Obama, capitalist crashes brought state interventions into the economy that always included new or increased regulations. Immediately after (and sometimes already during) every phase of regulation, boards of directors and major shareholders of many US corporations began to undermine that regulation. They used corporate profits to pay for lobbying, publicity and mass media campaigns, think tank "research," and so on. By shaping public opinion and academic understanding, they persuaded politicians to ignore or minimally enforce the regulations. At the same time, they hired lawyers, accountants, and economists to evade the regulations and public relations experts to mask or justify their evasion. When politically feasible, their opposition to regulation ramped up another notch. They got Congress, federal agencies, and state and local governments to first weaken and eventually eliminate many regulations.

Corporate boards of directors have every incentive to undermine regulations that limit their profits and market share. Major shareholders demand that and reward them accordingly. Boards of directors have the corporate profits needed to finance the defeat of unwanted regulations. The capitalist structure of enterprises thus provided both the incentive and the means for corporations' boards of directors to undermine FDR's New Deal regulations. FDR's tragic legacy was preservation of the capitalist organization of enterprise, leaving in place the corporate boards of directors and major shareholders. If we say "shame on them" for undermining regulations imposed after capitalism's 1930s crash, we will have to say "shame on us" if we allow the same process to unfold now under Obama.

We cannot solve this systemic failure of regulations to stop capitalist crashes by more or different or stricter regulation. Corporations have demonstrated their drive and capacity to frustrate the regulation strategy. Nor is the solution a state takeover of enterprise. The histories of the USSR and China show that when state officials replace private corporation's boards of directors, what remains in place are antagonistic and undemocratic structures pitting workers against the small groups that make the key production decisions and distribute enterprise profits. State officials, like their private counterparts, frustrate and undermine regulations.

A different solution not yet tried offers us the best chance for success. It entails a radical reorganization of enterprises, whether owned and operated privately or by the state. Democratize the workplace by replacing boards of directors or state officials with the workers themselves functioning collectively as their own board of directors.

Enterprises reorganized in this way would have objectives and reward systems, incentives and means to realize them that would all differ from those of capitalist enterprises where workers confront others who make the key economic decisions. Workers who were also their own board of directors would be less likely to disregard the effects (economic, environmental, cultural, and political) of workplace decisions on surrounding communities (where the workers and their families themselves live). Such workers would aim more for securer jobs and rising wages than for rising profits or market shares.

Such a democratization of the workplace would dovetail much more smoothly with genuinely democratic politics: workers accustomed to democracy on the job would more likely resist its exclusion from their residential communities. Economic democracy and political democracy are conditions of each other's existence. The interdependence of workplace conditions and community conditions would require and thus likely promote continuous negotiation between their separate yet overlapping democratic organizations. The regulations that emerged from such negotiations would more likely be respected and enforced by workers-qua-directors than the regulations that were negated so regularly by non-worker boards across the last century.

Why not move beyond the capitalist form of enterprises, whether private or state? We have nothing to lose but our capitalist crises. We have a new world economy to win.