

**MEDIA EDUCATION  
FOUNDATION  
STUDY GUIDE**

**Capitalism Hits the Fan**

**Richard Wolff on the Economic Meltdown**

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## NOTE TO EDUCATORS

This study guide is designed to help you and your students engage and manage the information presented in this video. Given that it can be difficult to teach visual content – and difficult for students to recall detailed information from videos after viewing them – the intention here is to give you a tool to help your students slow down and deepen their thinking about the specific issues this video addresses. With this in mind, we've structured the guide so that you have the option of focusing in depth on one section of the video at a time. We've also set it up to help you stay close to the video's main line of argument as it unfolds.

**Key Points** provide a concise and comprehensive summary of each section of the video. They are designed to make it easier for you and your students to recall the details of the video during class discussions, and as a reference point for students as they work on assignments.

**Questions for Discussion & Writing** encourage students to reflect critically on the video during class discussions, and guide their written reactions before and after these discussions. These questions can therefore be used in different ways: as guideposts for class discussion, as a framework for smaller group discussion and presentations, or as self-standing, in-class writing assignments (i.e. as prompts for “free-writing” or in-class reaction papers in which students are asked to write spontaneously and informally while the video is fresh in their mind).

**Assignments** encourage students to engage the video in more depth – by conducting research, working on individual and group projects, putting together presentations, and composing formal essays. These assignments are designed to challenge students to show command of the material presented in the video, to think critically and independently about this material from a number of different perspectives, and to develop and defend their own point of view on the issues at stake.

## PROGRAM OVERVIEW

University of Massachusetts Economics Professor Richard Wolff breaks down the root causes of the U.S. economic crisis, showing how it was decades in the making and reflects seismic failures within the structures of American-style capitalism itself. Wolff traces the source of the economic crisis to the 1970s, when wages began to stagnate and American workers entered a dysfunctional spiral of borrowing and debt that ultimately exploded in the mortgage meltdown. Within this larger historical and systemic frame, Wolff argues that the proposed government "bailouts," stimulus packages, and calls for increased market regulation will not be enough to address the real causes of the economic crisis, and suggests in the end that fundamental, and transformative, change will be necessary to avoid future catastrophes.

## PRE-VIEWING QUESTIONS FOR DISCUSSION & WRITING

1. What is America's economic system? How does it function? What economic role do you play, as an individual, in this system?
2. What role does the United States play in the world economy? How can an American economic crisis affect the rest of the world?
3. What arguments have you heard about the origins of the economic crisis? Where have you heard them? What do you think sparked the crisis?

## KEY POINTS

### Three Things the Economic Crisis Is Not

- The economic crisis is not simply a “financial crisis.” It grew out of failures within the entire economic system -- not just the financial realms of banking, credit markets, and insurance companies.
- The economic crisis is not temporary.
- And the economic crisis is not quickly and easily fixable. Policies such as lowering interest rates and offering tax rebates to stimulate the economy have failed.

### How We Got Here: American Exceptionalism

- During every decade from 1820 to 1970, the American people saw their wages increase.
- This rising standard of living led Americans to believe that future generations would do better than their own.
- Over time, as the consumer economy developed, a person's worth and success came to be defined through consumer values and material status -- measured by things like the clothing they wore, the house they lived in, and the car they drove.

### History Interrupted: The Trauma of Flat Wages

- In the 1970s, real wages stopped rising – and they have never resumed since.
- Wages stopped rising because:
  - Businesses began replacing workers with computers
  - Businesses began outsourcing to other countries
  - Women entering the workforce increased demand for jobs
  - Immigrants entering the workforce further increased the demand for jobs

### Coping With Trauma: The People's Response

- To compensate for stagnating wages, Americans did more work. Between the 1970s and today, the average number of hours worked per year by an American rose by about 20%.

- Americans also began using credit cards to maintain a rising standard of living in the face of stagnating wages. So while their incomes remained more or less steady, their rates of spending – and therefore personal debt – went up.

### **The Meaning of the “Trauma” for Business**

- In the past 30 years, stagnating wages and increases in labor productivity have led to huge profits for businesses – the greatest profit boom in the history of American capitalism.
- Businesses used these newfound profits in the following ways:
  - To reward themselves with unprecedented levels of income and bonuses
  - To buy off their competitors, a practice known as mergers and acquisitions
  - To make more money by putting it in the bank
  - To make even more money by lending to their employees and getting paid back with interest.
- Wolff argues that understanding the American economy over the last 30 years amounts to this: Employers not only stopped raising the wages of their workers, they turned around and profited from this wage stagnation by lending the surplus of money they extracted from their increasingly strapped workers back to them with interest.

### **Bust and No Boom in Sight**

- The history of capitalism is punctuated by booms and busts.
- In March-April of 2000, the NASDAQ index reached \$5,000. Today, it is less than half that – a drop of the proportions of the Great Depression.
- After the stock market crash, interest rates were lowered and real estate flourished. Today, real estate has also crashed.

### **What Won’t Work: Re-Regulation**

- From the 1930s to 1970s, America had a regulated economy, which governed what banks and corporations could and could not do.
- The era of deregulation began with the Reagan administration at the end of the 1970s.
- Re-regulation will not work because private corporations will continue to evade, weaken, and destroy regulations every chance they get.

### **So What Might Work?**

- A new system of regulations will work only with a different organization of production. Instead of a board of directors responsible to its shareholders, the people who work in the business should be responsible for running the business.
- Businesses should be democratically responsible to the people who work there. If we don’t have democracy in the work place, Wolff asks, how much of it can we expect anywhere else?

## Beyond Free Markets and Regulation

- Economic debate has tended to focus on the merits of an *unregulated* economy, with free markets and private enterprise, and a *regulated* economy, with government policies to stimulate the economy.
- Neither of these economic perspectives has totally worked. They have led to a bankrupt business community and an exhausted, anxiety-ridden working class.

## POST-VIEWING QUESTIONS FOR DISCUSSION & WRITING

1. Richard Wolff lays out three misconceptions about the economic crisis. What are they? Explain each with specific information from the lecture.
2. What is “American Exceptionalism”? How does this concept factor into the cultural expectation of a rising standard of living? And why does Wolff say this mentality played a role in the economic collapse?
3. What is the history of real wages since 1820? How have real wages changed over the decades? According to Wolff, why did the trajectory of wages change so dramatically? And what are some of the consequences of this change?
4. How have Americans dealt with stagnating real wages? How have businesses dealt with them? Given this reality, would you say there’s an inherent conflict between the interests of American workers and the interests of American business owners and managers?
5. How have businesses benefitted or been hurt by the movement toward deregulation that began during the Reagan administration? How have average working people benefitted or been hurt by these same policies?
6. According to Wolff, why won’t re-regulation work? And what might work?

## ASSIGNMENTS

1. Richard Wolff is best known for his work on Marxian economics. Research online to find another American economist who has a different perspective on the economic crisis. Write a paper that compares and contrasts the two perspectives, and be sure to explore your own thoughts and reactions.
2. Research the Economic Stimulus Act of 2008. Then find other ways the government has tried to boost the economy. Write a paper on the American economy since the economic crisis of 2008.
3. Watch this clip about the economics of consumerism from the documentary *Blind Spot*: <http://mefwordpress.s3.amazonaws.com/EconomicsOfConsumerism.zip>. Drawing on both the analysis presented in this clip, and by Wolff, write a paper analyzing the role that American consumerism played leading up to the economic crisis.
4. The NASDAQ has more trading volume than any other electronic stock exchange in the world. Write a research paper on the history of the NASDAQ stock market. When has it flourished?

When has it not? How does what happens in the market affect ordinary working people? Be sure to make connections between your findings and Wolff's larger economic analysis of how macro-economic trends play out in the lives of working people.

5. Write a research paper comparing and contrasting the regulation era after the Great Depression with the deregulation era from 1970-2000. Choose at least one legislative act from each era, and be as specific as possible in teasing out the differences in economic philosophy that seem to inform these policies. Be sure, also, to situate your analysis within the larger argument Wolff makes about U.S. economic history since the Depression.