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CAPITALISM HITS THE FAN

A lecture by Richard Wolff (Abridged Version)

Transcript

[news montage]

Foreclosures soar, sales fall again but some government…
As the Dow plunged seven-hundred and twenty eight trillion dollars… gone in just six and half hours…

And two hundred thousand more will shut down next year…
The unemployment rate now at 6.7 percent…

Japan China and Australia as trading gets underway on the other side of the…

More people using credit cards to pay their day to day…

It's another sign of the nation's weakening economy…

They owe more than their house is worth, two million more are headed that way…

3 THINGS THE ECONOMIC CRISIS IS NOT

Richard Wolff: This is the most severe economic crisis of capitalism in my lifetime, which means, as I look around the room, in yours as well. And it has to be understood and approached in that framework if it's going to be taken seriously and if people are going to have a reasonable shot at coming out on the other end of this process in something less than a devastated personal, social situation.

So let me start by suggesting to you some things that this economic crisis is not. It's not a financial crisis – not withstanding that that name is used all the time. To call it a financial crisis limits it in ways that make no sense. As you will see, this crisis comes out of the entire economic system we have here in the United States. It didn't start with banking. It didn't stay in the realm of banking, and it will not be limited at any time and in any significant way to the credit markets or to banking or insurance companies.

The second thing it isn't is temporary, or fleeting, or short. That's a wishful thinking, a little bit like imagining the crisis is limited to finance is wishful thinking. Let me illustrate that with two historical parallels to keep in mind. First, we had another great crisis back in the 1930s. Let's remember what that was like, since the current one is rightfully being compared to that one. That one blew, or exploded, in 1929. For the next 10 years, from 1929 to 1939, two presidents, Hoover and Roosevelt, tried a variety of monetary and fiscal policies – many looking exactly like what you see today in Washington. And they didn't work. And for 10 years, we could not get out of that depression. And what finally lifted us out was not some clever policy. It was a major change in the society called World War II. And in case you think these kinds of long lasting recessions and depressions that are immune to policy only happened long ago, let me give you another example. In 1989, Japan, the second most important industrial country in the world, then and now, it encountered a downturn. Severe. And here we are 18 years later, and the Japanese have still not emerged from that depression, even though they tried every monetary and fiscal policy in their repertoire, which includes everything that Mr. Paulson or Mr. Bernanke have so far tried.

The third thing it isn't is quickly and easily fixable. We've already seen that. Starting with the Bear Stearns events last summer, we have seen the United States government try one policy after another – lowering interest rates, pumping more money into the economy. Every one of those policies failed. Every one was introduced with great fanfare as the solution for this troubling problem. Each successive step was larger than the one before, signaling the failure of the one before. Something much bigger, something much more far reaching, is going to have to be done.

HOW WE GOT HERE: AMERICAN EXCEPTIONALISM

So let me begin by telling you what I understand to be the historical framework out of which this crisis comes. And I think you need to see it historically to get a sense of how big it is, how profound it is, how serious this is.

To do this, let's go back briefly to the period from 1820 to 1970. A hundred and fifty years that are astonishing in the world and in our country. Here's how and why it's astonishing. Over that period, every decade, from 1820 to 1970, every decade, the American working people enjoyed a rising level of wages. It's astonishing. It's probably the only society in the history of the world that can say that. It made the United States remarkable.

It's also a time in which workers became more productive. More machines were provided for each worker. Training was provided. Speed was demanded. Workers became more productive, but they got something for their extra hard work and their greater productivity. They got a rising standard of living.

Americans, as a people, began to internalize this remarkable historical experience. Therein lie the roots of the notion sometimes called American Exceptionalism – that there is something unique about America. That there's something built into the United States about a rising standard of living. And so it becomes reasonable to measure your own worth as a person, your own success, in terms of the clothing you can buy, and the house you can live in, and the car you can drive. The measure of yourself becomes this achievable remarkable quality of American life.

That's why this is the country in which advertising is born and becomes something we can give the rest of the world – perhaps a dubious gift. But we're the society of consumption. Par excellence, the model for the rest of the world to this day.

HISTORY INTERRUPTED: WAGES STOP RISING

Okay, let me turn then to the trauma that afflicts a population that has internalized – and has come to expect – a hundred and fifty years of rising standard of living, in which workers every decade could enjoy more because their wages rose, and their wages allowed them to buy more. And they understood work, more and more, as that which allowed you then to go out and buy.

In the 1970s, that history of the United States stopped. Real wages stopped rising in the 1970s, and they have never resumed since. This is a fundamental change in the United States, which the majority of our people probably have not yet come to terms with.

COPING WITH TRAUMA: THE PEOPLE'S RESPONSE

So I'm gonna look at it now by telling a story in two parts. I'm gonna first look at how working people coped with the end of rising wages, and then I'm gonna look at how the business community coped with it. Because in their two responses, the ingredients for the crisis we're now in will be laid bare.

So let's start with the people. What did the American working class of people do now that their wages stopped rising? First, the American working people did more work. If the wages you get per hour are fixed, don't go up anymore, one solution is more hours. Have more people in the house going out for more hours – which is what the American working class did.

Between the 1970s and today, the average number of hours worked per year by an American rose by about 20 percent. That's a lot. We worked 20 percent more hours on the job than we did thirty years ago. By comparison, for example, if you look at France, Germany, and Italy, over the same period of time, the average number of hours worked by those folks dropped by 20%.

The hope of the American family was, by sending everybody out many hours, it would allow rising consumption. The hope proved unfounded. Why? It turns out that if you're working a lot of hours, you have to find other ways to solve the problems that used to be solved when you weren't. If the woman goes out of the house to take a job, she needs a set of clothes, she needs her own car, especially for a country that doesn't do well with mass transportation. It turns out that doing more work, more hours, has costs attached to it that undercut the whole point of it, which was to bring in more money. It turns out there are more costs.

So if it didn't solve the problem, what was the second thing that the American working class did to cope with the end of the rising wages? So that they could continue to consume. Well, you all know the answer. The answer is that the American working class proceeded, starting in the 1970s, to go on a borrowing binge that no other working class in any country at any time in the history of this race – the human race – ever did before. Americans started borrowing.

At first, of course, they borrowed in the way that the lender prefers. They offered collateral. So the basic way the Americans solved the problem was to borrow against the house – to borrow a lot against the house. Keep in mind that the crisis exploded around something called a mortgage – the sub prime mortgage. But the American working class could never have increased its consumption simply by borrowing against the house. They basically didn't have enough wealth to borrow enough. Something had to be invented, a way to lend to the American people massive amounts of money with no collateral at all. And that way was found. It's in your wallet. It's called a credit card. It is a mechanism to allow banks to lend to the working class with no collateral at all. It's unsecured debt in economic terms, your credit card. But of course, no lender will lend to you without collateral unless there is something in it for them to do that risky thing. And the answer is the rate of interest. What is the average rate of interest on a credit card today? Ready, 18% per year. That's why there are credit cards. So the American working class was given loans, hundreds of billions of dollars in unsecured credit, in order to allow the rise in consumption. And the American working class did it. They went for it.

Stressed, exhausted, this is a population that has reached the limits. It cannot carry more debt and it can't do more work. That's why this is not a temporary problem. This is not a blip along the way. We have reached the limits of the kind of capitalism this society has become.

THE MEANING OF THE "TRAUMA" FOR BUSINESS

Let me turn now to the business community. Well, for the business community, the last thirty years have been spectacular. Everything I've told you about the working class, now we're gonna go to good news. With the introduction of computers, American workers became more and more productive. We had a thirty-year period of rising labor productivity. But now stay with me. Each year the worker produces more, and what do you pay the worker each year? The same. That's what no more rising wages means. The workers get paid the same. They produce more and more and more, but they get the same. That is, the gap between what the workers produce for their employer, which the employer sells and what they have to pay the worker to do it, the gap is getting bigger. What the workers get is flat. What they produce is more. That bigger, friends, is called profits. So the last thirty years of flat wages and rising productivity are the greatest profit boom in the history of American capitalism and quite possibly any capitalism.

Profits boomed everywhere, not just on Wall Street, but right up and down Main Street, too. This is not a crisis of Wall Street. This is not Wall Street doing something that Main Street is left out of. Not at all. This is a crisis of a system that is as busy on Wall Street as it is on Main Street. Every employer on Main Street participated in this dream. This is an employer's fantasy come true. I paid my workers the same, and they work more and more for me. They produce more and more for me, and I don't have to give them more at all. This can't be real. Pinch myself. It was. And it produced in the business community a kind of wild euphoria. Nobody could quite understand it. As the 70s became the 80s, and the 80s became the 90s, the profits were unbelievable. began paying themselves levels of wages and bonuses nobody ever heard of before. Large corporations paid their people tens, hundreds of millions of dollars, in annual salaries. Where did that money come from? I just told you.

What else did they do? They began to go through an orgy of something that's called mergers and acquisitions. They bought each other. Companies had huge amounts of money and bought other companies. Are you annoyed by a competitor? Buy them. Are you troubled by a foreigner who is stealing your market? Buy them. And you had the money to do it.

What else did they do? Interesting. They put their money in the bank. And the banks suddenly discovered wild amounts of money coming in from corporations. Deposit it in the bank. That's what you do with your profits while you're figuring out what else to do with them. You put them in the bank. And the banks became repositories of enormous amounts of money. And then the corporations and the banks, about the same time, discovered a remarkable thing that they could do with these profits.

They would lend them to the employees. That is the way the employees could raise their consumption when their wages didn't go up anymore was to borrow the money that their frozen wages made possible to their employers.

To understand the American economy in the last thirty years, then, amounts to this. Employers no longer raised the wages of their workers. Instead, they leant them the money. That's why it's an employer's fantasy come true. Instead of raising my worker's wages, I lend him the money, which he has to pay me back with interest. Isn't that better than paying them wages? This is nirvana, or as close as business gets to nirvana. So the American business community, directly or through the banks, got into the business of lending.

You all know that corporation, or some of you can remember it, General Motors, famous for producing automobiles. Over the last thirty years, General Motors became a very different entity. It created a subsidiary called GMAC, General Motors Acceptance Corporation. It is a bank. It lends money. It began by lending money to people to buy cars, because their wages couldn't pay for them. Then it discovered you could make more money off the interest of the loan then you could make profit from the car. And so General Motors became a bank, became much more interested in being a bank than being a car. Something we now notice the results of. They don't make cars very well. But they're a great bank. Their only mistake was, about 10 years ago, they branched out, they were making so much money, and instead of just lending to people to buy cars, they became a general lender and went into the mortgage business. Wrong decision, wrong time. But General Motors has specialized in wrong decisions at the wrong time for thirty years.

Banks got into it, lending to everybody. We all became used to the following phenomena. I don't know about you, but I must get two to three solicitations for credit cards a week in the mail – none of which I request. It's so profitable to push debt on the American people that everybody does it. It is a society out of control. It is a profit bonanza looking for more ways to make money. And the financial sector on Wall Street responded to this situation. It didn't create it. It got its hands on the money and found new ways to lend new people new loans at high interest rates.

"IRRATIONAL EXUBERANCE" OR BUST AND NO BOOM IN SIGHT

This is a craziness. This is a wild out of control, but we shouldn't be surprised. If we create an anomalous situation of exploding profitably on the one side, and a desperate exhausted population wanting and needing and measuring its own self in terms of rising consumption, we have a lethal combination. And so, of course, in the enthusiasm of business and the banks to lend the money and make more money in a time of so much money, and hundred billion dollars here and a hundred million dollar executive package over there, we're surprised that they ended up lending to people who couldn't pay it back? Oh, come on. The history of capitalism is punctuated by booms and busts. Where do you think that word comes from? Boom and bust is built into this system.

The only difference now is it comes at the end of this long, historical period when it has reached its outer limits. So of course, in the rise of all this profit, we had what? I'll quote Mr. Greenspan: "We had irrational exuberance." And first it expressed itself in one kind of lunacy, and then another. This is the lunacy of the business community.

Lunacy #1: In the 1990s, as these profits were building up, suddenly our business community decided that the new internet is going to revolutionize the universe. It really isn't just an expanded yellow pages. It's really a radically new thing. And so they invested in companies – funny companies with little names – usually two or three initials. Companies that had been around three or four years, had never made any profit, and who said in their annual statements, we don't expect to make any profit for ten years. Who cares? Their stocks were bid up to $500 a share. And you all know what that was. That was the boom of the late 1990s, and in March and April of the year 2000, the stock market crashed.

So terrifying was the collapse of the stock market in early 2000 that our government reacted in terror by saying, oh my god, the economy is going to fall apart. We have to save it by getting people to spend, so we're gonna lower interest rates. Which they did. We know what will happen if you lower all the interest rates, people will borrow like crazy. And they did. And what they spent their money on was housing. So after the collapse and the bubble of stock market, we had another bubble of real estate. It went crazy. Everybody buying housing, building housing, everywhere. Cheap money to borrow, build, buy, build, buy, and now we have the collapse of the real estate bubble. And there's nothing left to bubble. What are we going to do? There isn't anything. The stock market's finished. Real estate is finished.

And so we sit a collapsed bubble, the wealthy having produced an armada of new instruments that are now not worth very much. So that our business community is aghast with staggering losses and so, in its own peculiar way, has come to replicate the exhaustion and anxiety of the working class. For different reasons, heaven knows. But we have an economic landscape that is littered with corpses.

WHAT WON'T WORK: REREGULATION

So the question we can pose is: What might be done other than these attempts to stimulate that don't succeed, these attempts to bailout that don't seem to succeed, and now even these steps of government buying shares in AIG and the banks that doesn't seem to succeed?

I don't find it surprising, and I hope you don't, given the history and the whole context, why these small, hesitant, halting steps do not add up to a solution. And I'm not the only one who sees it. Many in Washington do as well. And they have begun to put their faith in something else, and it's an interesting story, and I want to conclude by trying to explain why it won't work either.

This is the notion of regulation. And this notion works as follows. The argument is made that in the first thirty years after World War II, we lived in a regulated economy. Coming out of the great depression, the regime of Roosevelt had after all introduced all kinds of regulations, and that's true. Regulations governing what banks could do, regulation governing what boards of directors of corporations could do, should do, might do. Whole new institutions, social security, unemployment insurance, we never had that before. So there were lots of regulations that came out of the desperation of the great depression. And those regulations were enforced from the 30s to the mid-70s. So that was a period of a regulated American capitalism. And so the argument goes, that was a good time. And what terrible thing happened was, at the end of the 70s, beginning with Reagan, was an era of deregulation.

So the argument goes, okay, our problem is just that we deregulated under Reagan, Bush, Clinton, and Bush, and so now maybe with Mr. Obama, the era of deregulation will be put behind us, and we will return to the re-regulated good old days brought back.

A part of this is understandable. We did regulate out of the last great depression. But another part of it is blind. Let's see why.

Those regulations that were put into affect by Roosevelt, and even some later, even by Truman, even by Kennedy, even by Johnson, those regulations did indeed limit, constrain what boards of directors of capitalist corporations could do. They did. But here's what they also did. They gave corporate boards of directors an immense and instantaneous incentive to defeat those regulations, to evade them every chance they had, to weaken them every chance they have. And when the political conditions were possible, to get rid of them. And those boards of directors went to work – having tried to prevent those regulations in the first place – they went to work to evade, weaken, and destroy them.

The last 30 years were the success. They were finally politically powerful enough that they could get rid of most of them. In other words, to pass regulations while leaving in place the boards of directors of private corporations is a bizarre policy that guarantees that you've left in place the absolute sworn enemy of the regulations. But you have not just left in place people who want to undo the regulation. Let's remember what a board of directors is. The board of directors of a corporation are the group of people – usually numbering between fifteen and twenty-five persons – into whose hands flow the profits of enterprise. So to regulate our kind of economic system is to impose limits and rules on a group of people with every incentive to undo them and all the resources needed to realize their incentives. So of course the regulations become a dead letter.

It's as if you had mounted a military campaign, but you decided not to defeat the enemy but to establish an awful lot of rules while allowing the enemy to have free supply lines from everywhere needed to undo you. A general who did that would be sent to an insane asylum.

If we're going to deal with this problem, we have finally to face, and here's my conclusion, that if we leave the structure of enterprise in our society unchanged, we will not be addressing what's at the base of this whole story, the conflictual relationship between the people who run the production enterprises of our society and the people who work in them.

That's why the wages didn't go up anymore when it was possible not to do that. That's why debt was substituted for rising wages. That's why jobs were moved and destroyed. And that's why regulations are simply objects to be undone.

SO WHAT MIGHT WORK?

So what is a possible solution? Imagine the difference if a new system of regulations, say passed by Mr. Obama, were to confront a different organization of production, one in which not a board of directors responsible to shareholders ran the business, but instead the people who worked in every business ran the business? Because they all have to live with the consequences, then you'd have people on the inside of every business partnering with the government to make sure that the point of the regulations was realized, rather than a group of people who would function to undo and thwart the whole point and purpose of the regulations.

Why don't we ask that question? And I suggest we ask it because even though I'm aware it's a daring question, we are in daring times. We face some really heavy problems in our society. We don't have many choices. What else might be said for reorganizing our production system so that the people who work at an enterprise become their own board of directors?

Many American workers – more than you might think – have already done what I'm describing. Let me introduce you to them, if you're not already familiar with them. Over the last 30 years, every year, hundreds and in some years thousands of engineers in that little strip of land between San Francisco and San Jose called Silicon Valley, have done the following interesting thing. They quit their jobs working for big companies like Cisco or IBM or any of those, and together with a few friends, having walked away from those jobs, they set up a little enterprise amongst themselves, working out of one of their garages. And here's how they ran their enterprise, "We're all equal here. No one's a supervisor. No one's telling what else to do. We're going to do this all as a group. And from Monday to Thursday, we're going to make software programs the way we always did, but on Friday we're going to come to work, and we're not going to open the laptops. We're not going to make software. On Friday, we sit around all day and have meetings because we're our own board of directors. We decide what to do with the profits we've earned, we decide what to do whether to change our technology or to have more people working here or to move to another part of San Mateo community, or whatever. We are our own board of directors." This has been going on for years. These people voted with their feet and their lives to leave one kind of organization of production and establish another.

If we don't take basic steps of this sort to deal with a crisis that has built over this length of time in the depths and breaths of our economy, if we keep tinkering at the edges with our monetary system, because we need to call this a financial crisis, rather than a crisis of capitalism, which is what it is, we will all be very sorry.

So it depends on us, whether we will have the strength – and the daring – to look at these problems in new ways and face the possibility of making radical changes.

Thank you very much for your attention.

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