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by THOMAS M. MAGSTADT
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Capitalism in America: the Coming Crisis

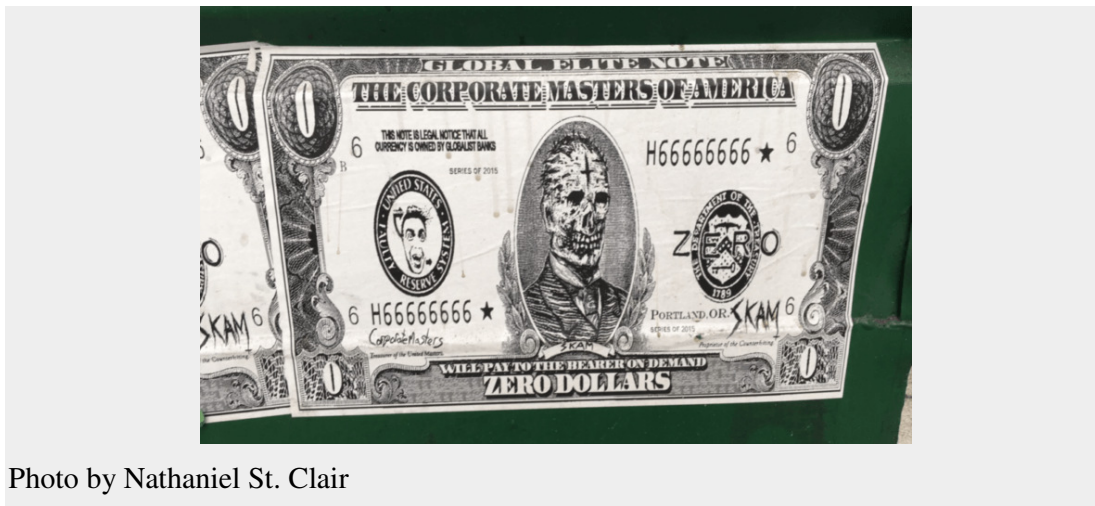


Photo by Nathaniel St. Clair

“Alphabet joins the \$1trn club” the headline read. It is a very exclusive club—in fact, only three other companies in the world belong to it. The Saudi oil monopoly, Aramco, is the only one that is not American. Microsoft and Apple are the other two. They both have a market value well in excess of one trillion dollars. A fourth monster U.S. corporation, Amazon, will probably join this elite group sometime in 2020.

To put the one-trillion-dollar figure into perspective, consider that as of 2017 only 17 countries in the world had a GNP of a trillion US\$ or more. In July 2017, CNBC announced that Amazon CEO Jeff Bezos—“the richest man in the world”—was the odds-on favorite to become the first trillionaire.

Wealth is power. The concentration of wealth in America has reached epic proportions. In a commercial republic rigged in favor of the superrich, where the problems and

predations of capitalism are routinely swept under the carpet and an “empire of law” protects and perpetuates great wealth, free and fair elections are the only effective way to protect the public interest against special interests, powerful PACs, and corporate lobbies. But something has again gone terribly wrong in America. It happened once before between the end of the Civil War and the World War One. Then it was Teddy Roosevelt and other trustbusters in both parties who led the fight against monopoly capitalism. Today, a very different Republic Party is backing a very different kind of president. And popular elections are no longer a counterweight to extreme wealth.

Shallow Roots, Deep Convictions

Compared to other belief systems that have shaped the modern world, the roots of capitalism in the history of Western Civilization are shallow. I will say more about the problems of capitalism as a belief system later, but for now suffice it say that what began as a theory in Europe has acquired the status of a secular religion in America.

Even if we accept Max Weber’s thesis that capitalism is a natural outgrowth of the Protestant work ethic—especially the theology of John Calvin—it did not emerge as a unified theory, much less a functioning economic system, until sometime in the first half of the 19th Century.

It’s no accident that it happened first in the United Kingdom, a mercantile powerhouse that had by then established a cluster of colonies on the other side of the Atlantic Ocean. It’s also no accident that Adam Smith was British (Scottish, to be precise). Or that the idea of the “invisible hand” originated in Great Britain. Or that it traveled to America with the Puritans who landed at Plymouth Rock.

Destructive Creation

Economists drunk on capitalism love to talk about the wonders of “creative destruction”. Apart from the obvious—that it is self-contradictory on its face—the concept, even as defined by its apostles, collapses under the weight of historical evidence, critical analysis, and moral philosophy. It is so preposterous as to be comical, but as the basis for a set of myths that has turned a theoretical construct into a secular religion it’s no laughing matter.

According to Alan Greenspan and Adrian Wooldridge in Capitalism in America: A History (Penguin, 2018, p. 14), “Creative destruction is the principal driving force of economic progress, the ‘perennial gale’ that uproots businesses—and lives—but that, in

the process, creates a more productive economy.” Get it? No. Okay, let’s try again: “Creation and destruction are Siamese twins.”

Still not? Think of the problem this way: You can’t make an omelet without breaking eggs. Creative destruction is the genius of American capitalism, which is why America invented the omelet and Edison invented electricity: “There is no better place to study this perennial gale” than here in America, where “a throng of business titans” once upon a time “reorganized entire industries on a continental scale”.

What’s that you say? America didn’t invent the omelet? Who cares? You have to break a lot of light bulbs to make electricity. That’s an alternative fact. Just ask Edison.

The nutty idea of creative destruction can be traced to a dead economist named Joseph Schumpeter and his book, *Capitalism, Socialism, and Democracy* published in 1942, a banner year for destruction in a world no longer safe for democracy. No other economic system in history had ever come close to delivering the kind of destructive creation capitalism did between 1939 and 1945. Among the horrific fruits of capitalism’s “perennial gale”: the German V-2 rocket with a 2,200-pound payload, the British and U.S. carpet bombing of German cities (note: not military targets, but population centers), and the mushroom clouds over the radioactive ruins of Hiroshima and Nagasaki.

To be fair, Greenspan and Wooldridge do acknowledge that there is a “downside” to creative destruction. But they do not appear to have a clue how destructive the downside is and they explain it away with exculpatory language like this: “Partly because people are frightened of change and partly because change produces losers as well as winners, creative destruction is usually greeted by what Max Weber called “a flood of mistrust, sometimes hatred, above all of moral indignation.”

That’s ironic because these distinguished economic thinkers appear to be blind or indifferent to the moral consequences of unbridled capitalism. In a chapter entitled “The Triumph of Capitalism” they note that “It was the farmers’ willingness to turn capitalists. . . that lay behind America’s emergence as an agricultural superpower.” But, “Sadly they engineered an ecological catastrophe. Bison were placid creatures that had grazed in massive herds on the American plains for millennia and coexisted with Native Americans who never killed enough to deplete the herds.”

Never mind that Native Americans, like the Bison, were also driven to the brink of extinction. Clearly, the indigenous folks were not good capitalists like the farmers who

were far more adept at creative destruction. To wit: “American farmers engineered an ecological transformation by turning the native grasslands of the Midwest and California into a vast sea of grain.” And in the cruel logic of American capitalism, the fate of millions of displaced indigenous peoples was incidental to the holy grail of economic growth and the magic the marketplace.

Trickle-Down Party Trick

Theory? Strategy? Or Conspiracy? Whatever you choose to call it, trickle-down economics is a political party trick. It’s a trick the Grand Old Party (GOP) has played on a big slice of the electorate only too willing to believe that “liberals” and “socialists” (a.k.a., Democrats) are the cause of chronic federal deficits and all the unfairness baked into American society.

But the facts tell a very different story. What has been happening in America is the exact opposite. Instead of trickling down, wealth has not only trickled up in the past decade but the trickle is looking more like a tidal wave all the time.

A recent article in the Business Insider shouts “One stunning chart undercuts Trump’s favorite economic scorecard—and shows why its misleading.” What the chart shows is that while the S&P 500 has leaped ahead by over 40% during Trump’s first term, wages have inched up at a mere 9%. But half of all middle- and working-class Americans own no stock. “The top 10% of American households own the lion’s share of them at 84%.

Extreme economic inequality is a fact of life in many countries and regions of the world. Globally, America is not the most extreme example nor did not start when Donald Trump stepped into the Oval Office. But in the last decade, according to the calculations of a development economist at the Brookings Institution “The United States was the top of the league table in terms of the rich’s share of consumption growth—fully 65 percent of the spending increase The rich started in 2010 with the bulk of household spending . . . and the distribution over the last decade simply reinforced this inequality.” All the rest went to the middle class—zero trickle down.

Still not convinced these facts are accurate? Fair enough. One recent statistical analysis found that income inequality in the United States is highest its been in more than 50 years, while a another study found that income of the poorest Americans actually fell by 7 percent over the past 15 years!

The biggest GOP party trick of all, of course, is the systematic effort to deny, distort, and discredit facts. Not just facts about the economy but facts in general. Which is why we

now have propaganda—nonsense like trickle down economics aimed at serving private interests—in place of fact-based debates over taxes and public policy. It's at the least a strategy, at worst, a conspiracy to conceal with real truth about the concentration of economic wealth in America and the political hijacking that has made it possible.

Congress on the Auction Block

Fact: The extreme concentration of wealth in the hands of a small number of rich Americans is getting worse by the year. Fact: The ultrarich collectively got more than \$500 billion dollars richer in 2019. Fact: Economic power (a.k.a., wealth) in American translates into political influence.

So long as the Supreme Court continues to uphold the ruling in Citizens United that, in effect, blocks any real campaign finance reform, the U.S. Congress will remain on the auction bloc and key votes on taxation and the federal budget—who gets (or pays) what, when, and how—will be sold to the highest bidder.

Thus, it was no surprise when Congress passed a Republican tax bill in 2017 that overwhelmingly benefited corporations and the rich—and President Trump gleefully signed it. Fact: The U.S. has the highest concentration of billionaires in the world (705 individuals) and was the only country to add more billionaires last year.

Fact: The 2017 tax law lowered the corporate rate from 35 percent to 21 percent and gives so-called “pass-through businesses” like the Trump Organization a 20% tax deduction. It also repealed the 20 percent corporate alternative minimum tax designed to ensure that corporations paid at least some taxes.

Companies are excused from paying corporate taxes on money they claim to earn abroad, as well—a reward for exporting jobs and an incentive to keep more income in foreign tax havens. If and when corporate income is repatriated is now between 8% and 15.5%, down from 35%. Sweet.

But not sweet enough: the 2017 tax bill also doubled the inheritance-tax exemption for married couples from \$11 million to \$22 million.

The Coming Crisis

The coming crisis of capitalism is not only economic; it's also a moral and political crisis. A constitution in tatters is the death knell of democracy. By the same token, corporate monopolies are incompatible with a market economy.

Capitalism thrives on vigorous and fair competition. When the deck is heavily stacked in favor of a few massive conglomerates and billionaires, the rest of society, the many—the middle class and low-economic underclass—lose faith in The System. As Economist Stephanie Kelton tweeted last year, “No one makes a billion dollars. You TAKE a billion dollars.”

The “strong economy” of recent years is largely an illusion. When it comes to capitalism and constitutional democracy, Republicans in Congress are world-class hypocrites: “Fiscal conservatives and deficit hawks seem to have changed their tune, all in the name of massive tax cuts that would primarily benefit the wealthy.”

Fact: Household credit card debt in America currently exceeds \$1 trillion—the average interest rate on this form of debt starts at 17.4 % and goes up. In February 2019 it was reported that total household debt has climbed to over \$4 trillion.

Fact: The 2017 tax bill will cost \$1.46 trillion over 10 years. No wonder, the federal deficit in 2019 jumped 26% in 2019, nearly hit the trillion-dollar mark for the first time ever, and will go over a \$1 trillion in 2020. Meanwhile, the national debt climbed to over \$23 trillion last year.

What a governments does and says influences how citizens behave and what they believe. In the Reagan era, we learned that greed is good. In the Trump era, we are being told that deficits don’t matter—and neither, of course, do the facts.

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