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Economic Crisis and the Question of Capitalism



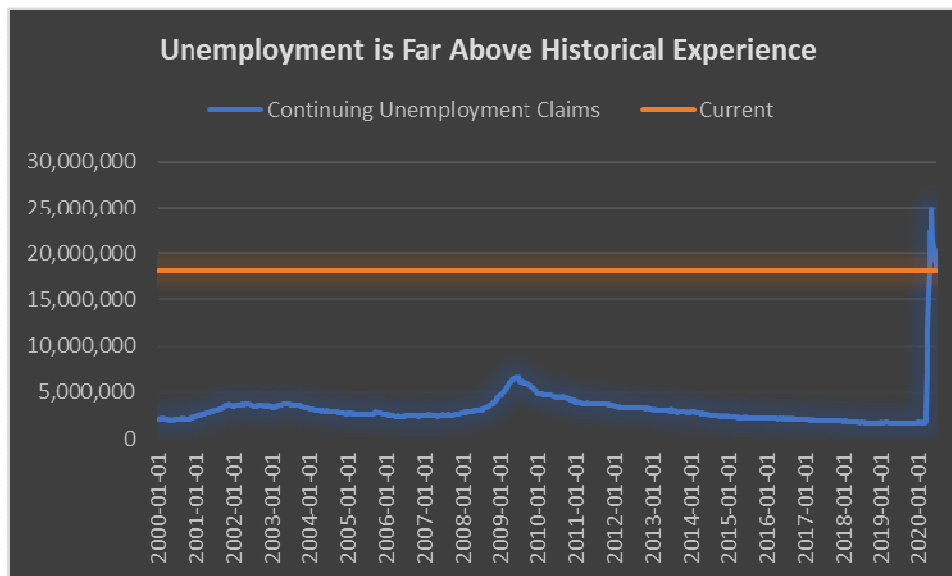
Photograph by Nathaniel St. Clair

On the precipice of what will likely be the worst economic crisis in modern history, the question not being asked is: why capitalism? To date, temporary government payments—tilted largely toward the rich, have sustained some parts of the pre-pandemic economy through a state of suspended animation that ended in fits and starts with reopening. With the pandemic still in full force, what won't be coming back, at least not in time to prevent unemployment from becoming politically destabilizing, will be the consumption-tainment economy that filled what in earlier epochs constituted social life.

The great, and welcome, surprise that elected representatives chose to sustain parts of 'the economy' beyond giveaways to the rich points both to rising fear on the part of

establishment interests and a path forward— that almost certainly won't be taken. With the \$600 added to weekly unemployment checks scheduled to end in a matter of days, the stick is about to replace the carrot to force recalcitrant (and rightfully fearful) workers back to the jobs that still exist. The important work of cooking burgers and denying insurance claims will either proceed apace or the global chain of interrelated liabilities will begin its inexorable implosion.

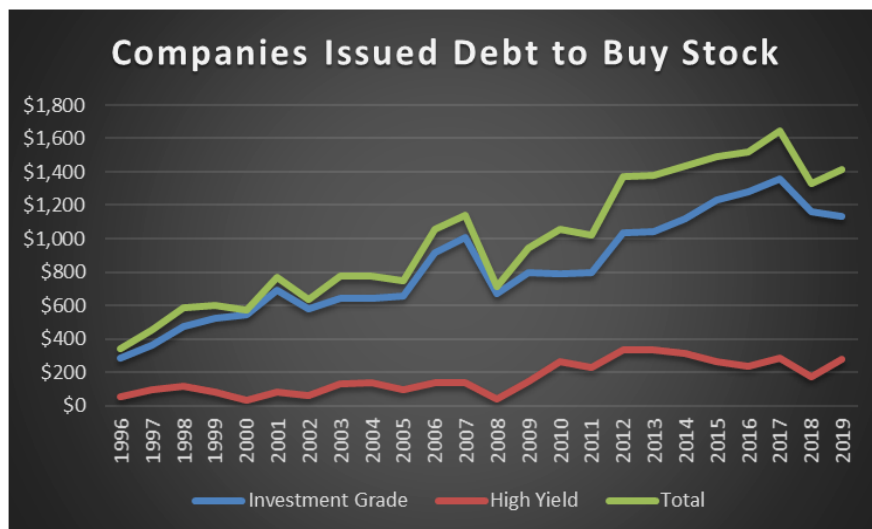
This simulation of care (government serving people) is about to reverse course as the excess of unemployed workers to available jobs meets introductory economics to demonstrate that markets are profoundly incapable of providing socially necessary employment. Mr. Process, a.k.a. economist John Maynard Keynes, theorized quite insightfully that capitalist economies left to right themselves can take longer than political stability and a continuation of socially constructive behavior will allow. With Donald J. talking about tax cuts and Team Blue moments from mumbling sweet nothings about bond vigilantes and market confidence, woe is to those with rent to pay and groceries to buy.



Graph: through the end of June 2020, continuing unemployment claims remained above 18 million, versus 6.6 million at the peak of the Great Recession. With new lockdowns being considered in several large states including Texas and California, there is a real possibility that unemployment will remain far outside of modern experience for the foreseeable future. Waiting for private employers to hire the 'excess' unemployed is a recipe for a new Great Depression. Source: St. Louis Federal Reserve.

The broader point, that if the rich were to give a little, they might get a lot, illustrates a fatal flaw in the logic of capitalism. Via Voltaire, if ‘we’ already live in the best of all possible worlds— because markets have already distributed vodka, pet rocks and bank accounts as equitably as nature can achieve, then any move to disturb this equilibrium is necessarily an attack on nature, with consequences to follow. The rich can’t help it that their wisdom and greatness was recognized by nature and rewarded. Sure, they may have cheated a little. Caveat emptor means thank you for your service in latinesque. But equilibrium is equilibrium, goddammit.

To cut to the chase, the only solution to the large-scale unemployment that is about to be made aggressively visible is a government jobs program that would employ millions of people at a living wage. One variant, a Job Guarantee, would guarantee a job to all comers performing socially useful work and could provide health care and a pension. The reason why this will not come to pass— with the current Green New Deal proposal included in consideration, is 1) government jobs would compete with private employers and 2) between the existing political parties, Republicans won’t finance public employment and the Democrats don’t know how to.



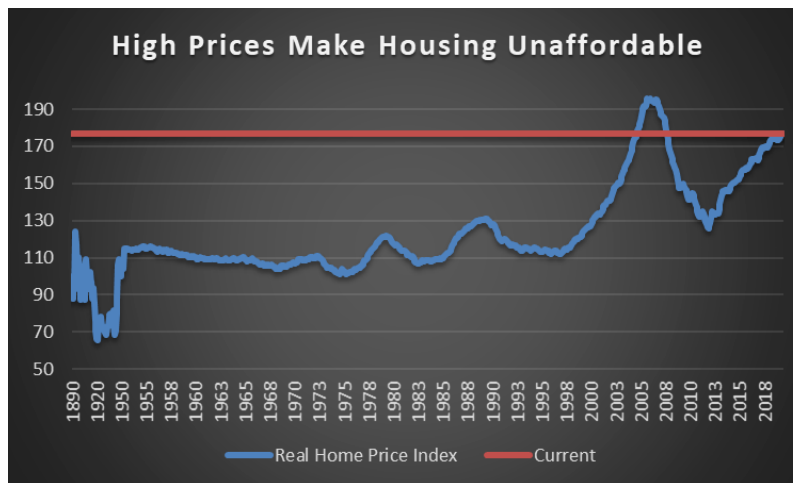
Graph: following the financial part of the Great Recession, American corporations took advantage of low interest rates to refinance and increase their debt. Many used the money from issuing new debt to buy back stock, which raises the value of the stock options that executives grant themselves. Having the Federal Reserve buy this debt effectively removes it from the market. This allows executives to issue more debt to buy more stock, which raises stock prices. This entire scheme was considered ‘insider trading’ before

Reagan made it legal in the 1980s. The bottom line is that companies are made fragile through excessive indebtedness to benefit executives, not the corporations they run. Source: SIFMA.

It was but a decade ago that the Great Recession emerged from a housing boom and bust engineered for personal enrichment by Wall Street. That unwind crashed an economy made fragile by capitalist process improvements that were locally rational, but systemically destabilizing. A flood of temporary ‘wealth,’ in the form of mortgage finance, was pulled back in a flash leaving behind the rotting carcasses of formerly functioning neighborhoods, towns, cities, and regions. In response, process reforms in the form of bailouts and minor reregulation were put forward as solutions. Never addressed was the question of why this system was worth rebuilding?

By most accounts, including those of heterodox economists often associated with the American left, the pandemic is a crisis that happened to capitalism, not one caused by it. In this view, restoring the pre-pandemic status quo is justified because capitalism— or more precisely capitalists, are blameless with respect to the pandemic. However, an analogy is a house built of straw in an area prone to wildfires. The designers of the house may not have started the wildfire that burned the house to the ground, but they chose the building material to benefit themselves, with little or no consideration given to those who actually did the building and who depend on it for shelter.

Spontaneous generation— history without a ‘before,’ makes every day in the U.S. of A. a new beginning. Four decades of neoliberalism included NAFTA, globalization, pirate finance, asset stripping, and financialization. These resulted in stagnating wages for workers, the end of private pensions and runaway inflation in asset prices including housing. Rising house prices mean that a larger portion of household budgets must go to pay for housing. What would be a benefit in isolation— the rising value of a house, becomes a burden when it is system-wide. Relative to the discount rates applied to wages, house prices (and rents) have far outstripped the growth in incomes.



Graph: house prices discounted by a rate of inflation illustrate the price relative to the broader cost of living. Through financialization, shelter has been made a leveraged asset with prices a function of the cost of mortgage finance. High house prices relative to incomes increases economic fragility. Given the levels of unemployment and economic stress that are in the process of unfolding, this increased economic fragility will worsen the economic circumstances of large numbers of people. The main beneficiaries of rising house prices are bankers who earn mortgage interest as a percentage of the mortgage amount. Source: Robert Shiller, Yale.

The question currently under consideration in Washington is whether or not to extend additional payments to workers displaced by the pandemic, and if so, how they should be structured. To date, 'investors' were taken care of in a variety of ways, most directly through the Federal Reserve's corporate asset purchases. This raises the value of all financial assets through increasing demand for some. Large and small companies got low-interest loans that will be forgiven if certain conditions are met. The Trump administration's plan floated this week is to lower the capital gains tax, which would make easily transactable assets (stocks) more attractive.

Meanwhile, a substantial number of companies that employ millions of workers have permanently gone out of business, meaning that the jobs that they provided no longer exist. The Federal government's efforts to sustain the economy didn't do enough to avoid a crisis of unemployment. The risk is growing of a spiral of insufficient demand (Keynes) if this situation 1) persists and 2) is allowed to reduce consumption to the point where more workers are fired. This makes the political battle between forcing workers to go back to work in pandemic conditions (Rs) and continuing to support workers who remain

unemployed (Ds, maybe) stops on the road to either a long term solution or an enthusiastic political reaction.

If current estimates that up to five million jobs are permanently lost are correct, either policy (forcing unemployed workers to return to existing jobs in pandemic conditions or look for new jobs) 1) will have limited impact because there are more unemployed workers than available jobs and 2) will reduce wages for existing workers through 'excess' labor supply, and with it, the ability to sustain what's left of 'the economy.' As mentioned above, the solution is to have the Federal government employ all who want a job at a living wage with healthcare and pension benefits. But such a program would require a functioning Federal government that doesn't currently exist.

With apologies for the digression, Joe Biden is proposing a poorly conceived Green New Deal that combines 'green capitalism' with a government mandate to massively increase carbon emissions under the theory that clean energy will be the later payoff. Of current relevance is the plan to use the GND as an employment scheme. It is dependent on a large corporate tax increase when it needn't be, and on getting a comprehensive proposal through Congress—a low probability outcome. Here process is policy. The Democrats intend to kill their own proposal by choosing funding mechanisms that won't pass.

For history, Bill Clinton ran for president in 1992 promising bold social spending to right an economy listing from recession. Within days of entering office, Mr. Clinton announced that the budget deficit—a right wing canard, was larger than he had understood to be the case, meaning that his plans for social spending had to be curtailed. He went on to pass a wish list of neoliberal economic 'reforms' that Ronald Reagan and George H.W. Bush had been unable to get through Congress due to opposition from Democratic constituencies. Through the canard of 'fiscal responsibility,' Democrats have challenged Republicans from the fiscal right ever since.

With millions unemployed and few prospects for large scale private job creation on the horizon, the Keynesian argument that public spending would create a benefit in excess of its cost (a 'fiscal multiplier' greater than one) is timely. The theory had gone largely unquestioned in the years between the end of WWII and the neoliberal revolution in the 1970s. Those who doubt the basic premise should be made to explain how private companies are able to earn profits (power aside), defined as returns in excess of the

investment made. However, Keynesianism is a process theory— it is an attempt to solve specific economic problems without considering why capitalism is worth saving?

Neoliberalism is a theory of governance without governing. Four decades in, this is precisely what the U.S. has. Outside of major American cities, and increasingly inside them, the country is falling apart. The capitalist view of employment is to ask: what earns a profit? The social view is to ask: what needs to be done? That the country is falling apart demonstrates that capitalism comes up short from the social perspective. In significant ways, it is the capitalist view that created the environmental and social ills that must now be addressed with some urgency. Surprise: profit-seeking can be averse to the public interest.

This point was well understood before the neoliberal takeover in the 1970s. Government was responsible for the public realm, for providing infrastructure, schools, some healthcare, food and housing security and pensions. This was part of the compromise forged in the Great Depression. Capitalists were allowed to keep their private enterprise as long as it contributed to the social obligations of the nation. By the 1970s, the regulatory frame that sustained capitalism was blamed for falling profits, even though they were better explained by serial oil supply disruptions in an oil-dependent industrial economy.

To the current conundrum, private enterprise is a legal form, not a description of how goods and services are produced. Workers produce goods and provide services. The functional role of capitalists is as service workers— as providing an organizing role in capitalist political economy. It is their legal status as owners that separates them from bartenders, grocery store clerks and other service workers. In other words, capitalists are service workers who get to keep the product of other people's labor.

With apologies for yet one more digression, owners who, because they are owners, get to keep what other people produce also describes the relation of slave masters to slaves. The difference, that wage labor is voluntarily undertaken, finds new meaning when five million people are competing for zero jobs. There is nothing voluntary about it. It was understood when NAFTA was being proposed that unless the gains from it were redistributed, an entire class of displaced industrial workers would be created. This class grew exponentially when China entered the World Trade Organization. And it is now lowering life expectancy rates through deaths of despair.

The point: neoliberal failures of governance are a bipartisan affair. Donald Trump can't be bothered to govern during a pandemic and the Democrats that passed NAFTA spent subsequent decades slandering its victims. Hopefully, the pandemic will end, and people will find new ways to get by. But what is currently underway is the stuff of revolutions. And the West is a dozen or more years down this path. Given 1) that there is no organized left to speak of and 2) capital has historically sided with leaders and institutions that maintain public order, the future looks grim. This is why I have been more positive toward the people in the streets who aren't the radical right than those offended by the disorder.

Like their Weimar forbears, the Democrats just destroyed the best chance to get some social democratic breathing room. Their next Weimar move will be to insist in the face of catastrophic unemployment that the Federal budget must be balanced. And here's the punchline: it doesn't matter what misdirection they put forward to cover their tracks, unemployment at high enough levels will assume a political life of its own. The left had better organize in a hurry or the consequences will be dire.

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