

CAPITALISM HITS THE FAN

AN INTERVIEW WITH ECONOMIST RICK WOLFF

by Lorna Tychostup

How convenient. President Obama calls a meeting of US banking titans in mid-December and three of them—Goldman Sachs’ Lloyd Blankfein, Morgan Stanley’s John Mack, and Richard Parsons of Citigroup—are fogged in at JFK and unable to meet the president in person. The fog wasn’t thick enough, however, to prevent the “too big to fail” banks run to repay the billions of bailout dollars American taxpayers loaned them. (Joseph Stiglitz recently countered this moniker with “too big to live.”) Repayment before the new year will not only free the financial giants of the government regulatory chains attached to the bailout, but also allow the traditional year-end tribute payout to their top executives—sums unfathomable to most Americans. Having one of its most profitable years in its 140-year history, Goldman Sachs has put aside a record \$16.7 billion toward this money bath—not to be paid in cash, but instead in shares of Goldman stock that cannot be sold for five years, not to mention taken away if the executive screws up.

Is this self-regulation? Or scraps fed to hungry American workers who wonder just what does one person *do* to deserve the \$67.5 million bonus Goldman’s Blankfein received in 2007? (Blankfein passed on his 2008 bonus.)

Such shocking perversions are not limited to the purview of the financial sector, but pervade corporate America, where the real wage for average workers has not risen since the 1970s, according to Rick Wolff, emeritus professor of economics at the University of Massachusetts, Amherst. In his latest book, *Capitalism Hits the Fan: The Economic Meltdown and What to Do About It* (Olive Branch Press, 2009), Wolff provides historical context for today’s economic crisis and outlines the historical debate liberals and conservatives have fueled since FDR’s New Deal. Conservatives insist that the private market not be interfered with and liberals demand government intervention to provide jobs, incomes, healthcare, and subsidized housing. One side winning triggers the other to work to derail the victory. Nothing substantial changes because the framed rhetoric of the debate is popularized via a media owned by the extremely wealthy. Any quest for alternatives is stifled. Yet the economic disasters continue to occur, people continue to suffer; the rich are getting richer and the poor poorer, with American workers believing their suffering is due to some personal failing, like not working hard enough or not having the right degree.

Nothing could be further from the truth, claims Wolff, because in fact, the odds against the survival of the working class have been gradually growing ever longer. And may grow even larger if the latest assessment on economist Nouriel Roubini’s website—www.roubini.com—proves to be correct. Analyst Mikka Pineda recently wrote that current events eerily resemble the psychological and economic backdrop of the mid-1930s when recovery was thought to have begun and premature retraction of economic stimulus pushed the US back into recession.

Senior Editor Lorna Tychostup talks with Wolff about the decline of real wages for the working class, tax injustice, and an alternative to the way America does business.

Lorna Tychostup: You begin *Capitalism Hits the Fan* by stating that the crucial shift in the capitalist system occurred in the 1970s, when the average real wages of US workers permanently stalled after 150 years of steady increases. How did this happen?

Rick Wolff: The American dream states the US is magical and special. If you work hard, you will do well, better than your parents. You can promise your kids delivery of a higher standard of living than you have. For the last 150 years most people measured goodness, success, and achievement in terms of consumption—rather than, say, relationships with other people. What you could afford, buy, and display became emblems of what was good about the US and your successful participation in it. So when the real wage stopped increasing in the ’70s, you had a psychic trauma made all the worse because it was not discussed or debated. People hoped this trauma wouldn’t last but it did.

Since there was no discussion that this was a social problem, Americans viewed it as a personal problem. “I didn’t work hard enough, didn’t get enough degrees at the right schools, didn’t apply myself. Everyone else is succeeding. I’m not, so it’s me.” Americans responded by working more hours, particularly women. In the 1970s, 40 percent of adult women were in the paid labor force. Today it is twice that. There was a dramatic shift as families sent out more people to work more hours to compensate for stagnated real wages. This did not work. The women who went out to paid work required another set of clothes, a second family car—the net income gained from extra work disappointed and so US families turned to borrowing money like no working class has done in world history.

Today, we can no longer postpone the traumatic impact of the end of rising wages in the ’70s by still more work or debt. We are at the end. Workers can’t work more. They physically can’t handle it. Families are stressed beyond words, largely because women left the household where they had been holding the emotional life of the family together. And families literally can’t carry the debt. Everything implodes. That is where we are.

Why did the real wage stop rising?

Four things. First came the 1970s US technological revolution, associated mostly with the computer. Humans were replaced by machines—30 to 40 people tracking inventory in a supermarket were replaced by a scanning system and one person watching a computer. This substitution happened everywhere and the number of jobs was greatly reduced. Next, jobs were cut by the worldwide revolution in telecommunications and the Internet, which made it more feasible to move production out of the US. Corporations increasingly chose to take advantage of cheaper workers, less stringent environmental regulations, lower taxes, and more bribable officials overseas. Then, two things produced more workers looking for these fewer jobs: the massive movement of American women into the paid labor market and waves of immigration—people wanting to participate in the 150-year rising real wage. This confluence produced labor market conditions that had US employers, for the first time, in the enviable situation of no longer being required to raise wages to acquire or keep employees. And they stopped doing so.

This is crazy, literally. For the last 30 years American workers have been delivering more goods and services per hour, productivity has been rising steadily, yet wages have not risen. We had a wild ride in the stock market and an explosion of profitability of the ’80s and ’90s because the corporations—the employers—were profiting more than they had ever dreamed of in their wildest fantasies as MBA students—getting ever more out of employees with-



A MAKESHIFT HOMELESS PERSONS STRUCTURE IS SEEN, WITH GENERAL MOTORS HEADQUARTERS HEADQUARTERS IN THE BACKGROUND, IN DETROIT, MARCH 31, 2009. .

out having to pay them more. Not only producing trauma in workers, this produced a countertrauma in employers who had never seen this before and didn't understand what was happening or why. So they made up self-flattering explanations, concluding (which is hysterically funny looking back at it) that this profit explosion was happening *not* because of the reasons mentioned, but because they had all suddenly become genius managers and brilliant entrepreneurs! Which justified the extraordinary explosion of pay packages given to top executives and completely crazy bonus systems: They have this immense pot of profit money, attribute it to their own prowess, and pay themselves accordingly. At the same time, workers were working harder, borrowing money, imagining there was no crisis, taking on sole responsibility for their financial stress, and were not able to face the situation or talk about it. But now that it has hit the fan, suddenly everybody's outraged.

Goldman Sachs, which allocates roughly half its annual revenue for compensation, recently said it will bar most top executives from cash bonuses and instead give long-term stock, which could be enormously lucrative should their stock continue to do well. Huge corporations give out huge bonuses and severance packages to top executives. What are the "real" costs of these money grabs?

One kind of history sees a feeding of the economy: workers paid rising wages, sharing in the growing wealth that rising productivity makes available. Another history sees a starving of the economy: Wages stop rising and instead wealth emerging out of growing productivity is concentrated into the hands of a tiny number of people who get stratospheric incomes. Everything shifts. You can't produce for a mass market because your mass market isn't growing. This is what is happening today. Over the last 30 years, the staples of American retail life have disappeared. Sears, Roebuck is dead. Kmart is gone. All the middle retailers, stores, and production can't find a market. The whole country divides into the boutique shops on Madison Avenue on one hand, and Walmart for everyone else. We increasingly replaced the middle of life, shopping, buying, and producing, and bifurcated our economic system into 1) a highly profitable, tiny

group of people at the top who drive the fancy cars and live with the Cuisinart, and 2) the vast majority who go to Walmart.

Implications? Walmart is the great success story because it figured out, better than everyone else, how to get cheap stuff for the American masses to buy—by moving production to China. The rise of Walmart over the last 30 years *is* the rise of China. Walmart cut a deal with China—produce cheaply and we'll distribute to every corner store in the US. Thus, the Chinese accumulated an immense export boom and with it a vast hoard of dollars. What to do with the dollars? To cement this relationship with the US so that China would become an industrial powerhouse, China took these excess US dollars and loaned them to the US government and workers in the form of credit, thus allowing Americans to continue to buy things that they otherwise could not afford. This bizarre, symbiotic but also tension-laden relationship is becoming, and will be, for the foreseeable future, our number one foreign policy issue.

Another huge cost is that the American working class has had to forego a growing portion of what it wants. For example, the tax structure of most of the 50 states and towns in the US depends on the working class, because states and communities tend to rely more on regressive taxes such as local level sales and property taxes than the federal government. State and local taxes do not fall on those most able to pay in the way that the federal income tax does. The end of rising wages saw wealth become highly concentrated at the top and less dispersed overall. Cities and town are now sliding into crisis because their revenue base is being squeezed. *People are furious* at local governments because they are not getting the services and yet are being asked to pay higher tax rates. You get this bizarre rage of the average American where they vote against the bond bill for the local school or sewer. This displaced rage really stems from the broader situation of being squeezed by the end of raising wages, and a fundamental change in the relationships between employer and employee and wage and profits. We keep tilting, as a nation, against windmills, because we don't identify the problem for what it is—namely, the flawed way we organize our businesses and the division of benefits that flow from them.

You claim that the passage of the 1910 income tax law was aimed exclusively at the richest Americans. How do the tax rates of that time compare with what they are now?

When the income tax bill was passed there was furious public debate. Its supporters stressed that it would only hit the top one or 1.5 percent of top income earners—those most able to pay. The masses were rendered exempt. As opponents at the time feared, the federal income tax burden has now been spread from the top holders of wealth to most of the rest of us. This tax burden falls on two entities: the mass of people as a personal income tax, and on corporations in the form of a corporate income tax. When Reagan became president, the highest income tax rate, paid by top earners, was in the 70 to 80 percent range. Reagan dropped that rate to approximately 35 percent—an unbelievable gift to the richest, who became his greatest boosters for the rest of his political career. We are still within that much-reduced rate. Corporate income tax, which used to pay much more, only brings in about 10 or 15 percent of the total US income tax revenue. Over the past 100 years, rich people moved the tax burden off themselves and onto everyone else. And corporations moved much—not all—of their burden onto the individual. The result has been a double shift from the corporate to the individual, and from the richest to everyone else, with the exception of the very poor on the bottom.

The burden was supposed to be on the top richest and them alone—a long-dead part of our history. When the average American gets upset by taxes going up they are making an error. The taxes aren't going up so much as they are being *shifted*. The tax may have gone up on you, but it has gone down on others. Because of the fear, politically, of facing the question of what we call in economics “tax incidence”—*whom does the tax fall upon?*—and discussing how it is distributed among the people. Our political leaders prefer, because it's less politically dangerous, to talk about taxes as if the issue is high or low, rather than who pays and who doesn't.

When we are told “we” are getting tax cuts people celebrate, yet these cuts benefit the rich more—

Way more. Reagan was the perfect example—it was wonderful politics. He gave a big tax break to corporations and a *huge* tax cut to the richest. But he was smart enough to know that if that's all you do you're going to get crucified politically. So he added a mass tax cut for *everybody*. However, this tax cut for the average citizen was not only very small, but played a little trick. While [the Reagan Administration] lowered the income tax rates on the average person a little, they raised the amount of their income that the Social Security tax applied to. So the government got to put *back* into Social Security *most* of what it gave to the mass of Americans in the lowering of the tax rate—which is why people's checks didn't change much. The mass of Americans were so thrilled that this bad news got lost in the shuffle. Not only was the cut given to the richest and the corporations much more substantial, but the masses were being hit with a rising Social Security cost. Average people in this country rail about the level of taxes and don't face the fact that everybody's history with the tax law is not the same.

A person works 20 years at a job he likes or doesn't like, is promised a pension, feels he is set and will not be a burden on anyone once he retires, living on Social Security and his monthly payment.

There has been an atrophy of pensions, a reduction in their number and the number of workers getting them, and a decrease in pension quality. Pensions originally set up by unions that forced them and a few companies that gave them are called “defined benefit pensions.” A worker signs up, and part of their benefit, along with health care, holidays, where to park their car, is a pension with a defined benefit—you will get paid *x* dollars per month upon retirement. Wage money is withheld weekly by the corporation, which supposedly contributes a matching sum, the total of which is to be judiciously invested, grow, and be made available upon retirement. This assumes the company will always make a contribution (an iffy situation based on a company's rules). Corporations have varying rights to dip into the accumulating fund, and can make bad investments—which is what happened when the stock market tanked in 2000 and 2008. Pension funds invested in things that lost value were hit terribly—the money was gone.

Corporations have shifted to a “defined contribution” system. They no longer commit to give a defined benefit upon retirement, but only to negotiate

the contributions of the worker and the company. The pension is still dependent on how good the investments turn out, which relieves the company of the obligation to deliver a set sum. The worker becomes a gambler in the stock market even if they don't know how it works. More and more jobs do not offer a pension. Often desperate to have a job in the first place, new workers will take what they can get. Recruiters say, “We don't offer a pension but we can pay you more,” which is not true, because wages are not rising. As workers get older and reach the age of retirement they will be shocked to discover they have inadequate or nonexistent pensions and will increasingly turn to their children for help at a time when their children will have their own struggles with this growing economic situation.

People are turning more to state lotteries. You say lotteries are a disguised tax injustice.

Over the years, squeezed by business structures and traumatized by fixed wages, stressed out, and drowning in debt, people become furious at increasing taxes. They express anger at politicians who want to get elected and therefore won't raise taxes. The problem is these same people who don't want taxes raised want their schools to be decent and the police to be there when they call. Politicians, using slight of hand, invent the *lottery*! Basically a tax, lotteries get large numbers of people, those who represent the bedrock of opposition to paying taxes—all statistics prove that the poorer the neighborhood, the more per capita money is spent on lottery tickets and gambling—to give the government lots of money every day. A tiny number will win, but the rest of the money is taken by the state to run services. Where a tax is imposed on people equally, the lottery actually taxes those at the bottom at a higher rate than everybody else. People are suckered on this mirage—a chance of winning the prize that will help them escape the squeeze already on them. Money is shoveled into the state in a way that would cause outrage if it were called a tax. Lotteries have become patriotic, while the Puritan ethic that argued that lotteries represent sinful gambling and told Americans to save money and not go into debt has been thrown out.

We're told lottery money goes into education. You write: “The democratization of higher education had been notably advanced after WWII when the states built up first-rate institutions that often outperformed the best and oldest institutions. Now that short-lived democratization is unraveling and with it the quality of US students.”

The pent-up rage of those who had gone through the Depression, followed by five years of wartime rationing, instigated an explosion of demand after WWII. The US was the only country to come out of WWII with an intact economy. No war had been fought here, we hadn't been bombed, and we had supplied the rest of the Western world with armaments. We were in pretty good shape while the rest of the world had been destroyed. King of the hill from 1945 to 1975, America had jobs, income, growth—it was a pretty heady time. The working class grew accustomed to having all this, plus access to higher education. Until WWII, only a small elite in America went to college. After WWII, via the GI Bill that for the first and only time in US history gave every returning soldier a free ride to school, the working class could begin to think about sending their kids to school. But there weren't any schools they could go to—private schools were too small, elitist, and expensive. The solution? Each of the 50 states began to build massive public higher education systems. Today, there are 15 million kids in US colleges and universities, roughly three million in private schools and 12 million in public.

Public higher education became successful, dominant, and significantly less expensive than private schools. The end of rising wages, and the crunch of state and local finances resulted in erosion of public higher education over recent years. Larger classes, fewer services, less faculty for growing numbers of students, and instead of professors, something called “adjuncts”—poor creatures who get paid \$4,000 to \$5,000 per course teaching two here, 3 there, and one more in the evening. Adjuncts have no time to do research, keep up in their field, or treat students as human beings but they save universities a bundle. More like consultants than real professors, they get no benefits, and are paid less resulting in a *severe* diminution of quality. The future of the US in the world economy pivots on the quality, education, and skill of its labor force. Public institutions of higher learning educate three quarters of our college students. We are killing our own future by this misplaced economy.



SCRATCH-OFF LOTTERY TICKETS AT THE LUCKY CORNER SHOP IN UNION, NEW JERSEY. JULY 3, 2006.

You state that the debate between conservatives arguing for less government intervention in private markets and liberals demanding government intervention to provide jobs, incomes, health care, and subsidized housing is a smokescreen that simply results in the oscillation between the two phases—each phase hitting a new crisis and then being replaced by the other. What do you suggest as an alternative?

We must face a very painful, difficult, and politically explosive question and look at the way we organize production. Today, most people work nine to five, Monday through Friday, working where and how they are told, and with what equipment they are given. The goods and services they produce belong to somebody else—the corporation, which is run by a board of directors, a tiny group, usually 15 to 20 who have been selected by the “major shareholders,” another tiny group of 15 to 20. The board of directors decides what to produce, where, and most importantly what to do with the net revenue—the profits. This is a peculiar institution where the vast majority has no power to make key decisions. Instead, a tiny minority that doesn’t work at the enterprise has this power. The interests of these two groups are different and often clash.

Suppose such American enterprises were organized differently along the lines of the old cooperative model that existed throughout American history. In the cooperative model, the enterprise would be run by the people who work in it, not others. The average person would work Monday through Thursday at the particular task they have always done. Friday they would have meetings with the other workers to decide collectively and democratically where, what, and how to produce, and what to do with the profits.

If we would have organized business this way in the '70s you can be damned sure that the real wages of American workers would not have stopped rising. Workers running their own business, enjoying the rising productivity of the '70s, would not have taken advantage of the labor market conditions and undermined their own wage increases. They would have given themselves the rewards for rising productivity that they had gotten for the last 150 years. There would be no executives deciding to give themselves hefty bonuses, and production would not have moved abroad. The whole history of the American economy would have been radically different. Instead, we’ve always left in place the existing organization of production, as if it were God-given, or necessitated by technology, or unmovable and unchangeable. We’ve never questioned the system. To do so has been taboo, like sex or religion.

Why taboo?

Because it challenges the assumption that the boards of directors—I advise boards of directors so I really do know what I am talking about—have some special competence, background, special genius that they somehow deserve to have all the power that the mass of workers is denied. This is especially peculiar here in the US where we make at least a verbal commitment to democracy—the idea that we should not have decisions made about us that we don’t have some participation in making. We don’t want our political leaders to make decisions that we can’t vote about, but we are willing to work in a company where the decisions are made by people whose names we don’t even know, and over whom we exercise absolutely no control. The people who run our society are very worried about this becoming something that’s publicly debated so it is kept off the agenda.

Some might label this communism or socialism—frames that invoke specters of repression, gulags, worker exploitation, and huge disparities between the elite and the rest. Much the same way liberals and conservatives cling to their outdated “debate” frames, I don’t see the frames of communism and socialism being shaken off anytime soon—the specter of the “evils” of socialism is being raised right now.

I agree. I used the terms cooperative and cooperation, and spoke of a democratic workplace or enterprise. What I am talking about was never realized, neither in Russia nor in China, where the organization of production was never questioned or changed. All they did was get rid of the private boards of directors and send in a group of government officials who performed the same functions and contributed to the failure of those societies that was as bad or worse than the failure we are experiencing here. They created a large language about a worker’s society but didn’t actually enact it.

When people ask, “Aren’t you advocating socialism or communism?” I launch into the explanation I just gave. These days talk of socialism is falling on deaf ears. The right wing claims that Obama is a socialist have really backfired. People scoff at these claims. With young people it is having the opposite effect. Since they like Obama they have begun to ask, “So what’s wrong with socialism?” They don’t have a clue but their basic instinct says, “I like Obama. If those nasty old folks are calling him a socialist, I’m going to check it out.”