By James Petras

"People's" capitalism is here and horrible

IN THIS EPOCH OF DECAYING EMPIRE there is a profound rupture in the U.S. between corporate profits and national growth—the former is no longer synonymous with the latter. Increasingly the profits of our private sector are dependent on plundering the public treasury, pillaging the natural environment and reducing social services—not on applying new technology and enlarging markets through the expansion of goods and services.

Pillage of the public treasury is manifested by the banks—evidenced by the Bush administration's use of hundreds of billions of dollars to refloat the savings and loans, which are then reprivatized. Washington also uses hundreds of billions of dollars in public funds to finance federal deficits resulting from subsidies to military-industrial contractors. Pension funds are invested to buoy an increasingly volatile and overextended stock market. And on a more commonplace, routinized level, hundreds of millions of dollars in public funds have been privately appropriated—without fulfilling their publicly mandated purpose—in important areas like housing and health care.

The private pillage of the public domain extends to natural resources—land, sea beds and timber—all stripped or despoiled with little regard for long-term consequences. The main source of private profit is no longer long-term, large-scale investment in the creation and manufacture of innovative products for producers and consumers, but is based on seizing and appropriating existing public resources.

Selling out: Private pillage of the state reflects the declining capacity of U.S. capital to compete in the world market. Corporate America's flight from the competitive-goods-producing market is both cause and consequence of the headlong plunge into the paper market—the buying and selling of fictitious capital. The gap between the pursuit of the paper economy and the consumption of necessary goods and services is made up through massive imports, trade deficits and external debt financing. Both the universal pursuit of "rentier" profits from stock, bond and land holdings and the spiraling foreign debt are expressions of the erosion of the foundations of national economic power.

Unable to compete with their strongest capitalist competitors, American corporations must squeeze their subordinate clients even harder. Increasing dependence on rentier income involves increased pressure to extract wealth from the productive debtor countries. Hence the U.S.—alone among the industrialized nations—has rejected significant debt forgiveness. The U.S. emphasis on Third World debt payments, rather than the stimulation of development, reflects its uncompetitive position and incapacity to benefit from increased development in the Third World. Washington and Wall Street resist a renewal of growth and hold onto the legacy of past power—the debt structure created in the '70s.

A similar picture emerges in U.S. relations with Eastern Europe. Washington exports free-market rhetoric but is unable to provide the investment capital or financing that would allow "markets" and local production to grow. The Bush formula for Eastern Europe of continued debt payments, deregulation of prices and capital flows (free markets), as well as unrestrained competition, will result in the "Latinamericanization" of the region. Under this arrangement, Eastern Europe will lose the positive social benefits of socialism without achieving the economic growth of Western capitalism. "Free markets" will produce stagnant dependencies. Washington provides the political and ideological pressure to open Eastern European economies, but it will be the Western Europeans (principally the West Germans) and Japanese who will supply the capital and loans to capture markets and gain spheres of influence.

The U.S. economy is increasingly dominated by intermediary importers of overseas goods and by unregulated or underground producers. Most consumer goods in the U.S. market come from overseas or the underground economy. The rules of capital today are to empty the legal regulatory framework of its contents. Pensions, longevity payments and tenure are increasingly things of the past. Today, work tends to be temporary and production and technology subject to the paper economy. Trade unions are disappearing from the workplace or are dissolved into managerial structures.

Declining U.S. capitalism is forsaking private production for public plunder.

Serving new masters: U.S. technocrats are becoming the servants of Japanese and German capitalists. American innovators have become commodities in the international marketplace. Inventive individuals are alienated from economic power at home and subordinated to overseas investors. To be a successful innovator today is to attach oneself to the giant Japanese multinationals. The alienation of technology and its appropriation by the ascending empires is one more symptom of the decay of the American empire. The dissociation of science from industry and the displacement of both from their dominant position in the U.S. economy accelerates the deterioration of the U.S. position in the world marketplace.

At the middle levels of power, U.S. scientists are becoming "idea persons" for new rising empires; at the top, the U.S. economic elite is rapidly transforming itself into an intermediary importer of overseas goods. When industrialists converted themselves into such intermediaries, they avoided the necessary retooling, long-term investments and quality upgrading necessary to sustain market shares. The ideological shift in the U.S. during the '80s from protectionist production to laissez-faire free-market doctrines reflects the structural conversion of U.S. capital. This conversion also explains why the manufacturing sector—the ostensible beneficiary of protectionism—has not mobilized behind its banners. To be a manufacturer today is in a deep sense to be an importer of machine tools, parts and processed products from overseas subcontractors for "finishing." Only the bureaucratized trade unions and a handful of nationalist ideologues and journalists tied to a bypassed industrial past persist in trying to "save" enterprises—enterprises that do not want to be saved, at least not as part of the previous system of the division of labor.

Deregulation, top and bottom: The rise of the paper economy and the ascendancy of financial-speculative capital has been cause and consequence of the deregulation of the economy. The rules of capital—the "industrial regime"—have been obliterated: insider trading has become routine, the costs for the reproduction of labor have been shifted to the working class, the sources of unreported income have multiplied. The rules of the "underground economy" have become predominant at the top—ceasing to be a marginal, complementary aspect of the mainstream economy.

Right-wing Republicanism has gained ascendancy precisely by articulating and legalizing what was already in fact the major *modus operandi* of the U.S. economy. Deregulation fit in well with the existing pattern of the economy and therefore confirmed what large and petty entrepreneurs were already doing.

The deregulated economy, the free-market model and the routinized pillage of the economy have been the basis for the transformation of stable neighborhoods of the working poor into ghettos. Displaced from links with productive labor, these communities have become the drug markets of America. The growth of unreported income at the top has been matched on the bottom. The transformation of industry into "financial services" at the top has been accompanied by the expansion of cocaine and crack sales at the bottom. The freewheeling capitalist gaining wealth on speculative profits, acting above, outside or beyond the law, has a counterpart in the drug entrepreneur flouting the law and accumulating rapid wealth. The non-production of goods—the avoidance of commitment to long-term production at the top was the role model for the bottom. "Buying and selling" drugs with a quick turnover has become the path of rational public choice for economic success.

Private wealth in public decay—the Mercedes of the financial advisers and the pink Cadillac of the drug pushers, amid closed factories and rat-infested tenements—describes the convergence of the top and bottom, the birth of true "people's capitalism." ■

James Petras teaches sociology at the State University of New York, Binghamton.

EVERYBODY'S BUSINESS

By David M. Kotz

The Downside of Supply Side

	1959	1969	1973	1979	1988
GNP growth rate, from previous peak year	2.5%	4.1%	3.2%	2.6%	2.5%
Government purchases as share of GNP	24.4%	24.4%	20.6%	19.1%	19.6%
Gross fixed investment as share of GNP	15.6%	15.9%	17.5%	17.6%	16.9%
Net fixed investment as share of GNP	6.3%	6.8%	7.9%	6.9%	5.0%
Consumer expenditure as share of GNP	60.1%	60.1%	61.6%	62.8%	64.9%
Personal saving as share of disposable income	6.3%	6.4%	9.4%	6.8%	4.1%

Source: Economic Report of the President, 1989

The Reagan years are now history, and the bold claims about a new economic direction for America can be compared to the record. The chief claim was that getting the federal government off the backs of business would lead to a new, more solidly based prosperity.

Prosperity in the bad old days was said to come from the "artificial" stimulation of big government spending, inspired by Keynesian "demand side" economic policies. Such artificially created prosperity was dangerous, it was said, because it relied on state expansion rather than productive investment by private businesses.

The Reagan administration introduced "supply side" policies, intended to promote private initiative by cutting back or eliminating interventionist programs. A combination of tax cuts; loosening of environmental, job safety and anti-monopoly regulations; and cutbacks in social welfare programs were supposed to unleash a vast wave of private saving and investment. This would increase the economy's productive capacity and bring rapid yet sustainable economic growth.

The American economy has indeed expanded without interruption for an unusually long period. Contrary to the oft-repeated media claims, it is not the longest expansion in this century. At this time it ranks as the third-longest. The longest was 1961-69 (eight years, 10 months), and the next was 1938-44 (six years, eight months), compared to the six years, six months of expansion since the beginning of 1983. The alternative claim, that this is the longest *peacetime* expansion, is a hollow one, given that the '80s witnessed an enormous military buildup, with military spending growing at 7 percent per year in real terms during 1981-87.

Nevertheless, the '80s expansion has been unusually long, with important political consequences, including the Bush election victory. But was this expansion different from earlier ones, as its promoters had promised? Is this a supply side expansion, fueled by a creative burst of saving and investment?

What has driven the expansion? The broadest measure of economic expansion is the growth of the gross national product (GNP), which measures the dollar value of goods and services produced and purchased during a year. GNP has three major components: consumer spending by households, investment spending by businesses, and government purchases (which includes salaries of federal, state and local government employees as well as purchases from private businesses). The fourth component of GNP, net exports, is relatively small.

Almost all economic data vary significantly over the course of the boom-and-bust cycle. To avoid misleading conclusions about performance over time, one should compare years from the same part of the business cycle. Since most economists expect the current expansion to end in 1989 or 1990, the '80s expansion can be judged by comparing 1988 data with earlier business-cycle peak years. The last four peak years were 1979, 1973, 1969 and 1959.

The accompanying table provides inflation-corrected data to compare the '80s expansion with past expansions. First, it is evident that the 2.5 percent GNP growth rate in the '80s was slower than the rates for the '60s and '70s. Even more revealing is the change in the components of GNP. From 1969 to 1979 government actually shrank relative to GNP as its share declined from 24.4 percent to 19.1 percent. While government grew absolutely during that decade, the private sector grew faster. The Reagan military buildup reversed this trend. From 1979 to 1988, the government share of GNP rose somewhat, to 19.6 percent.

It's no surprise that supply side policies failed. Tax cuts and social welfare cuts have had a negligible effect on investment. Deregulation may save a few dollars but hasn't spurred growth.

When we search the data for the investment boom that was supposed to happen in the '80s, we do not find it. From 1959 to 1979, gross fixed investment had steadily increased its share of GNP, from 15.6 percent to 17.6 percent. But in the '80s the investment share declined to 16.9 percent. In fact, by other measures investment performed even worse in the '80s. *Net* fixed investment, which measures the increase in the capital stock after deduction of depreciation, fell in the '80s to a level substantially below that of the previous three decades.

The big gainer was not investment but consumer spending. It increased by two full percentage points over the 1979 level. Why did this happen? The 1981 Kemp-Roth tax bill lowered personal tax rates, particularly for wealthy households. This pumped purchasing power into the household sector. The combination of falling taxes and growing military spending brought us enormous budget deficits, which fueled the consumer spending boom.

The second reason consumer spending rose was that households spent more of their disposable (after-tax) income on consumer goods and the savings rate fell—to 4.1 percent of disposable income in 1988, less than half its 1973 level. The many regressive economic policy measures of the Reagan years, which were supposed to increase saving, produced the opposite effect: a consumer spending binge by high-income households.

Thus, the '80s expansion has been even more of a demand side expansion than previous postwar expansions. It was led primarily by rising consumer spending, fueled by government deficits and reduced household saving, and secondarily led by rising military spending. Contrary to expectations, investment and saving sagged by comparison to past expansions.

Why has the expansion lasted so long? Like the other two unusually long expansions of this century, this one was prolonged by government pump priming. Expansions usually last three to four years, but three years into the '80s expansion the federal budget deficit mushroomed to an unprecedented 5 percent of GNP. The continuing huge deficit has kept the expansion rolling along.

Another factor prolonging the expansion has been the absence of serious inflationary pressure. Normally, after three or four years of expansion inflation begins to accelerate, causing the Federal Reserve to tighten credit, which is one factor that sets off a recession.

Why did inflation, the scourge of the '70s, fail to materialize? An economic expansion normally brings inflation eventually, because, as the unemployment rate drops, wages begin to rise faster and employers respond by raising prices. Furthermore, as all available productive capacity is brought into use, product shortages lead to price boosts.

But this expansion has been different. It began from a severe recession, with unemployment at 10.7 percent, the highest since the Great Depression, and an industrial capacity-use rate of only 69 percent. It took five years of expansion, until late 1987, before the unemployment rate fell below 6 percent.

But even the recent unemployment rates of 5 percent to 5.5 percent have not been inflationary, because wages have not begun to rise rapidly. The Reagan years' government and corporate assault on organized labor so weakened unions that they are still rarely able to gain significant wage boosts. Last year hourly wages rose by only 3.1 percent.

But if the budget deficit continues to decrease, as it has over the past year, we can expect the expansion to come to an end soon.

Supply side promise unfulfilled: It is no surprise that the supply side policies did not perform as advertised. The best studies show that tax cuts have, at most, a small effect on investment. No one has been able to show any favorable effect on economic growth from social welfare program cuts. Deregulation may save a few dollars for some industries—at the cost of more pollution and job deaths—and with no guarantee that the savings will be productively invested.

The U.S. economy has indeed devoted a smaller share of GNP to investment than most other industrialized capitalist countries. But big government is not the explanation. European social democracies such as Sweden, Denmark and West Germany have much bigger welfare states, yet their economies have grown faster and invested more than the U.S. in the postwar period. The fastest grower and biggest investor has been Japan, which, far from following free-market policies, has a heavily state-guided capitalist economy.

Of course, socialists should not blindly follow the capitalist goal of maximum GNP growth, given the enormous problems created by such growth. But it is worth noting that the evidence strongly suggests that contemporary capitalist economies work best, in their own terms, when strongly guided by an interventionist state. By the standards of investment and GNP growth, the U.S. and Britain, with their laissez-faire policies, have performed at the bottom of the heap over the long run. ■

David M. Kotz is a professor of economics at the University of Massachusetts, Amherst.