

Modern (American) Capitalism

A Three Act Tragedy

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Modern (American) Capitalism: A Three Act Tragedy

Outline of talk

- ▶ A Three act tragedy
 - ▶ Act I – The Neoliberal supply side: “zapping labor”
 - ▶ Act II – The Neoliberal demand side: inequality, debt, and unsustainable demand formation
 - ▶ Act III – What is to be done, or, the (im)possibility of ‘liberal reformist tinkering’

Modern (American) Capitalism: A Three Act Tragedy

- ▶ Where do we stand?
 - ▶ Lessons for Latin America?
 - ▶ Is reform even possible?
 - ▶ The political economy of TINA: “managing the discontent of the losers”
- ▶ Summary and conclusions

Act I – The Neoliberal supply side

An incomes policy based on fear

Post-1980 changes in corporate behavior and public policy designed to increase worker insecurity:

- ▶ Changes in labor law: unionization harder, de-unionization easier
 - ▶ result: steady fall in unionization rate (now less than 10%)
- ▶ Increased “non-standard” (part time, temporary) employment
- ▶ Downsizing exercises
- ▶ Trade as competition between jurisdictions to attract footloose capital
 - ▶ Domestic plant relocation (rise of the “Rust Belt”)
 - ▶ Neoliberal Globalization

Act I – The Neoliberal supply side

Table 2

U.S. Macroeconomic Performance Since 1960

	1960–1973	1974–1979	1980–1989	1990–2000
Unemployment ^a	4.9	6.8	7.3	5.6
Inflation ^b	3.1	9.6	5.6	3.1
Wage share ^c	57.4	59.1	58.4	57.7
Interest rate ^d	4.77	7.67	9.97	5.24
Worker insecurity ^e	NA	0.21	0.57	0.82

Notes: ^aUnemployed persons as a percentage of the civilian labor force (*Economic Report of the President*, 2004, p. 334). ^bPercentage rate of change of the CPI, all items (*Economic Report of the President*, 2004, p. 357). ^cCompensation of employees as a percentage of gross domestic income (Bureau of Economic Analysis National and Income and Product Accounts, table 1.11). ^dFederal funds rate (*Economic Report of the President*, 2004, p. 370). ^eIndex of worker insecurity (Setterfield 2005).

Act I – The Neoliberal supply side

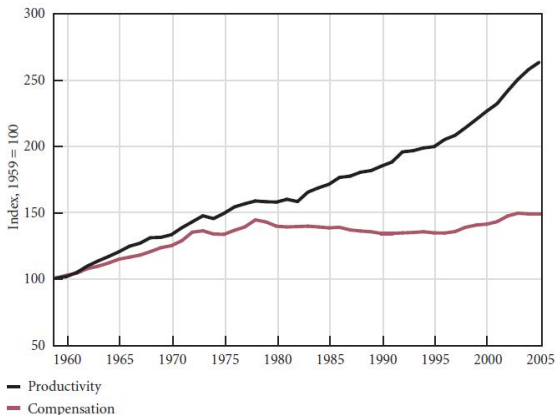
Caution: danger ahead

13. Indeed according to Palley (2002), the wage squeeze that has resulted from first the Kaleckian cold bath during the 1970s and 1980s and then the incomes policy based on fear during the 1990s has had adverse effects on the aggregate demand generating process in the U.S. economy, the full consequences of which have yet to materialize thanks to a series of aggregate demand “offsets” over the past two decades. The problem, Palley argues, is that these offsets are unsustainable. As such, the seemingly dichotomous treatment of the demand and supply sides in this paper masks the potential for a deeper malaise arising from the interdependence of supply and demand, as a result of which the supply-side “solution” to the problem of reconciling low unemployment with low inflation interferes with the process of demand generation so as to ensure that the potential for simultaneous low inflation and unemployment cannot be realized in practice.

Act II – The Neoliberal demand side

The real wage-productivity disconnect

Figure 1: Productivity and Hourly Compensation of Production and Non-Supervisory Workers, 1959-2005 (1959 = 100)



Act II – The Neoliberal demand side

Some simple (but uncomfortable) arithmetic:

$$Y = wN + \Pi$$

$$\Rightarrow 1 = w \frac{N}{Y} + \frac{\Pi}{Y}$$

$$\Rightarrow 1 = wa - \pi$$

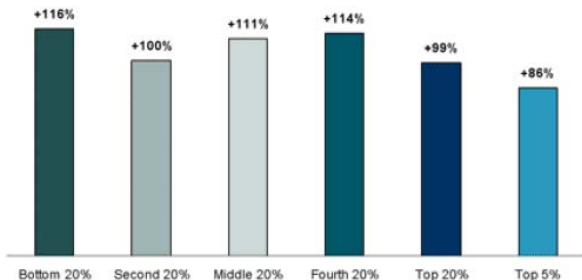
$$\Rightarrow \pi = 1 - wa$$

So a decrease in a (productivity growth) without and increase in w (real wage growth) increases the profit share of income!

Act II – The Neoliberal demand side

Incomes pre-1979: steady as you go

Figure 2: Change in Real Family Income by Quintile (and Top 5%), 1947-79

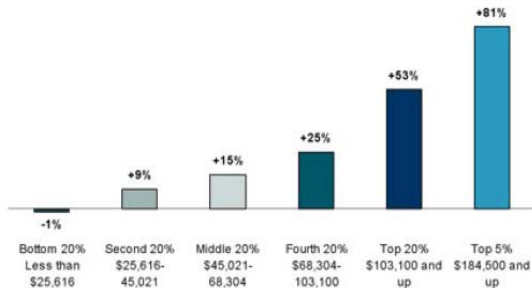


Source: Korten (2008, p.2)

Act II – The Neoliberal demand side

Incomes post-1979: mind the gap!

Figure 3: Change in Real family Income by Quintile (and Top 5%), 1979-2005



Source: Korten (2008, p.1)

Act II – The Neoliberal demand side

Debt to the rescue!

No income growth? No problem! Put it on the plastic!

But why did that happen?

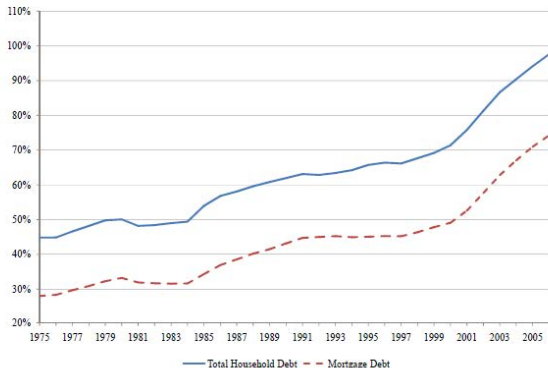
- ▶ Demand side – aspirations grow even if income doesn't
 - ▶ American Dream
 - ▶ Ramped up by product innovation + mass media + “keeping up with the Joneses” (consumption social not individual)
 - ▶ ALSO - “running to stand still”: making up for declining social wage (transfer of medical, education expenses from public sector to household sector)

Act II – The Neoliberal demand side

- ▶ Supply side – easier (and cheap) credit
 - ▶ widespread credit reporting increased lender confidence
 - ▶ financial “innovation”
 - ▶ “cash out” mortgage refinancing
 - ▶ “originate and distribute”

Act II – The Neoliberal demand side

Figure 4: Household Debt as a Proportion of GDP



Source: Cynamon and Fazzari (2008, p.18)

Act II – The Neoliberal demand side

Debt to the *rescue*? Or financial fragility and risk of collapse?

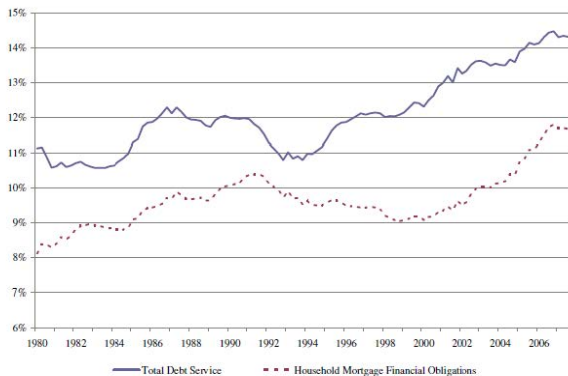
Table 1: Distribution of Household Debt by Income

<i>Household Type</i>	<i>Average Income</i>	<i>Average Debt</i>	<i>Debt/Income Ratio</i>
< \$50,000 (66% of households)	\$23,090	\$68,918	2.98
>\$50,000 (34% of Households)	\$112,232	\$157,681	1.40

Source: Palley (2002)

Act II – The Neoliberal demand side

Figure 5: Debt Service as a Proportion of Disposable Income



Source: Cynamon and Fazzari (2008, p. 22)

Act II – The Neoliberal demand side

Neoliberal US capitalism summarized:

- ▶ Neoliberal supply side (zapping labor)
- ▶ ⇒ real wage – productivity disconnect
- ▶ ⇒ rising income inequality
- ▶ ⇒ undermining of demand formation
 - ▶ problem masked by debt accumulation
 - ▶ but this unsustainable

Act II – The Neoliberal demand side

- ▶ RESULT: financially fragile and crisis-prone capitalism
 - ▶ 2007-09 financial crisis and Great Recession
 - ▶ subsequent depressed upswing (long but weak recovery)
- ▶ FUTURE: “winding up the clock-springs” of unsustainable debt accumulation *versus* secular stagnation

Act III – What is to be done?

Reform to the rescue?

- ▶ Post-war “Golden Age” – strong labor movement enforced “value sharing” norm of distributive justice, no real wage – productivity disconnect
- ▶ So reinvigorate labor movement!
 - ▶ workers have *incentive* to increase real wages at faster pace, so give them the means to *achieve* this end

Act III – What is to be done?

- ▶ Change labor law to make unionization easier, de-unionization harder
- ▶ Re-structure globalization – international commitment to common labor standards would avoid competition in labor standards resulting in “race to the bottom”
- ▶ Address de-industrialization: avoid policies that, e.g., create over-valued US Dollar resulting in manufacturing job losses

Act III – What is to be done?

BUT:

- ▶ Some deindustrialization inevitable – “maturity effect”
- ▶ Can international cooperation required for common labor standards be achieved?
- ▶ Domestic politics – e.g., formidable opposition to Employee Free Choice Act (2009) that would have made it easier to join, form, or assist unions

Act III – What is to be done?

If *causes* beyond reach, address *symptoms*?

- ▶ Raise tax rates on corporate profits, capital gains, high incomes; close tax loopholes that allow non-wage income to be hidden

BUT:

- ▶ Domestic politics again – e.g., even return to Reagan-era tax code now attacked as “irresponsible extremism”

⇒ **Neoliberalism an exhausted growth regime that is nevertheless institutionally entrenched?**

Lessons for Latin America

- ▶ US-centric story – any lessons for Latin America?
- ▶ Three big differences: level of development; exposure to external shocks; degree of neoliberalization (bargaining power of workers)
- ▶ Can't easily address first two – but latter (US incomes policy based on fear) easier to imitate
- ▶ BUT PLEASE DON'T!! Recent “inclusive development” model that seeks to accommodate conflicting claims through compromise essential because of:
 - ▶ lower level of development and corresponding higher absolute degree of inequality in Latin America
 - ▶ vision and leadership deficit in world economy as a whole
- ▶ But who's listening? Recent developments not encouraging.

Is reformist solution possible?

- ▶ Hobsbawm - “Golden Age” part of a “short twentieth century”, a transitory and remarkable confluence of:
 - ▶ strong labor movement
 - ▶ legacy of suffering (two world wars, Great Depression)
 - ▶ (IMPORTANT) actual existence of alternative (Soviet) mode of production
- ▶ Result – wealth inclined to “concede and rule”
- ▶ But now capitalism is the only game in town and the gloves are off: “proper” (nineteenth century) capitalism re-asserting itself
- ▶ Bleak vision – realistic or fatalistic?

The political economy of TINA: “managing the discontent of the losers”

- ▶ “Managing ...” a question of “less bread, a lot more circus”?
- ▶ Or did it also have a material base:
 - ▶ debt accumulation bolstered AD ...
 - ▶ ... but also diminished increase of *consumption inequality*
- ▶ Breakdown of debt accumulation dynamic gives full rein to C inequality and *material* discontent of the losers
- ▶ Political upshot: Trumpism, Brexit, preferences for dictatorship in Brazil, July 2017 UK elections?

Los Endos – literally?

- ▶ Basic need: redress the structural change that has hollowed out the American middle class, or at least address symptoms through taxes and transfers
- ▶ But good luck with even this (seemingly) modest “reformist” agenda
 - ▶ structural obstacles always formidable
 - ▶ fresh headwinds from Trump et al in the north
 - ▶ retreat from “inclusive development” model in south
- ▶ Last word #1: Closing Time in the Gardens of the West?
- ▶ Last word #2: The future has yet to be made!