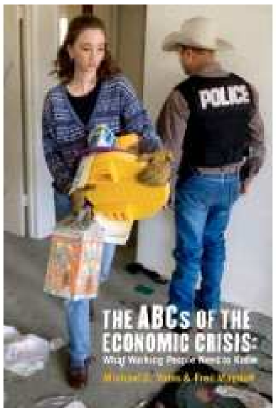
Interview with Michael D. Yates and Fred Magdoff

1. Mike Whitney---In your new book, "The ABCs of the Economic Crisis: What Working People Need to Know", you allude to right wing think tanks, like the Heritage Foundation and the American Enterprise Institute, which promote a "free market" ideology. How successful have these organizations been in shaping public attitudes about capitalism? Do you think that attitudes are beginning to change now that people understand the role that Wall Street and the big banks played in creating the crisis? ("The ABCs of the Economic Crisis: What Working People Need to Know" By Fred Magdoff and Michael Yates, Monthly Review Press)



Michael Yates: Corporate America began to wage what turned out to be a one-sided war against working people in the mid-to late-1970s, when it became apparent that the post-World War Two "Golden Age" of U.S. capitalism was over. As profit rates fell, businesses began to develop a strategy for restoring them. This strategy had many prongs, and one of them was ideological, that is, a struggle for "hearts and minds," to use a military term now being applied to Afghanistan. The presumed failure of Keynesian economics, marked by the simultaneous existence of escalating inflation and unemployment, gave the ideological struggle its foundation. Maybe there had been too many restrictions placed on the market, and these restrictions (minimum wages, health and safety regulations, laws facilitating union organizing in labor markets; public assistance in the form of money grants, housing subsidies, and the like; restrictions on the flow of money internationally) had led to results opposite those that liberal Keynesians had thought most likely. If these complex arguments could be tied to simple cliches, like "get the government off our backs," "the unions have gotten too powerful" (with always a hint that they are too radical thrown into the argument), and "welfare queens" (with that always popular whiff of racism), they could provide ideological cover for what was really a matter of corporate economics, namely the making of money.

This ideological attack bore fruit quickly. President Carter appointed Paul Volcker to chair the Federal Reserve Board of Governors, and Volcker, under the guise of fighting inflation, immediately began to snuff the life out of working class communities by forcing interest rates up to nearly 20 percent. Today, Volcker is treated like a hero by Democrats and above reproach (though ignored by President Obama's more right-wing economic advisors), which shows just how far to the right economic discourse has moved. What Carter began, Reagan completed, firing the Air Traffic Controllers and putting the nail in labor's coffin. Behind the scenes in all of this and growing in strength for the next twenty years (funded by wealthy business leaders) or so were the right-wing think tanks you mention. Just as retired generals go to work for military contractors and defeated politicians become lobbyists, government economic advisors get jobs at Heritage or the American Enterprise Institute or the Cato Institute. The staffs of these ideological centers churn out endless position papers and studies, which find their way into our newspapers and the offices of our congresspersons. A gigantic network of professors, journalists, politicians, lobbyists, and, today, a television network (Fox) bombard us with right-wing propaganda. That all of this has been successful is seen by the fact that the shibboleths of neoliberalism—such as the needs for privatization of public entities, the free reign of markets, the obviousness of the success of welfare reform, the evils of raising the minimum wage—are all commonplaces today.

While the public now knows that something is rotten, I am not sure that neoliberal ideas are so under attack that they will lose their sway. I think that the tenacity of these ideas owes something to the lack of an ideological alternative, which, in turn, is due to the abject failure of organized labor to provide one. For example, we need universal health care. Labor, however, has not consistently argued in favor of this or supported it at all. Now Congress is poised to enact healthcare legislation that might well be worse than the profit-driven system we have all come to hate. Labor should refuse to support this legislation, but I doubt it will. Then, when the new healthcare plans fail to deliver the goods, the right-wing will be lying in wait, ready to pounce and say, "See, we told you so. The government always makes things worse." In other words, until there is a radical ideology to replace right-wing thinking, the latter is unlikely to lose its drawing power.

Fred Magdoff: Although these institutions were very successful, along with a number of other forces, in shaping public attitudes toward the economy, the reality of the current severe economic conditions are causing many, including some economists, to rethink their views of how "efficiently" markets function in the real world (as opposed to their ideological make-believe world) and that some different approaches may be needed. People seem to understand that the "big players" played a major role in the crisis, but most of the anger has been placed on the outrageous salaries of the top echelon. Of course, this is just "chump change" compared to the massive amounts at that are transferred to the wealthy through the speculative casino that our economy has become.

2. MW---Socialism has a huge public relations problem. Wouldn't you agree that socialism has been effectively discredited in the U.S. media and that, even now--with unemployment soaring at 10 percent and more than 300,000 foreclosures per month--the average American worker still believes in the virtues of capitalism? How do you explain this phenomenon?

Michael Yates: Part of my answer here can be seen in my response to your first question. Socialism has, indeed, been discredited here, partly due to its rejection by its natural supporter, namely the labor movement. The CIO expelled in the late 1940s and early 1950s the left-wing forces who built the great industrial unions. When it did this, it abandoned the worker-centered ideology that might have laid the basis for support here for at least the kind of social democracy we find in the Scandinavian nations. This left the ideological field to the enemies of social democracy and socialism. Of course, we cannot ignore the long and inglorious history of police-state repression of those persons and organizations that championed socialism. Our government has never hesitated to arrest, imprison, and even kill the enemies of capitalism. So it has been dangerous to be a radical here, though not so much today when radical ideas aren't taken seriously and there are no powerful radical organizations left. Suppose that after the Second World War, the left in the labor movement had grown, and the left-led unions had continued to successfully organize workers and win good collective bargaining agreements. Suppose that they had built upon their impressive worker education programs, made inroads in the South, and fought hard against U.S. imperialism and the Cold War. We might have a much different political terrain on which to fight today.

Two other factors that must be considered in the attachment of the working class to capitalism are racism and imperialism. In the past, employers routinely pitted white workers against black, and one weapon they used was to associate black workers (and the civil rights movement) with communism (It was interesting to note in this connection the attempts to make Obama out to be a radical socialist). The claim that black union supporters were reds helped to solidify white support for capitalism. By the same token, anti-imperialist struggles in the poor nations of the world (often former colonies of the rich countries) were typically led by political radicals. These could be made out to be anti-American, and then those in the United States who allied themselves with these struggles could also be labeled anti-American, despite the fact that they might also be supportive of policies that would benefit working people. The schools and the media could be counted out not to try to set anyone straight on any of this.

Now, having said this, I must also say that to the extent that left forces in the United States identified themselves uncritically with the former Soviet Union and its extremely undemocratic political system, they sometimes played into the hands of those opposed to socialism. And I must also admit that socialist forces were, at their strongest, never powerful enough here to force their best ideals permanently into the consciousness of the working class majority. Finally, in the past, the success of capitalism in the United States allowed for some sharing of the wealth with workers, and this, too, made people less willing to entertain radical ideas.

Old and deeply ingrained ideas die hard, and unless there are forces at work to develop new ones and unless there is at least widespread experimentation with new ways to organize production and distribution, little is likely to change, even in the face of economic catastrophe, such as so may working men and women are facing right now. Quite the contrary, workers might be persuaded that actions detrimental to their long-term self-
interest need to be taken, such as, for example, draconian measures against immigrants.

Fred Magdoff: There is no question that the term socialism has a public relations problem. But while it's true that most people don't fully understand the basic workings of the capitalist system nor what socialism is, there are indications that many people are ready to talk about alternatives—and that includes socialism. The positive public response to Michael Moore's movie, "Capitalism," is one indication. But a Rasmussen poll last spring found that only 58% of American's say that capitalism is better than socialism. For adults under 30, 37% preferred capitalism and 33% preferred socialism. It's not clear what the poll results really mean. But it does indicate that people are willing to hear about and talk about alternatives to capitalism.

3. MW---In a chapter titled "Neoliberlism" you focus on the disparity of wealth in the US today. Here's an excerpt:

"By 2006 the top 1 percent of households received close to a quarter of all income and the top 10 percent got 50 percent of the income pie. In 2006, the 400 richest Americans had a collective net wealth of $1.6 trillion, more than the combined wealth of the bottom 150 million people. This degree of income and wealth inequality was last seen just before the beginning of the Great Depression." (pg 50)

Let's ignore the moral issue for now, and focus on the supply/demand question. Is it possible for an economy to produce sufficient demand when more and more of the wealth and income goes to the upper 5 or 10 percent of the population? (isn't this proof that capitalism is inherently crisis-prone?)

Michael d. Yates: If a certain amount of output is produced, an equal amount of income is generated. So, conceptually, there could be enough demand to buy the output, no matter that the incomes generated are getting more unequally distributed. It certainly has been the case that the rich people now getting such a large share of the pie spend gobs of money. And rich foreigners spend a great deal of money in the United States as well. However, the rich also save a lot of money (the more they get, the more they save), and this money does not enter immediately into the spending flow. Working people, on the other hand, can be counted on, by virtue of the limited income that they command, to spend all of their income. Therefore, the more income the rich have, the more savings there will be, and, unless some way is found to convert all this saving into spending on newly-produced goods and services, the more likely it is that there will be a crisis caused by not enough spending (and its corollaries of unsold goods and services and unemployed labor). If we understand that growing inequality is the normal trajectory of capitalist economies, a trajectory only mitigated by the power of organized working people to win a bigger share of the pie for themselves and to compel the government to intervene in the marketplace on their behalf, then it is correct to say that capitalist economies are crisis-prone for this reason alone.

Growing inequality also creates other potential problems for the system. Sometimes it can generate a political crisis, a crisis of legitimacy so to speak. The rich exert tremendous political power, and this power grows as those at the top command a larger and larger share of a society's income. To the rest of us, the game looks increasingly rigged, with us having little chance to improve our circumstances through individual efforts. More inequality also has harmful social and economic consequences that we don't normally think of. Recent research has shown that if we compare two entities (two states in the United States, for example) with equal average incomes but different degrees of inequality, then the we compare two entities (two states in the United States, for example) with equal average incomes but different degrees of inequality, then the place with more unequal incomes will also have higher rates of infant mortality, arrest and imprisonment, school dropouts, low infant birth weights, and many other measures of social well-being. Growing inequality actually kills some of us, makes some of us sicker, and puts some of us in jail.

I want to add an important point. To say that capitalist economies are crisis-prone, because of a tendency toward income inequality or whatever other reason, is not the same as saying that these economies are on their deathbeds, no matter how severe a crisis may be. It is possible for an economy to exist in a crisis or a prolonged period of slow growth (stagnation) without it being ready to collapse. In the end, it is political struggle, that is, class struggle, that truly destabilizes an economy and generates conditions in which it is possible to imagine the birth of a new system.

Fred Magdoff adds: It is one of the many contradictions of the system. If ordinary folk are paid well they can buy a lot of stuff and help keep the system going. So from the point of view of the system as a whole, higher paid workers would help the economy. However, there is only one driving force for individual capitalists--and that's to make as much money as possible. What might be better for the overall economy can be of no concern to the individual trying to maximize profits. For an analogy, let's take a look at ocean fishing. Almost every fish species is being fished to the point at which the population crashes. It would make sense for all of the companies operating the large trawlers to cooperate and fish less in order to preserve the resource on which they depend. So what's good for their long-term future is sacrificed as each individually tries to maximize their catch and therefore profits.

4. MW---Here's another excerpt from the book: "In 2006, the financial sector employed about 6 percent of the workers but 'produced' 40 percent of the profits of all domestic firms."(pg 56) A few paragraphs later you add that, "Making money without actually making something turned out to be the largest growth sector of the U.S. economy from the early 1980s to the present crisis."

This seems to imply that as manufacturing and other parts of the "real" economy have become less lucrative, the trading of paper assets has become Wall Street's new profit-center, the Golden Goose. What impact has the "financialization" of the economy had on ordinary working people?

Michael Yates: I think that an answer here has two parts. First, it was the neoliberal "revolution" begun in the 1970s that did immense harm to working people. For example, unionization rates began to fall dramatically in the 1980s, as Reagan began his "magic of the marketplace" assault on the working class. Real wages (the purchasing power of our paychecks) began to stagnate in the 1970s and are not much higher today than then. Relatively high-wage public employment began to endure a long period of privatization, which also damaged working class living standards. The move toward "free trade" did workers here no good, as manufacturing began to flee our shores for low-wage havens abroad. None of these things had to do with financialization per se.

Second, however, once the neoliberal attack on working class living standards took hold and incomes began to flow upward, those with a great deal more money began to look for ways to put this money to work. The corporations that they owned also had higher profits, and they did the same. The United States has always had a robust financial sector, though in the past, it was not the tail that wagged the dog as far as our system of production and distribution was concerned. Neoliberalism brought with it a deregulation of international movements of money and goods and services. [It is important to note that we see neoliberalism as a political response to capital's quest for restored profits beginning in the mid-1970s when the post-Second World War two economic boom ended and the slow growth (stagnation) common to mature capitalist economies reasserted itself.]
These, in turn, required a certain amount of financial innovation, to reduce, for example, the risks of fluctuations in currency exchange rates and sharp changes in political conditions that could threaten investments. From these innovations came still more, until finance began to take on a life of its own. And while neoliberalism and direct corporate actions inside workplaces did reduce costs and raise profits, they did not create nearly enough capital spending opportunities (investment) to absorb the growing individual savings and business profits. Finance of one kind or another then began to be seen as a place to dispose of surplus and make still more money. Leveraged buyouts, stock market speculations, real estate "investments," all took off from the 1980s on, absorbing money that could not find enough opportunities in the real economy of production. As these things happened, financial "innovation" exploded, with all of the alphabet soup of financial instruments we describe in our book.

This explosion of finance proved detrimental to working people in a number of ways. Leveraged buyouts inevitably resulted in the hollowing out of what were often perfectly viable businesses. Companies were saddled with debt, assets were stripped and sold, and workers were furloughed by the tens of thousands. The inflation of asset values gave rise to the notion that it was the job of managers to increase the share price of their businesses—in any way possible. Businesses came to be thought of as mere collections of assets rather than entities that produced things. Asset inflation gave rise to asset speculation and the development of ever more complex financial instruments, all leading sooner or later to financial bubbles and the inevitable bursting of the bubbles. As we have seen, the bursting of financial bubbles has had tremendously negative impacts on working people: shuttered workplaces and unemployment to name but the primary ones. The last bubble, in real estate markets, was harmful to workers not only after it burst but also as it was developing. In the aftermath of the dot.com bubble, Alan Greenspan, former Chairman of the Fed Board of Governors, directed Fed policy to pressure interest rates down to very low levels. This helped to push loose money into real estate.

As house prices began to rise, banks and brokers started to encourage working people to do two things: borrow money against the appreciated value of their homes and buy homes, either as first-time buyers or as purchasers of more expensive homes (after selling old ones). Working people were eager to do both because they saw houses as sources of cash to compensate for stagnating household incomes and as a form of wealth that could help secure them against the hazards of ill health, lost pensions, or college-age children needing money for school. Working class households began to take on large amounts of debt, making themselves more vulnerable, even as they thought they were making wise financial decisions. Ironically, those who saw their incomes rise so high because of neoliberalism were now, in effect, loaning money to those who didn't fare so well. As banks accumulated mortgages, farsighted Wall Street swindlers saw golden opportunities to develop a slew of new financial instruments based upon the packaging and repackaging of mortgages into new and exotic instruments. Greenspan played their shill, arguing that they had uncovered the secret of hedging infallibly against risk. From here it was but a short step to the criminal schemes of Countrywide and a host of other financial institutions. The billions of dollars made were used not only to finance a new gilded age of revoltingly lavish consumption but to corral the most tractable politicians money could buy.

Fred Magdoff adds: Financialization of the economy created the possibilities for people to take on more and more debt—credit cards, new cars, 2nd mortgages, etc. It was the selling of a lifestyle way beyond people's ability to pay for it plus the easy access of loans that created the bind that many people find themselves in today. In essence, it allowed people to live beyond their means. They were encouraged to take on debt as their house values seemed headed up forever, and the great rise in foreclosures and bankruptcies is the unfortunate result of the financialization of the economy. Also, those people who had retirement money in individual accounts or with pension systems and thought that they had become very wealthy, now found themselves with much less to rely upon.

5. MW---In the last couple of decades, consumer debt has skyrocketed, as you note, "doubling from 1975 to 2005, to 127 percent of disposable income." (pg 60) Have we gone as far as we can without deleveraging and paying down debts? What happens to a credit-dependent economy when the consumer can no longer increase his/her debt-load? Is this just the beginning of a decades-long down-cycle?

Michael Yates: Certainly no entity—not a person, a family, a business, even a government— can take on rising levels of debt (relative to income) indefinitely. Sooner or later, the piper has to be paid. Working-class consumers took on large amounts of debt, to compensate in part for stagnating wages and incomes, and, it is important to note, to pay for health problems and other household traumas. This meant that the burden of the debt rose, since income wasn't rising as fast as the debt, and also because the interest rates charged on credit cards and subprime mortgages were so high. We at Monthly Review have been decrying the rise of consumer debt for many years, and we said that the debt chickens would come home to roost sooner of later. I must say that I was surprised that debt could be broadened and deepened for so long. The ingenuity of creditors in extending loan periods and devising so many new forms of debt has to be admired for its audacity. Then, the ways in which these debts were packaged and sold so that more debt could be extended was truly breathtaking. Unfortunately, consumers ultimately couldn't pay and all hell broke loose. Now, with so much unemployment, workers are truly strapped. They will not be borrowing so much or spending so much anytime soon. [One interesting recent development is that, as some households have defaulted on debts or simply stopped making payments, consumer spending has showed a bit of an upward tick!] So the question arises: what spending will fuel a sustained recovery? It won't likely be consumer spending. Capital spending was stagnating to begin with and was the root cause of the crisis. There are no new "epoch-making" innovations on the horizon that would generate the amounts of investment that were brought forth by the automobile. U.S. exports seem a very unlikely demand support. That leaves the government. In a capitalist economy, especially one like the United States with its lack of a history of generally accepted public spending, it seems very unlikely that public spending will make up for shortfalls in aggregate demand. Already, there are widespread entreaties (and not just from the far right) urging the federal government to wind down in spending programs—well before, I might add, the economy has recovered. As we see it, the United States is, indeed, in for a long period of stagnation, a "down cycle" as you put it.

Fred Magdoff: This is one of the major constraints on the system. The economy is in a process that economists call "deleveraging," which is just another way of referring to somehow getting rid of debt. Some are able to pay off what they owe, a few are able to renegotiate down some of their debt, many are losing their homes, and some are going bankrupt. Until this works its way out, and a lot of debt is shed one way or another, there will be a drag on the "consumer" portion of the purchases. This is particularly significant to the U.S. economy because it is so dependent on consumer purchases—in 2007, these absorbed approximately 70% of the goods and services produced.

6. MW--- "The ABCs of the Economic Crisis: What Working People Need to Know" is as lucid and compelling summary of the financial crisis as any I have read. In the closing chapter you state that capitalism is undergoing a "crisis of legitimacy" and that "the system can never deliver what is needed for us to realize our capacities and enjoy our lives...That "instead of private gain" the purpose of society and the economy is "to serve the needs of people, by providing the necessities of life for all, without promoting excessive consumption (consumerism) while protecting earth's life support systems."

All of the things that which kept capitalism in check--progressive taxation, crucial regulations, and the power of unions--have either been reversed, repealed or greatly eroded. More and more people are beginning to see the greed which governs the system, and it scares them. But is the country really ready for structural change or will the vision of an economy which "serves the needs of its people" be dismissed as "pie-in-the-sky" Utopianism?

Michael Yates: Well, first thank you Mike for the kind words. They are much appreciated. Typically, the best we have been able to hope for from the public in the United States has been an amorphous populism; people are willing to say that the system is corrupt and that it is biased in favor of the rich. But proposals for change, much less a radical transformation of the economic system, are rare commodities. I think things would be different, however, if we had a real labor movement, one that was rooted in communities, broad in its composition, and not afraid to have principles and stand by them come hell or high water. This should be the lesson that progressives learned from the right-wing. The talking heads of Fox may seem insane to us, but they and their intellectual gurus almost never deviate from the set of reactionary principles with which they began to transform the "common sense" of the nation. We suggest at the end of our book that we ought to ask ourselves if a return to the pre-economic crisis status quo is what we want. In the best of times, there is plenty of unutilized labor, a degraded environment, poverty, dead-end jobs, and much more that is not so desirable. So we chose a number of alternative outcomes to what we have now that we think have mass appeal, from universal healthcare to basic food guarantees. However, as you say, these might well, and I think will cause people to react with a pie-in-the-sky indifference.

What might make working men and women stand up and take notice would be for these goals to have a mass-based advocate, one that would make these goals matters of rigid principle and begin to fight for them through mass actions. We might think that the right-wing ideologues we see on television are insane. Yet, come hell or high water, they stick to their guns. Their political and economic adherents have wielded tremendous power for a long period of time, and even today when they seem to be losing their grip on the national "common sense," they can still mobilize the faithful. The left needs to take a lesson from this. More particularly, the labor movement must take a firm and rigid stand on issues like national health care, food security, environmental degradation, full employment, good and cheap housing, U.S. war-making and imperialis, racism, and a host of others. Then it must educate members rigorously and constantly about such principles. Most importantly, it must begin to actively fight to achieve them, activating its millions of members and allies, wherever it can find them. It is through action, bold and unafraid, that people's minds will get changed and a new "common sense" developed.

Having said this, I think it is clear that the labor movement, as currently constituted, is not up to the tasks at hand. Too many unions are moribund, stuck in the failed labor-management cooperation mind set of the past and run by people too old and infirm to do much of anything. So, not only will we have to have a worker-led opposition to the status quo, fighting to change it radically, but this opposition will have to be built on a new basis. There are some hopeful signs, such as the development of community-based worker centers, mainly in immigrant communities. These may be models for the labor movement of the future.

Fred Magdoff: Just getting what should be the most reasonable reforms through Congress is a major effort, which usually fails or is corrupted in the process. Look what's happening with health care "reform." Even if a "public option" is finally part of the bill, it will be a bill that helps some people, but is primarily a boon to the health care industry, which will get a lot of new revenue. It's not a bill designed with the single purpose in mind: how can we supply medical care for everyone at reasonable cost. Rather it's a bill designed with significant input from the for-profit sector that will end up supplying them with extra profits. It is clear that government-run systems (and there are a variety of ways to do this) are far cheaper and more efficient and can actually cover everyone. SO, it seems as though piecemeal reform is a) very difficult to obtain and b) can be reversed as the power of the wealthy increases. A system is needed that can break the power of the wealthy and create a real political and economic democracy in order to be able to meet the basic needs for all the people.

Michael D. Yates and Fred Magdoff, "The ABCs of the Economic Crisis: What Working People Need to Know" Monthly Review Press, New York

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