

## Occupy Wall Street and the Twilight of American Capitalism

**Description:** Occupy Wall Street has grown from an isolated protest act to an international movement and media sensation. Yet what does this movement represent? This talk examines the meaning of Occupy Wall Street in the context of a crisis in American capitalism and democracy that has its roots in the rise of Reaganism, Thatcherism, and the transformation of the global economy that began in the 1980s and which came to a crash in 2008. Occupy Wall Street challenges America with an alternative choice regarding how to structure domestic and international economic and political institutions.

### I. Introduction

- A. Nearly a generation ago after the collapse of Soviet Marxism writers such as Francis Fukuyama proclaimed in *The End of History* that western capitalism had won. More specifically, writers such as him and later Thomas Friedman in *The World is Flat* heralded that free markets had emerged as the winner in the Cold War and that the future was one of less government intervention in the economy in an increasingly globalized capitalist economy. The winners would be those with flat economies fully integrated into the market, the losers those outside. The triumph of capitalism and the fall of the Berlin Wall had proven Marx wrong.
- B. However much in the same way that Mark Twain once stated that news of his death was greatly exaggerated, so too is the victory of capitalism, at least American capitalism.
- C. The western banking crisis and global recession produced as a result is an historic event on two counts.
  1. First state intervention to save the banks and the free market from itself undermine whatever remaining legitimacy there is in the intellectual foundations of neo-liberalism and American capitalism, setting the stage for a new vision of the world in ways that have not been seen since the 1930s.
  2. It, along with the striking aggravation of economic inequality and decline of America has given birth to the Occupy Wall Street movement.
- D. Today I wish to discuss and assert five core arguments as we assess the state of globalization and capitalism in 2009.
  1. Contrary to Fukuyama the end of history is not here.
  2. American capitalism has not won.
  3. The collapse of western banking have rendered Neo-liberalism, globalism as we know it, and the American capitalism to the dustbin of history.
  4. We are at a world historical moment in capitalism and the events that will transpire are an opportunity to remake the world along the lines that can significantly realign political and economic power in the world.
  5. This is the message of Occupy Wall Street.

### II. Francis Fukuyama and the End of History Thesis

- A. Throughout history historians and philosophers often proclaim the end of history.
  - 1. Christian millennium
  - 2. Hegel: The Owl of Minera only spreads its wings at dusk
  - 3. End of Ideology debate in the 1960s
    - a. Capitalism won and we had figured out how to live the good life.
      - (1) No mor ideology only teche
      - (2) Not the ends but only the means
  - 4. But the 1970s shook the foundations of the post WWII political economic order of the west
    - a. High unemployment
    - b. High inflation
  - 5. James O'Connor's *Fiscal Crisis of the State* (1970s)
    - a. Dual functions of the state
      - (1) Maintain profits
      - (2) promote legitimacy
    - b. Two functions in contradiction and efforts to pursue them would produce a western financial crisis (which did exist in the 1970s).
    - c. **Will return to the fiscal crisis issue later**
- B. The rise of Thatcherism and Reaganism as a response to the legitimacy and solvency of the Post WWII order.
  - 1. Shed many core state functions that would reduce expenditures.
- C. **The Great U-Turn by Bennett Harrison and Barry Bluestone**
  - 1. The restructuring of American capitalism to address the fiscal crisis and the profitability squeeze
    - a. Anti-unionism and PATCO
    - b. Cut taxes
    - c. Cut regulations
    - d. Cut social welfare net
  - 2. Discipline labor
  - 3. Results
    - a. Stagnate wages renewed short term profitability
- D. The fall of the Berlin Wall, the collapse of European Communism, and the apparent triumph of capitalism led some to conclude that the West had won, Liberalism had vanquished all it foes, and the end of history had arrived.
- E. It is out of these twin events that the core of Neo-liberalism emerged.

### III. Defining Neo-liberalism and American capitalism

- A. Characteristics
  - 1. The ideology to organize the means of production
    - a. Committed to the laissez-faire market fundamentalism ideology that traces back to Adam Smith and David Ricardo
    - b. Belief in comparative advantage
    - c. Minimalist state and belief in market freedom

- d. Driven by finance capital
- e. End of ideology (Francis Fukuyama's *The End of History*)
- f. Globalism
  - (1) Globalism and neo-liberalism is best understood through the lens of Thomas Friedman's work.
  - (2) *The World is Flat: A Brief History of the Twenty-First Century*, NY: Farrar, Straus, and Giroux.
    - (a) A frictionless flat world
      - i) The question: How flat do you want to be? How much friction should government remove via deregulation to make for a flat world (216).
      - ii) The line between those who are in a flat and non-flat world is the line of hope (376)
    - (b) **Friedman summary**
      - i) The world is or should be immune to political-geographic borders
      - ii) Free flow of capital
      - iii) Minimal government regulation and restrictions
      - iv) Development of tax policies to enhance wealth accumulation and profit taking
    - (c) Characteristics
      - i) NAFTA
      - ii) GATT

#### IV. **The Neo-liberal Crisis Today**

- A. For a time from the 1990s neo-liberalism appeared to reign supreme but now the world economic crash and the rush for state intervention suggest that Fukuyama, Friedman, and company not so right.
  - 1. There may be problems in the world but are the problems simply some minor blips in the neo-liberal model or is the World capitalism system itself the problem.
  - 2. A new fiscal crisis
    - a. Maintain solvency of capitalism without also bankrupting the capitalist state
    - b. Need to spend to save system, promote capital accumulation, but also spend on social programs to maintain legitimacy

#### V. **Occupy Wall Street**

- A. Occupy Wall Street is a cacophony of voices speaking a simple message about the structural economic and political inequalities in America and perhaps around the world. Sharing affinities to the 1999 World Trade Organization protests against

globalization, OWS looks to the growing power of global financial institutions and their stranglehold on governments around the world.

- B. OWS points to how the Bush and the Obama administrations loaned or credited trillions to banks and the too-big-to-fails to bail them out after they gambled on Wall Street, only to see homeowners face record loss in their houses and illegal foreclosures by these institutions. Tax breaks and loans are provided to the big auto companies but little is done to help the unemployed. The banks of Europe are recapitalized by the International Monetary Fund and the European Central Bank, but Greece and Italy are compelled to take haircuts. Democracy has taken a backseat to saving capitalism. This is one message of OWS.
- C. While Rome and the rest of the world burns, Nero fiddles. At least in this case, the fiddling is done by the Republican presidential candidates who assert that all that ails the economy can be cured by more tax cuts and free markets. But while the GOP fiddles, a host of interesting studies have come out recently documenting and criticizing the ideology of Cain, Bachmann, and company, as well as offering some insights into the state of the American economy. These reports are worth noting since they have received scant notice in the mainstream media.
- D. **The rich are getting richer, the poor poorer, no matter how you examine it.**
  - 1. In October a Congressional Budget Office report documented the growth in income in the United States from 1979 to 2007. For those in the top one-percent bracket, their income increased by 275%. For those in the top 20%, it increased by 65%, for the middle incomes it was a 40% increase, and for those in the bottom 20% it was measly 18%. In 2010 the Census reported the richest five percent of the population accounted for 21% of the income, with the top 20% receiving over 50% of the total income in the country.
  - 2. Moreover, the latest Census figures point to a poverty rate in 2010 of 15.1%, representing a record 46 million people in poverty. But earlier this month the Census Bureau issued a new report recalculating what constitutes poverty—noting that current estimates are based on an outdated methodology from 1960s. This measure for calculating poverty did not include government transfers (welfare) or tax cuts when making estimates, and it also did not reflect the current spending patterns of Americans. Using new measurement tools which the Census Bureau calls the Supplemental Measure of Poverty, the study concluded that the poverty rate is actually 16%—higher than the old estimate—constituting more than 49 million individuals in poverty. So much for welfare queens getting rich on the system.
- E. **Poverty is spreading to the suburbs.**
  - 1. There is a geographic basis to poverty. Generally the assumption is that poverty is concentrated to the urban cores of major cities. One way to measure the spatial dimension to poverty is to use Census data. Census tracks where 25% or more of the households live in poverty are referred to as high-poverty neighborhoods and those with 40% or more of the households in poverty referred to as extreme-poverty neighborhoods. Concentrated

poverty is a problem because of the issues surrounding low economic opportunity, high government social service costs, and crime.

2. Looking at concentrated poverty across the United States, the Brookings Institute recently concluded that 10.5% of all individuals lived in extreme-poverty neighborhoods, up from 9.1% in 2000. Estimates are that more than 15% overall live in concentrated-poverty neighborhoods, with the most rapid growth occurring in the suburbs.
  - a. The Twin cities metro region is not immune with 9.4% of the population living in concentrated poverty neighborhoods that include some suburbs but mostly the Minneapolis-St Paul urban cores. These trends parallel 2000 Census data demonstrating the gravitation of poverty from the cities to the inner ring suburbs, creating really a two-tiered metro region marked by affluence and poverty.
3. Similarly, in the just released Stanford University/Russell Sage Foundation's *Growth in the Residential Segregation of Families by Income, 1970-2009* researches found that America was becoming increasingly segregated by income. In 1970 only 15% of families were living in affluent or poor neighborhoods but in 2007 it was 31%. They researchers also found that high-income households were less likely to be found in mixed income neighborhoods than the rest of the population. In general the percentage of Americans dwelling in middle income neighborhoods was dwindling and, in fact, these types of residential neighborhoods were shrinking. Overall the study noted the increased economic and racial segregation in this country with individuals of different classes less and less likely to come into contact with those from other social-economic backgrounds. America has become a tale of two cities.

F. **Taxes really are not job killers.**

1. To hear the Republican contender talk, high taxes are killing the economy and forcing companies out of business. Three reports again reject this contention.
  - a. The Bureau of Labor Statistics compiles data on reasons for mass layoffs. In their most recently survey that covers 2010 and 2011 factors such as cancellation of a contract or order for goods, insufficient demand for products, and increased automation account for the vast majority of layoffs. High taxes do not even appear on the list as a reason.
  - b. Second, the National Federation of Small Businesses (NFIB) recently completed a survey asking small businesses what is the single biggest problem they face. Taxes came in third, with poor sales listed as the biggest issue.
  - c. Third, the Citizens for Tax Justice recently released a report *Corporate Taxpayers & Corporate Tax Dodgers* documenting the biggest businesses who have failed to pay their fair share of taxes. Among the worst offenders, corporations such as GE, Dupont, and

Boeing, and Wells Fargo paid no income taxes from 2008-2010, let alone the theoretical 35% to corporate. The Citizens for Tax Justice report documents scores of blue chip American companies that failed to pay any taxes during these three years, questioning the claim that high taxes are depressing employment and their economic growth.

- d. Moreover, in addressing the arguments made by Herman Cain and others that high corporate tax rates discourage American companies from repatriating \$1.2 trillion in money being held overseas, the *Corporate Taxpayers* study points out that corporate tax rates in other countries are often significantly higher. Additionally, if there is a tax advantage to off-shoring jobs it comes only because American law allows for a permanent deferral on foreign profits. The solution is simple—repeal the deferral and do not allow corporations to use the tax code as an incentive to out-source. Overall, the United States government is facilitating this problem by adopting policies that encourage evasion.

G. **Declining social mobility**

1. An Organization of Economic Cooperation and Development (OECD) study found that social mobility in the United States ranked far below that of many other developed countries (2010). Nearly half of the economic advantage parents have is transmitted to their children; this number is nearly two-and-one-half times that of Australia and Canada (OECD, 2010). The biggest cause of social immobility, according to the report, is declining educational opportunities for many students. Other studies similarly point to declining social mobility in the United States that makes it difficult for individuals to rise from one socioeconomic status to a better one (*Economist*, 2005, 2010; Newman, 1993).

H. **Summary**

1. In the early part of the 19<sup>th</sup> Century Alexis deTocqueville wrote in *Democracy in America* of an America characterized by equality of conditions.
2. American legend is of the story of Horatio Alger
3. An America of a robust rising middle class where we are all in it together and a rising tide raises all boats.
4. Sadly, little of this is now true.
5. The message from all these studies point to a nation increasingly divided by income, region, and class. To a country where the rich pay little taxes or better yet, are able to use the tax code to their advantage. And to a world where in reality, unemployment and slow economic growth are not due to high taxes but to other factors.
6. A political system also torn by class divides.

- I. Occupy Wall Street is about highlighting these facts, seeking to reintroduce the simple concept that capitalism is meant to facilitate democracy and not vice versa.

## VI. What is to be done?

- A. While one may doubt that the actions of the west to save the banks are a sign of the communist revolution, what is clear are three points.
  - 1. First, both Milton and Thomas Friedman are wrong. Government intervention to save the world economies demonstrates the poverty of neo-liberalism. Even if it survives in some mutated form, it is intellectually dead—the market as a stable self-regulating entity is fiction.
  - 2. Second, if any economies emerge as winners it is those whose markets were not flat to use Thomas Friedman's term.
  - 3. Finally, we are at a defining point in history much in the same way it was after the stock market crash of 1929 and the United States presidential elections of 1932. The elections this year, along with the actions of the other major western economies, have the potential to reshape the world for generations to come.
  - 4. In 1933 FDR turned down opportunity to nationalize the banks. Not this time. Control the credit
- B. Charles Lindblom
  - 1. Market is a prison
  - 2. Business control the power to invest and deinvest
  - 3. I am not persuaded they can do it for the public or world good

## VII. Conclusions