“Saving Capitalism No Sure Thing…”

[This is a letter I sent to friends on Dec. 22, 2008, along with an article expressing the frantic worries of the capitalists. –S.H.]

Hi everybody,

Below is an interesting article from Bloomberg News, one of the leading business news sources in the U.S. The article is about the angst which is growing among the U.S. capitalists about their current necessity to drastically increase the government intervention in, regulation of, and even ownership of important parts of the previously “private” economy. They see this expansion of government’s role in the economy as necessary, but at the same time extremely scary—partly because of their (erroneous) ideological beliefs that capitalism requires private enterprise and that government ownership and control of the economy is “socialism”.

The article itself does not mention the Satanic word “socialism” (that is, Satanic in their milieu), but the title is “Saving Capitalism No Sure Thing as Statism Undermines Economy”. That title and article are interesting on several levels.

First, the more polite word “statism” is used (rather than what they really think of as “socialism”). Actually this “statism”/“socialism” is just state capitalism—that is, capitalism where the ownership and/or control and regulation of the capitalist enterprises is more and more by the capitalist state on behalf of the capitalist class as a whole. We really are seeing in our time something approaching the complete failure of “free enterprise” or “private enterprise” as it has traditionally existed. This is definitely hugely significant.

Second, it really is true that the capitalist class should be worried about the continued vibrancy of capitalism in the state capitalist form. After all, look at what happened in the revisionist Soviet Union from the mid-1950s until its final collapse in 1991. The revisionist state-capitalist Soviet Union failed in its competition with Western-style capitalism primarily for economic reasons.

While both capitalist forms have tremendous degrees of monopoly/oligopoly and the stagnation and moribund character that inevitably arises out of such seriously reduced levels of competition (when combined with the exploitation of labor in the form of surplus value), obviously the situation was much worse in the Soviet Union. As I like to describe it, the revisionist Soviet Union in its last 4 decades was in essence “one big monopoly capitalist corporation”, and as such it sank ever deeper into stagnation and crisis.

But while Western-style monopoly capitalism was comparatively more efficient and vibrant than Soviet-style state monopoly capitalism, and therefore won out in the great economic contest between the two, now we see Western-style capitalism itself turning more and more *into* that same moribund state capitalism! Surely this is one of the great ironies of history. Even if the open state ownership of banks, insurance and auto companies, etc., ends for some periods (through selling these enterprises back to private capitalists for a song), the result is still obviously leading to qualitatively higher levels of monopoly/oligopoly. There is ever more consolidation in the process, and ever fewer separate banks, auto companies, etc. And eventually the privatized remnants will themselves have to be nationalized again. Even today entire industries, and key ones at that, have to be bailed out by the government.

Third, a growing number of capitalists and their ideologists *do* seem to think that their capitalist economic system is at great risk because of the current economic crisis. And actually that is far truer than they realize. This crisis is going to continue for a long, long time, and though there will still be ups and downs within this long crisis, overall the trend will be toward ever more serious and intractable recession and then outright depression. (I've discussed why I believe this before, and will get into it in greater depth in the future.)

There was a solution to the Great Depression of the 1930s, namely the enormous destruction in World War II of the excess capital that had built up over previous decades. The destruction of excess capital during the war cleared the ground for a major new boom. But there is no equivalently destructive world war on the immediate horizon today. This is a very good thing of course, but it also means that there is really no way to end this current economic crisis.

Oh sure, enormous Keynesian deficits are being piled up—expected to be well above $1 trillion dollars in this current fiscal year alone! That will mitigate the problem to some degree... then it will return ever more forcefully. When the Keynesian measures have reached their final limits (through hyperinflation, probably), it will be the economic dead end for capitalism. Even world war today cannot get them out of their mess as World War II did, because world war today would likely destroy all of humanity including the capitalists themselves.

The capitalists *should* be in a panic! But we should be in something of a panic ourselves. The working people are in for some very difficult times, times which will only get worse and worse overall until we find a way to truly end the miserably failing capitalist system.

Scott

Saving Capitalism No Sure Thing as Statism Undermines Economy

By Simon Kennedy, Matthew Benjamin and Rich Miller

Dec. 22 (Bloomberg) – What's good for General Motors may not ultimately be best for the global economy.

The Bush administration's $13.4 billion rescue of GM and Chrysler is a fitting finish to a year in which governments around the world expanded their role in the economy and markets after three decades of retreat.

The intervention comes at what may prove to be a steep price. Future investment may be allocated less efficiently as risk-averse politicians make business decisions. Whenever banks decide to lend again, they are likely to find new capital requirements that will curb how freely they can do it. Interest rates may be pushed up by government borrowing to finance trillions of dollars of bailouts.

"We're seeing a more statist world economy," says Ken Rogoff, former chief economist at the International Monetary Fund and now a professor at Harvard University in Cambridge, Massachusetts. "That's not good for growth in the longer run."

It's not good for stocks either, says Paola Sapienza, associate professor of finance at Northwestern University's Kellogg School of Management. Slower economic growth means lower profits. Shares might also be hurt by investor uncertainty about the scope and timing of government intervention in the corporate sector.

"If the rules of the game are changing, people are reluctant to invest in the stock market," Sapienza says.

Record Lows

The bond market will also be affected as it is forced to absorb ever bigger increases in government debt. While yields on Treasury securities touched record lows last week, they eventually "will go up significantly and dramatically" under pressure from added supply, says E. Craig Coats, co-head of fixed income at Keefe, Bruyette & Woods Inc. in New York.

The increase in the government's role in the economy has been breathtaking. The U.S. looks set to rack up a budget deficit of at least $1 trillion this fiscal year, while the Federal Reserve has already increased its balance sheet by $1.4 trillion since last December. By way of comparison, U.S. gross domestic product last year was $13.8 trillion.

Winding back the intervention may not be easy, says Sapienza, who has studied the effect of government ownership on bank lending.

When Italy nationalized banks in 1933, "the architects who designed the system envisaged it as temporary," she says. "It was in place until the end of the 1990s." More recently, the Japanese government injected capital into banks to get them to lend to big corporations, keeping alive "the zombie companies that economists talk about," she says.

Investors "Gambling"

Already, investors trying to decide where to put their money are "gambling very much on what they think the government will do, not what they think about the company," Sapienza says. "That's why there's so much volatility."

GM shares plunged as much as 37 percent Dec. 12 after the U.S. Senate failed to pass an emergency loan plan. The shares recovered after George W. Bush said his administration would consider funding a rescue with money already set aside for bank bailouts, then shot up 23 percent on Dec. 19 when he announced the emergency loans.

The auto-industry lifeline is just the latest in an extraordinary year of market interventions that have redefined capitalism. The U.S. government previously seized control of mortgage lenders Fannie Mae and Freddie Mac and insurer American International Group Inc. and took stakes in the nation's largest banks.

"Necessary Evil"

Government activism has become a "necessary evil" to help pull the global economy out of recession, says Marco Annunziata, chief economist at UniCredit MIB in London. Even Bush, who ran for the U.S. presidency espousing smaller government, agrees. He told a CNN interviewer last week he has "abandoned free-market principles to save the free-market system."

Policy makers elsewhere extended their reach, too. The U.K. nationalized mortgage lenders Northern Rock Plc and Bradford & Bingley Plc. French President Nicolas Sarkozy created a 6 billion-euro ($8.7 billion) fund to invest in "strategic" firms. And the European Commission last week relaxed rules on state aid to businesses.

It isn't inevitable that bigger government will hamstring free enterprise, says William Niskanen, chairman emeritus of the Cato Institute, a Washington research group that generally favors free markets over government solutions. Niskanen predicts that government intervention will prove to be "selective and temporary," not "a long-term trend."

Shy Away From Lending

Still, greater government involvement will make businesses less likely to deploy capital in ways that spur growth and profits, says Eric Chaney, chief economist at AXA SA in Paris and a former official at the French finance ministry. Carmakers may be slower to innovate or cut costs, and financiers may shy away from lending to entrepreneurs.

"It's the job of companies, not governments, to take risk and accept the consequences," Chaney says. "There is no incentive for governments to take risk, so they won't."

The history of public aid to automakers highlights the threat, says Stuart Pearson, an analyst at Credit Suisse Group in London.

While the U.S. rescue of Chrysler in 1979 gave then-Chief Executive Officer Lee Iacocca time to streamline the company and restore profitability, it also sustained an outsized U.S. auto industry, leading to its current woes, Pearson says. The 1975 bailout of British Leyland Motor Corp. ended up costing U.K. taxpayers 11 billion pounds ($16.8 billion) and failed to keep successor MG Rover Group Ltd. from sinking into bankruptcy two decades later.

Help, Obstruction

"Government help has only been an obstruction to getting the car industry into a more economic shape," Pearson says.

Back in 1953, when the industry was booming, GM Chief Executive Officer Charles Wilson famously observed: "For years I thought what was good for our country was good for General Motors and vice versa." If the automakers' importance has declined, so -- until recently -- had the government's.

Just a dozen years ago, U.S. President Bill Clinton declared that "the era of big government is over." Sarkozy won election last year promising a "rupture" from France's history of heavy regulation; these days, the French president has changed his tune. "Laissez-faire, it is finished," he declared last month.

Role of Government

Until recently, "investors could, broadly speaking, ignore the role of the government when thinking about markets" says Alex Patelis, chief international economist at Merrill Lynch & Co. in London. "This period is over."

Regulation is back in style as policy makers seek to avoid a repeat of the financial crisis. Leaders from the Group of 20 nations are crafting a plan to require banks to maintain higher capital levels and disclose more about their holdings.

That likely means a lower "speed limit for growth," as banks have less cash available to lend and invest, says Mohamed el-Erian, co-chief executive at Pacific Investment Management Co., the Newport Beach, California-based manager of the world's biggest bond fund.

"There will be less lubrication in the form of credit creation," he says.

Bailouts and economic-stimulus plans are also running up government borrowing. Economists at JPMorgan Chase & Co. estimate the budget deficits of developed economies will more than double next year to 6.3 percent of gross domestic product.

Higher Taxes

Bigger deficits, while necessary now, could spell trouble down the road if they lead to higher borrowing costs or prompt consumers to save more now on the assumption that bigger shortfalls will mean higher taxes later.

"We'll end a financial crisis with a fiscal crisis," says Vito Tanzi, former director of fiscal affairs at the IMF. "We'll get out with very large public debt and very large public spending. That, for sure, will slow down the rate of growth for the next 10 years or so."

While bigger government is the unavoidable result of dealing with the turmoil, "it makes all of us economists uncomfortable seeing the government doing all these extraordinary things," says Barry Eichengreen, an economics professor at the University of California at Berkeley.

On the other hand, he says, "I would feel even more uncomfortable if they weren't doing them."

Last Updated: December 21, 2008 19:00 EST