Capitalism Unmasked

EDITED BY LYNN PARRAMORE

eBook

Introduction

When harmful beliefs plague a population, you can bet that the 1% is benefiting. "Capitalism Unmasked," edited by AlterNet's Lynn Parramore and produced in partnership with author Douglas Smith and Econ4, exposes the myths of unbridled capitalism and points the way to a better future.

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By Gerald Friedman

How Paris Hilton's Dogs Ended Up Better Off Than You

Elites say that we need inequality to encourage the rich to invest and the creative to invent. That's working out well – for 1% pooches.

Summer 2009. Unemployment is soaring. Across America, millions of terrified people are facing foreclosure and getting kicked to the curb. Meanwhile in sunny California, the hotel-heiress Paris Hilton is investing $350,000 of her $100 million fortune in a two-story house for her dogs. A Pepto Bismol-colored replica of Paris' own Beverly Hills home, the backyard doghouse provides her precious pooches with two floors of luxury living, complete with abundant closet space and central air.

By the standards of America's rich these days, Paris' dogs are roughing it. In a 2006, *Vanity Fair's* Nina Munk described the luxe residences of the country's new financial elite. Compared with the 2,405 square feet of the average new American home, the abodes of Greenwich Connecticut hedge-fund managers clock in at 15,000 square feet, about the size of a typical industrial warehouse. Many come with pool houses of over 3,000 square feet.!

Steven Cohen of SAC Capital is a typical product of the New Gilded Age. He paid $14.8 million for his Greenwich home, which he stuffed with a personal art collection that boasts Van Gogh's *Peasant Woman Against a Background of Wheat* (priced at $100 million); Gauguin's!*Bathers* ($50 million); a Jackson Pollock drip painting (also $50 million); and Andy Warhol's *Superman* ($75 million). Not satisfied, Cohen spent millions renovating and expanding, adding a massage room, exercise and media rooms, a full-size indoor basketball court, an enclosed swimming pool, a hairdressing salon, and a 6,734-square-foot ice-skating rink. The rink, of course, needs a Zamboni ice-resurfacer which Cohen houses in a 720-square-foot shingle cottage. Munk quotes a visitor to the estate who assured her, "You'd be happy to live in the Zamboni house."!

So would some of the over 650,000 Americans sleeping in shelters or under highway overpasses.!

By the time it was finished, Cohen's house had swelled to 32,000 square feet, the size of the Taj Mahal. Even at Taj prices, cost mattered little to a man whose net worth is estimated by the *Wall Street Journal* at $8 billion – with an income in 2010 of over $1 billion. Cohen's payday is impressive, but by no means unique. In 2005, the 25 hedge-fund managers averaged $363 million. In cash. Paul Krugman observes that these 25 were paid three times as much as New York City's 80,000 public school teachers combined. And because their pay is taxed as capital gains rather than salary, the teachers paid a higher tax rate!

Back in the 18th century, Alexis de Tocqueville called America the "best poor man's country." He believed that "equality of conditions" was the basic fact of life for Americans. How far we've come! Since then, the main benefits of economic growth have gone to the wealthy, including the Robber Barons of the Gilded Age whom Theodore Roosevelt condemned as "malefactors of great wealth" living at the expense of working people. By the 1920s, a fifth of American income and wealth went to the richest 1 percenters whose Newport mansions were that period's Greenwich homes. President Franklin Roosevelt blamed these "economic royalists" for the crash of '29. Their recklessness had undermined the stability of banks and other financial institutions, and the gross misdistribution of income reduced effective demand for products and employment by limiting the purchasing power for the great bulk of the population.

Roosevelt's New Deal sought to address these concerns with measures to restrain financial speculation and to redistribute wealth down the economic ladder. The Glass-Steagall Act and the Securities Act restricted the activities of banks and securities traders. The National Labor Relations Act (the "Wagner Act") helped prevent business depression by strengthening unions to raise wages and increase purchasing power. Other measures sought to spread the wealth in order to promote purchasing power, including the Social Security Act, with retirement pensions, aid to families with dependent children, and unemployment insurance; the Fair Labor Standards Act, setting a national minimum wage and maximum hours; and tax reforms that lowered taxes on workers while raising them on estates, corporations and the wealthy. And the kicker: Through the Employment Act (1946), the New Deal committed the U.S. to maintain full employment.!

The New Deal reversed the flow of income and wealth to the rich. For 25 years after World War II, strong labor unions and government policy committed to raising the income of the great majority ensured that all Americans benefited from our country's rising productivity and increasing income.!

Advocates of laissez faire economics warned that we would pay for egalitarian policies with slower economic growth because we need inequality to encourage the rich to invest and the creative to invent. But the high costs of inequality in reduced social cooperation and wasted human capital point to the giant flaws in this view. A more egalitarian income distribution provides better incentives for investment, and our economy functions much better when people can afford to buy goods and services.

The New Deal ushered in a period of unusually rapid and steady economic growth with the greatest gains going to the poor and the middle-class. Strong unions ensured that wages rose with productivity, government tax and spending policies helped to share the benefits of growth with the poor, the retired and the disabled. From 1947-'73, the bottom 90 percent received over two-thirds of economic growth.

Then, the political coalition behind the New Deal fragmented in the 1960s. Opponents seized the moment and reversed its policies. They began to funnel income toward the rich. With a policy agenda loosely characterized as "neoliberalism," conservatives (including much of the economics profession) have swept away the New Deal's focus on employment and economic equity to concentrate economic policy on fighting inflation by strengthening capital against labor.

That has worked out very badly for most of America.

The GOP has led the attack on Roosevelt's legacy, but there has been surprising bipartisan support. President Carter got the ball rolling with his endorsement of supply-side taxation and his commitment to fight inflation by promoting labor market competition and raising unemployment. Carter's policies worked to reverse the New Deal's tilt toward labor and higher wages. Under his watch, transportation and telecommunications were deregulated, which undermined unions and the practice of industry-wide solidarity bargaining. Carter also campaigned to lower trade barriers and to open our markets to foreign trade. These policies were presented as curbs on monopolistic behavior, but the effect was to weaken labor unions and drive down wages by allowing business to relocate production to employ lower-wage foreign workers while still selling in the American market.!

Carter also began a fatal reversal of economic policy by refusing to support the Humphey-Hawkins Full Employment Act. Instead of pushing for full employment, Carter appointed Paul Volcker to chair the Federal Reserve with the charge to use monetary policy to restrain inflation without regard for the effect on unemployment. Since then, inflation rates have been brought down dramatically, but unemployment has been higher and the growth rate in national income and in wages has slowed dramatically compared with the

New Deal era.!!

Already in the 1970s, a rising tide of anti-union activities by employers led Douglas Fraser, the head of the United Auto Workers to accuse employers of waging a "one-sided class war against working people, the unemployed, the poor, the minorities, the very young and the very old, and even many in the middle class of our society." Organized labor's attempt to fight with labor reform legislation amending the Wagner Act found little support in the Carter White House and went down to defeat in the Democratic-controlled Senate.

Any residual commitment toward collective bargaining under the Wagner Act was abandoned during the Reagan administration, ironically the only union president ever elected to the White House. Reagan, of course, is known as the president who fired striking air traffic controllers in 1981. He is also known for the devastating regulatory changes during his presidency and those of his Republican successors (the two Presidents Bush). Their appointments to the National Labor Relations Board helped to turn this agency from one charged with promoting union organization and collective bargaining to one charged with ensuring that employers were free to avoid unions. Under this new regime, private sector unionism, the unions covered by the Wagner Act, has almost disappeared.

The 1970s also saw a shift in tax policy away from the principles of ability-to-pay and income redistribution toward those associated with supply-side economists who argued for lower taxes on the rich to provide incentives to accumulate wealth. After campaigning for tax reform, Carter signed the Revenue Act of 1978, which gave small tax benefits for working people and dramatic cuts in capital gains and corporate taxes and on the top marginal rates. Since then, major reductions on taxes paid by the rich enacted under Presidents Reagan and George W. Bush have dramatically reduced the tax burden on the richest Americans.

Government spending policies have also turned away from ordinary Americans. In 1996, under President Bill Clinton, a vital piece of the New Deal safety net was repealed with the "Personal Responsibility and Work Opportunity Reconciliation Act." Abolishing the provisions of the Social Security Act that established the program of Aid to Families with Dependent Children, the 1996 law ended the national right to relief. Along with restrictions on unemployment insurance, the abolition of programs of public jobs for the unemployed and gradual reductions in the real value of Social Security benefits, this act was another blow for working people.!

The New Deal showed us how to combine economic growth and lower levels of unemployment. But the widening gap between rich and poor since the 1970s has been associated with higher levels of unemployment and a slowing of economic growth. Had economic growth rates continued after 1978 at the same rate as during the decades before, average income would have been *more than $14,000 higher than it actually was in 2008*.

The slowdown in growth since the abandonment of egalitarian New Deal policies has cost Americans about 30 percent of their income. And the massive redistribution of income away from average Americans and toward the rich has destroyed the sense that America is a land of opportunity for all. Quality of life has plunged because the shredding of social protections has exposed average Americans to much higher levels of risk. The substitution of defined contribution pensions, such as Individual Retirement Accounts or 401K plans, for defined benefit pensions has reduced retirement security for individuals while reducing the risk borne by employers or other social institutions. Just as important as declining income for many Americans, the stress and anxiety associated with the risk shift has contributed to rising levels of depression and morbidity and a decline in life expectancy for Americans compared with residents of other countries.

Workers' security has been abandoned. But the government has let financial markets run wild. In 1982, Congress deregulated the thrift industry, freeing thrifts to engage in reckless and fraudulent behavior. In 1994, it removed restrictions on interstate banking. In 1998 it allowed Citigroup to merge with Travelers' Insurance to create the world's largest financial services company. And in the Gramm-Leach-Bliley Act of 1999, it repealed the remaining Glass-Steagall barriers between commercial and investment banking. Acting with the virtual consent of Congress and the president, in 2004, the Securities and Exchange Commission established a system of voluntary regulation that in essence allowed investment banks to set their own capital and leverage standards.!

By then our financial regulatory system had largely returned to the pre-New Deal situation in which we trusted financial institutions to self-police. Advocates of deregulation, like Federal Reserve chair Alan Greenspan, were unconcerned because they expected banks and other financial firms to limit their risk for fear of failure. Either they misunderstood the incentives facing company managers, or they did not care. In practice, financiers are playing with other people's money (ours). When they do well, their compensation is tied to profits and they can earn huge sums. But when their investments fail, they are protected because monetary authorities and the United States Treasury cannot allow "too big to fail" financial companies to go bust.! So long as risky investments would have periods of high returns, the managers of deregulated financial firms have an incentive to increase their risk, profiting from success while passing the costs of failure to the public. We have all been suffering from the consequences of their failures since the financial crisis of 2007-'08.!

The share of income going to the top 1 percent has doubled since the 1970s, returning to the levels of the 1920s. The greatest gains have gone to the very wealthiest and to executives and managers, especially of financial firms. From 1973 to 2008, the average income of the bottom 90 percent of American households fell even while the rich gained. The wealthiest 1 percent gained 144 percent or over $600,000 per household; and the richest 1 percent of the 1 percent, barely 30,000 people, gained over 455 percent or over $19,000,000.

That's enough to buy a nice doghouse. Or a mansion in Greenwich.

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BY DOUGLAS K. SMITH

Profiting From Market Failure: How Today's Capitalists Bring Bad Things to Life

Capitalists are perpetuating, and making big bucks from, market failures that deliver crappy products and shoddy services.

The long-running General Electric slogan sums up what capitalist cheerleaders love to say about markets: "We bring good things to life."

But is it really true? In reality, some capitalists have figured out how to profit by actually bringing bad things to life.

Today, market forces organize, select and direct the production of goods and services in ways that would amaze and startle our ancestors. Consider the automobile: designed, engineered, provisioned, manufactured, marketed, sold and serviced by webs of hundreds of different organizations across the planet. Amazing. And a tribute to what's possible through market successes.

But markets fail, too. All of the time. They are inherently unstable and inefficient. Cheerleaders of capitalism attribute failure only to government, to individuals and occasionally, to organizations – but never to markets. Yet except in the dream worlds of fact-free economists, markets are always out of balance and screwing up.

The same forces that so brilliantly coordinate resources in a global automotive market have also operated to plan obsolescence, to impede the provision of safety belts and air bags, and to obstruct the pace of fuel-saving innovation.

Clearly markets often fail in bringing us the things that make our lives better. Which raises the question: How do capitalists respond to market failures?

More specifically, to what extent do capitalists deploy their wealth in the search for new and better mousetraps? And to what extent do capitalists double down on market failures by intentionally perpetuating and profiting from the failures themselves? And, most importantly, how do the markets for gathering and deploying capital respond to failures in markets that deliver crappy products and shoddy services?

Consider Joe Wilson of Xerox, a Rochester, New York hometown boy who took the reins of the family office supplies business, learned about Chester Carlson's invention of "dry writing" and then bet his company and capital for 14 straight years on the promise that xerography would dramatically improve communications. *Fourteen years.* This was not the "fast buck, no risk" capitalism of today's swashbuckling pirates. It was difficult, nerve-wracking, persistent and risky.

Joe Wilson and Xerox reveal the persistence, focus and actual risk-taking demanded to convert market failures into market success. Such powerful forces, though, threaten incumbents. When better mousetraps emerge, some players lose. Xerox's success pushed out carbon copies, and those who profited from them. Economist Joseph Schumpeter called this process "creative destruction." Like water finding its own level, capital should flow to better mousetraps if capitalism is to fulfill its potential to expand "good things to life" for humanity.

Should. Not must. Just take a look at healthcare markets. Instead of taking Joe Wilson-style risks on innovation, too many captains of the heathcare industry and the capitalists who fund them choose to perpetuate market failures and enrich themselves in the process. They "just say no" to the risks inherent in searching for new life-saving drugs and treatments. Ditto to opportunities to dramatically expand access to those who currently cannot afford them. For these well-off incumbents, there is simply too much profit to be made by raising prices, manipulating intellectual property protections, bribing doctors, misleading the public, cutting costs, and choking distribution. (See Maggie Mahar's *Money-Driven Medicine.)*

The same thing happens in the health insurance market. Those with power avoid risking capital on innovative solutions that might expand insurance to the tens of millions of Americans without it. The same high priests of capitalism erect ever more complex, unreadable insurance policies supported by ever more withering and costly administrative procedures that, when combined, perpetuate a huge market failure: only a small percentage of premium dollars actually going to pay for care. Insurance markets go to war with customers in ways that increase, not diminish, the odds that folks who think they have coverage actually don't.

Capitalists can pick between two responses to markets that are failing. They can bet their capital on fixing them – on bringing more good things to life. Or, they can do everything possible to extract more and more profit by extending, expanding and exacerbating the failures.!

Capitalist myth-makers claim the first response prevails. This is the core of the "God's work" that Goldman Sachs CEO Lloyd Blankfein claims!to do at his bank. The Blankfeins of our economy pretend there are many more Joe Wilsons than health insurance executives.!

The facts tell a different story. Profiting from market failures instead of expanding good things dominates the healthcare industry: Big Pharma, managed care and health insurance. And the same destructive activities dominate the housing market. For a decade at least, capitalists have siphoned off enormous wealth from deep and broad failures. Before the financial crash, two dramatically different types of lenders were competing in America's housing markets. The first type of lender – the subprime group – offered bad products that caused borrowers to become delinquent and foreclosure rates to skyrocket. The second type of lender – America's nonprofit housing enterprises – offered decent products that led to limited delinquencies and foreclosures. But investors in the second group were running against the tide of American capitalism.

Joe Wilsons are rare in health care and housing, and increasingly hard to spot in energy markets. BP, ExxonMobil and others rake in zillions while people freeze!without heating oil and natural habitats, along with local economies that depend on them, get ruined, as we witnessed in the Deepwater Horizon!explosion in the Gulf of Mexico.

There are too few Joe Wilsons in food markets that make us sick; financial services markets that leave us in debt; journalism markets that issue corporate press releases; infrastructure markets marked by potholes and falling bridges; accounting markets that facilitate bad numbers; law markets that ensure no accountability for massive wrongdoing; telecommunications markets that nickel and dime us; and labor markets that fail to produce jobs.

And, quite clearly, in capital markets. Capital operates in and through markets in which people and organizations with money to invest find organizations and people looking for investors. Joe Wilson's success with Xerox depended on capital markets. He and his colleagues had to find the capital needed for their 14-year journey from idea to implementation. And executives and entrepreneurs in the healthcare, energy, food, housing, financial services, infrastructure, law, accounting and all other markets also must turn to capital markets for the funds – the essential fuel –

needed in their quest to profit from either fixing or perpetuating the failures in their respective markets.

The forces driving today's capital markets push far, far more capital toward squeezing more and more profits and wealth out of failures instead of innovating to fix those failures and increase the "good things to life."!

Hundreds of trillions of dollars of capital – including taxpayer-provided funds – slosh through global markets in search of socially useless gains from trading in complex, unregulated and out-of-control financial derivatives, instruments Warren Buffet calls "weapons of mass destruction." Tightly interwoven boards of directors and top executives openly conspire to use executive compensation schemes to extract wealth for themselves even as they downsize and outsource jobs, cheapen and overcharge for products and services, and turn their backs on innovations that could spread good things to folks currently not served. The folks at Bain Capital claim to invest in fixing failures, but far too often they actually manipulate the tax code and capital markets to build huge personal fortunes on the suffering of others.

This is the big fail. Because capital markets are the uber-source of funds needed to operate all other markets, failures in capital markets multiply and worsen the failures everywhere else. The folklore of capitalism promises us that good things for life always and forever emerge from markets – but only from free markets unlimited and unconstrained by any government action. Only if the uber-markets for gathering and deploying capital are also free of all constraint, we're assured, can we expect this bounty to flow.

If you're part of the 99 percent, take a clear, long look around. Odds are, you'll read about people distressed from the consequences of too many market failures in housing, financial services, energy, labor, law, accounting, healthcare, insurance, transportation, telecommunications and more. Likely enough, you have shared some of this distress yourself.

Buckle up. It's going to get worse. Having extracted so much wealth and power from exacerbating instead of fixing failures in so many markets, the lords and ladies of free-market capitalism want even more by privatizing education,prisons,parking and tolls, the military,!and with Citizens United, democratic politics.

Remember this: all markets both succeed and fail. The balance between more successes versus more failures is in the hands of ethical and responsible owners and investors like Joe Wilson, who invest capital in converting failures into good things for life. Today, those folks are losing out – badly – to people who thrive on failed capital markets that put a higher premium on perpetuating failures instead of fixing them. There is one way to fix the mega-failures in capital markets: regulation. Governments must step in now. Otherwise, capital markets free of all restraint will, as sure as night follows days, rain ever more pain on the many in order to generate wealth for the few.

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By Lynn Parramore

Fifty Shades of Capitalism: Pain and Bondage in the American Workplace

The symbol of capitalism was lately a vampire. Enter the CEO with nipple clamps.

If the ghost of Ayn Rand were to suddenly manifest in your local bookstore, the Dominatrix of Capitalism would certainly get a thrill thumbing through the pages of E.L. James' blockbuster *Fifty Shades of Grey.*

Rand, whose own novels bristle with sadomasochist sexy-time and praise for the male hero's pursuit of domination, would instantly approve of Christian Grey, the handsome young billionaire CEO who bends the universe to his will.

Ingénue Anastasia Steele stumbles into his world – literally – when she trips into his sleek Seattle office for an interview for the college paper. When she calls him a "control freak," the god-like tycoon purrs as if he has received a compliment.

"'Oh, I exercise control in all things, Miss Steele,' he says without a trace of humor in his smile. 'I employ over forty thousand people… That gives me a certain responsibility – power, if you will.'"

She will. Quivering with trepidation, Anastasia decides to become Christian's submissive sex partner. Reeled in by his fantastic wealth, panty-sopping charm, and less-than-convincing promise that the exchange will be to her ultimate benefit, she surrenders herself to his arbitrary rules on what to eat, what to wear, and above all, how to please him sexually. Which frequently involves getting handcuffed and spanked. "Discipline," as Christian likes to say.

Quoting industrial tycoon Andrew Carnegie, Christian justifies his proclivities like an acolyte of Randian Superman ideology: "A man who acquires the ability to take possession of his own mind may take possession of anything else to which he is justly entitled." (Rand's worship of the Superman obliged to nothing but his intellect is well-known and imbued with dark passions; she once expressed her admiration for a child murderer's credo, "What is good for me is right," as "the best and strongest expression of a real man's psychology I have heard" in a 1928 diary.

Christian Grey, our kinky CEO, started his literary life as a vampire when Erika Leonard, the woman behind the pseudonym "E.L. James," published the first version of her novel episodically on a *Twilight* fan site, basing the story on the relationship between Stephenie Meyers' love couple Edward Cullen and Bella Swan. The tale was later reworked and released in its current form. Gone was Edward the vampire, replaced by Christian the corporate slave-master.

Drunk on the intoxicants of wealth and power, *Fifty Shades of Grey* hints at a sinister cultural shift that is unfolding in its pages before our eyes. The innocent Anastasias will no longer merely have their lifeblood slowly drained by capitalist predators. They're going to be whipped, humiliated and forced to wear a butt-plug. The vampire in the night has given way to the dominating overlord of a hierarchical, sadomasochistic world in which everybody without money is a helpless submissive.

Welcome to late-stage capitalism.

Invisible Handcuffs

This has been coming for some time. Ever since the Reagan era, from the factory to the office tower, the American workplace has been morphing for many into a tightly-managed torture chamber of exploitation and domination. Bosses strut about making stupid commands. Employees trapped by ridiculous bureaucratic procedures censor themselves for fear of getting a pink slip. Inefficiencies are everywhere. Bad management and draconian policies prop up the system of command and control where the boss is God and the workers are so many expendable units in the great capitalist machine. The iron handmaidens of high unemployment and economic inequality keep the show going.

How did this happen? Economists known as "free-market fundamentalists" who claim Adam Smith as their forefather like to paint a picture of the economy as a voluntary system magically guided by an "invisible hand" toward outcomes that are good for most people. They tell us that our economy is a system of equal exchanges between workers and employers in which everybody who does her part is respected and comes out ahead.

Something has obviously gone horribly wrong with the contract. Thieving CEOs get mega-yachts while hard-working Americans get stagnant wages, crappy healthcare, climate change, and unrelenting insecurity. Human potential is wasted, initiative punished and creativity starved.

Much of the evil stems from the fact that free-market economists who still dominate the Ivy League and the policy circles have focused on markets at the expense of those inconvenient encumbrances known as "people." Their fancy mathematical models make calculations about buying and selling, but they tend to leave out one important thing: production. In other words, they don't give a hoot about the labor of those who sustain the economy. Their perverted religion may have something to say about unemployment or wages – keeping the former high and the latter low – but the conditions workers face receive nary a footnote.

Michael Perelman, one of a small group of heretical economists that questions this anti-human regime, draws attention to the neglect, abuse and domination of workers in his aptly named book, *The Invisible Handcuffs: How Market Tyranny Stifles the Economy by Stunting Workers*. He reveals that instead of a system of fair exchanges, we have "one in which the interests of employees and employers are sharply at odds." This creates conditions of festering conflict and employers who have to take ever-stronger measures to exert control. Hostility among workers thrives, which results in more punishment. Respect, the free flow of information, inclusive decision-making – all the things that would make for a productive work environment – fly out the window. The word of the manager is the law, and endless time and energy is expended rationalizing its essential goodness.

Americans are supposed to be people who love freedom above everything else. But where is the citizen less free than in the typical workplace? Workers are denied bathroom breaks. They cannot leave to care for a sick child. Downtime and vacations are a joke. Some – just ask who picked your tomatoes – have been reduced to slave-like conditions. In the current climate of more than three years of unemployment over 8 percent, the longest stretch since the Great Depression, the worker has little choice but to submit. And pretend to like it.

A medieval peasant had plenty of things to worry about, but the year-round control of daily life was not one of them. Perelman points out that in pre-capitalist societies, people toiled relatively few hours over the course of a year compared to what Americans work now. They labored like dogs during the harvest, but there was ample free time during the off-seasons. Holidays were abundant – as many as 200 per year. It was Karl Marx, in his *Theory of Alienation*, who saw that modern industrial production under capitalist conditions would rob workers of control of their lives as they lost control of their work. Unlike the blacksmith or the shoemaker who owned his shop, decided on his own working conditions, shaped his product, and had a say in how his goods were bartered or sold, the modern worker would have little autonomy. His relationships with the people at work would become impersonal and hollow.

Clearly, the technological wonders of our capitalist system have not released human beings from the burden of work. They have brought us more work. They have not brought most of us more freedom, but less.

Naked domination was not always the law of the land. In the early 1960s, when unions were stronger and the New Deal's commitment to full employment still meant something, a worker subjected to abuse could bargain with his employer or simply walk. Not so today. The high unemployment sustained by the Federal Reserve's corporate-focused obsession with "fighting inflation" (code for "keeping down wages") works out well for the sado-capitalist. The unrelenting attack on government blocks large-scale public works programs that might rebalance the scale by putting people back on the job. The assault on collective bargaining robs the worker of any recourse to unfair conditions. Meanwhile, the tsunami of money in politics drowns the democratic system of rule by the people. And the redistribution of wealth toward the top ensures that most of us are scrapping too hard for our daily bread to fight for anything better. The corporate media cheer.

Turning the Tables

In the early '70s, the S&M counterculture scene followed the rise of anti-authoritarian punk rock, providing a form of transgressive release for people enduring too much control in their daily lives. Bondage-influenced images hit the mainstream in 1980 – the year the union-busting Ronald Reagan was elected president – in the form of a workplace comedy, *9 to 5*, which became one of the highest grossing comedies of all time. *9 to 5* struck a chord with millions of Americans toiling in dead-end jobs ruled by authoritarian bosses. Audiences howled with joy to see three working women act out their fantasies of revenge on a workplace tyrant by suspending him in chains and shutting his mouth with a ball-gag.

More recently, the 2011 film *Horrible Bosses*!follows the plot of three friends who decide to murder their respective domineering, abusive bosses. The film exceeded financial expectations, raking in over $28 million in the first three days. It went on to become the highest grossing black comedy film of all time.

The fantasy of turning the tables on the boss speaks to the deep-seated outrage that trickle-down policies and the war on workers has wrought. People naturally want to work in a rational, healthy system that offers them dignity and a chance to increase their standard of living and develop their potential. When this doesn't happen, the social and economic losses are profound. Today's workers are caught in Perelman's "invisible handcuffs" – both trapped and blinded by the extent to which capitalism restricts their lives.

The market has become a monster, demanding that we fit its constraints. As long as we ignore this, the strength of the U.S. economy will continue to erode. Freedom and equality, those cornerstones of democracy, will diminish. For now, many working people have unconsciously accepted the conditions that exist as somehow natural, unaware of how the machine is constructed and manipulated to favor elites. Fear and frustration can even make us crave authority. We collaborate in our own oppression.

Just ask Anastasia Steele, whose slave contract spells out her duties with business-like efficiency:

Does the submissive consent to:

-Bondage with rope
-Bondage with leather cuffs
-Bondage with handcuffs/shackles/manacles
-Bondage with tape
-Bondage with other

Yes! She consents. The hypnotic consumption Christian offers in a world replete with fancy dinners and helicopter rides – goodies that will be revoked if she fails to obey – overturns her natural desire for free will. Once Anastasia has signed on the dotted line, her master rewards her with a telling gift that is often the first "present" an office employee receives: "I need to be able to contact you at all times… I figured you needed a BlackBerry."

Her first note to him on her new gadget asks a question: "Why do you do this?"

"I do this," Christian answers, "because I can."!

Until we can link ourselves together to change this oppressive system, the Christian Greys will remain fully in control.

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By Paul Davidson

The Real World v. The Confidence Fairy

Smart investment, wise regulations and fair taxation are the things that restore economic confidence in the Real World.

Recently I went to a well-known restaurant in Evanston, Illinois. This restaurant has a reputation for providing excellent food and service. But the night I was there, it was less than half full. I asked the manager if he would hire more waiters and chefs if his taxes were reduced and/or government removed the existing regulations controlling the way his restaurant could operate. His answer was that even if his taxes were reduced and regulations eliminated, he would only hire more staff if more customers came in for dinner. On the other hand, if there were twice as many customers for dinners than there were on this night (and there were many more customers before the recession began in 2007) he would gladly double the number of workers he employed even if his taxes were not reduced or regulations changed.

That's how things work in the Real World. This simple case illustrates clearly that entrepreneurs will have confidence to expand and hire more workers only if they find the market demand for their products and services strong and growing.

There are plenty of other things that would do wonders just now to help restore trust and confidence in the American economy: a well-regulated financial sector; smart government investment in the things we need, like jobs and infrastructure; and fair taxation that asks the rich to pay their share. You wouldn't know this listening to conservative economists stuck in Neverland!– a place where the government must never function and corporations must never be regulated.

Conservative economists and their friends like to trot out a mythical being whenever they want to make arguments that favor an economy built for the wealthy at the expense of ordinary people.

This imaginary being, known as the Confidence Fairy, is only happy when capitalists are given free rein to do whatever they want, even if it brings us to the brink of a global economic meltdown.

In a 2012 *Face the Nation* broadcast, Republican presidential candidate Mitt Romney expressed his devotion to the Confidence Fairy when explained that a magical economic recovery would happen if only we got rid of the terrible burden the federal government had put on businesses by imposing regulations and big government financed by heavy taxation. In other words, if only government would shrink itself and relax business regulations, the resulting freed-up markets would make people who run businesses confident enough in the economy to bring forth a wonderland of prosperity and full employment.

Conservative economics professor Tyler Cowen took a page from the same storybook in the *New York Times*, blaming the lack of significant economic recovery from the financial crisis of 2007-'08 on the unhappiness of the Confidence Fairy. Politicians, he says, have failed to make us as safe, financially speaking, as we used to be. So Cowen argues that the slow cure for our economic malaise is to allow asset prices, wealth, trust, and so on to gradually rise in a free-market environment without any interference from government. Cowen states that the textbook cure for recession – namely, significant Keynesian government stimulus spending – will not quickly restore prosperity because the Confidence Fairy doesn't like things like building roads, repairing schools and putting firefighters to work.

But if we can move past this mythical land created by conservative economists to that place known as the Real World, we can easily see what really drives people like the Illinois restaurant owner to engage in the kind of activity that gets the economy humming. It turns out that they invest and expand when people demand their goods and services.

So why, you may ask, would conservative economists argue that the demand for the products of American enterprises will increase only if we reduce the size of government and remove regulations that were designed to protect the public from businesses engaging in activities that are detrimental, like dumping hazardous waste in our backyard?

A sage once said, "Those who do not study history are doomed to repeat its errors."

If we take a little trip back in time, we can see that economic pain often arises from a distinct lack of regulation, rather than too much of it. Beginning in the 1930s, for example, Congress instituted a series of regulations that limited the operations of financial institutions so that they could not engage in the dangerous speculative practices they were so fond of in the 1920s. These activities, the 1933 Pecora Congressional investigative committee found, had contributed to the financial crash of 1929 and the real estate bubble that burst with the onset of the Great Depression. The committee findings led to the passage of the 1933 Glass-Steagall Act, whose regulations restricted operations of banks and other financial institutions.

For several decades after the second world war, American manufacturing and financial enterprises thrived and grew despite operating under the regulations that were instituted as part of the New Deal and paying higher income tax rates than are enforced today. The 1950s and 1960s were part of a golden age of economic growth and prosperity. These two decades exhibited a rate economic growth that far exceeded the average growth rate for the Industrial Revolution era where there was no income tax and there were far fewer regulations.

The 1950s and '60s was an era of robust and successful big government programs that helped the economy stay healthy. Under the Republican Eisenhower administration the U.S. experienced the largest public works project ever undertaken, the building of the interstate highway system. This public works project dramatically improved the operation of the American economic system as goods could be brought to market faster and more cheaply.

The 1960s saw active big government in the development of NASA's program to land a man on the moon and other projects that developed many of the important technological innovations that have contributed dramatically to improving the American way of life.

And guess what? The tax rates during the 1950s and '60s still far exceeded today's federal tax rates. But somehow US industries had sufficient confidence to expand production and create in most years a prosperous full employment society.

After the experience of rising inflation and stagnating economic growth of the 1970s, there began a movement to relax government regulations of financial institutions in the belief that this would restore business confidence and encourage economic growth. The result of these relaxed rules governing financial institutions was that by 1989, the nation faced a savings-and-loan association system failure. For the first time since the 1930s a large number (743 out of 3,234) S&L banks collapsed and the government's Resolution Trust Company was created to provide the S&L industry with aid to prevent a national financial disaster.

When the Glass-Steagall Act was repealed in 1999, investment banks and depository banking institutions went wild playing casino games that helped crash the economy in 2007-'08. Most of these activities were illegal under the Glass-Steagall Act and hence could not have occurred if the regulations that had existed for more than 60 years had remained in place. The repeal of the Glass-Steagall Act, unfortunately, permitted what were called financial innovations such as the development of financial derivative markets and markets for credit default swaps. These intricate financial instruments were such that even many of their holders did not quite understand them. They ultimately led to the subprime mortgage crisis and threatened a global financial collapse in 2007. The federal government had to bail out the major financial institutions that were judged to be "too big to fail."

This history dramatically demonstrates that when regulations that were put in place to protect the American economy and its financial institutions are removed, economic disaster is likely to follow.

And what about the textbook cure for recession – the so-called Keynesian fiscal stimulus that conservative economists are always denying? Will that restore prosperity?

When President Obama came into office, the US economy was declining so swiftly many were fearful that the economic situation would develop into a second Great Depression. The Obama administration managed to get Congress to permit a relatively small fiscal stimulus program. (A larger stimulus package was seen by many in Washington as causing too great an increase in the total federal debt and thereby too burdensome for future generations.) The result of the small Obama fiscal stimulus program was that the economy did not collapse into another great depression that many had foreseen. From hindsight it is clear that the size of the Obama stimulus was too small to provide sufficient stimulus to restore prosperity.

People like Professor Cowen do not understand that if we were to develop a large fiscal stimulus program around a needed national infrastructure rebuilding, we could restore prosperity and confidence in the future of the American economy and simultaneously contribute to significantly improving our future standard of living. If the federal government were to let contracts for at least $1 trillion to private enterprise to rebuild failing highways, bridges, municipal water and sewage systems, and provide resources for our shrinking public and higher education systems, the entrepreneurial expectations of continuously ringing cash registers as firms are awarded these government contracts would quickly restore entrepreneurial confidence. The profit opportunities made available by this large government spending program would encourage firms to hire more workers and buy materials needed from other US firms.

The number of unemployed workers would shrink substantially. When these newly hired workers go out and spend their wages to rebuild their households and lives, the confidence of US retailers would immediately surge as these additional customers were breaking down the doors to get at the merchandise on the shelves.

Perhaps someone should teach Tyler Cowen and the politicians who put their faith in fairy tales a basic economic principle: Nothing will build confidence of business firms and workers quicker than the continuous ringing of cash registers.

And there's more they don't want us to know. The fact is that even if this large, needed Keynesian stimulus spending were financed by large federal deficits, we would not be impoverishing our children. Instead we would be investing in the future of our children by providing them with an adequate educational system so they could be qualified to take on future productive hi-tech jobs. Restoring our infrastructure facilities makes it easy and inexpensive to bring goods to market, and it allows us to have safe, sanitary living conditions for enjoying a good life. These are the things that contribute to the productivity, health and happiness of our children. Not economic fairy tales.

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By Edward Harrison

Out-of-Control Credit Markets Threaten Liberty, Democracy and Economic Security

Opaque, dysfunctional and corrupt credit markets are hazardous to America's health.

The awful experience of the Great Depression made clear to many economists and laymen alike that credit is at the heart of a functioning capitalist system. Without access to credit, many businesses die and many individuals and households run out of money and go bankrupt.

Yet in popular media accounts from the Great Depression, the focus is almost always on the stock market and the Great Crash of 1929. You hardly ever hear that it was the contraction of credit and the seizing up of credit markets that made the Great Depression so traumatic.

In 1932, Hoover acknowledged the importance of credit to a crowd in Des Moines, Iowa: "Let me remind you that credit is the lifeblood of business, the lifeblood of prices and jobs." He was right about the vital part credit plays in the economy. But he got a whole lot else wrong. His speech was part of a campaign of anti-foreigner rhetoric designed to insulate himself from blame for America's economic depression building on his watch.

In his Des Moines address, Hoover cited the strangulation of credit caused by "foreign countries" which "drained nearly a billion dollars of gold and a vast amount of other exchange from our coffers." The president further blamed "some of our own people who, becoming infected with world fear and panic, withdrew vast sums from our own banks and hoarded it from the use of our own people." That's why the Great Depression happened, Hoover said.

Hoover was way off about who and what was at fault. He had been told so a year earlier in 1931, when he tried to blame the depression on a lack of liquidity and proposed that the government make funds available to banks to alleviate their liquidity problems.

The response from an official at the New York Fed:

"…In this district, where I happen to be more familiar with the situation than in other sections of the country, the principal cause of bank failures has not been a lack of liquidity but rather insolvency caused by need for a drastic write-off in bond portfolios. In other districts, I understand, many banks are threatened with insolvency because of losses in real estate loans as well as bonds."

Sound familiar? It should. We've been dealing with many of the same problems in the current banking era.

During the Great Depression, Hoover just let the big financial institutions go under, causing credit to contract much further. That mistake has taught us what mass bank failures can do and has conditioned us to avoid them. Unfortunately, we have made our own mistake this time around. Like the banks of the earlier era, today's banks have risked insolvency because of their reckless real estate loans and bond exposure. By perpetrating the Great Bailout, we have allowed our largest banks to escape any repercussions for their recklessness and get off virtually scot-free.

The big banks created the mortgage-backed securities, the credit default swaps, and a hundred other dangerous derivative products that blew up the global financial system and the world economy with it. The big banks created the Byzantine maze of interconnections that made them too big to fail. The big banks created the disgraceful mortgage system that continues to wrongfully charge erroneous nonexistent fees and wrongfully foreclose on homeowners.

Apologists for the status quo like to pretend that our economy allows anyone who needs and deserves credit to get it. But after the bust, it all feels so arbitrary for most people, like a roll of the dice whether you get access to credit or not. And almost all of the bailout money has gone straight to these very same big banks that created the crisis for fear of another Great Depression like the one Hoover presided over.

Credit is indeed the lifeblood of business. Modern economies can't work without credit markets. But when they are opaque, dysfunctional and corrupt as they are now, it can only lead to economic disaster, as we have witnessed over the past five years. Worse still, there is no assurance that we are through the worst of it, either in terms of financial scandal or economic damage.

The question, then, is what we should do about it. If we want to keep the American democratic system and a form of capitalism alive and functioning well, we will need to make changes to our credit markets.

As I see it, our economic system and our democracy are both based on upholding and safeguarding individual liberty – the innate and natural rights we all have. And so to get our credit markets back to some modicum of normalcy and respectability, we should start there. Over the past few decades we have been leaning the other way. An ideology has seeped into every corner of American life which says corporations are just like individuals, with the same innate, natural and inalienable rights to liberty as real living and breathing human beings.

I'll give you an example I like to use. Say I'm walking down the street and I see this store and I am thinking, "They have Kettle Korn? Wow, I love this stuff. Let me get some." The problem: the owner of the store wants no black people inside. That's his policy. This isn't a government policy since discrimination based on race or ethnicity is illegal in the United States. But, this business owner doesn't want blacks in his store. So when I enter, he tells me to leave because I am violating his store's "liberty." I would argue that my individual liberty trumps his business liberty. A corporatist would say that the business owner can do as he pleases.

I have called this false ideology, "Corporatism masquerading as Liberty," because it is a sort of crony capitalism steeped in the language of liberty that some are using to remove the protections we have built up to uphold and safeguard our individual rights. The goal of this corporatism is to give corporations the sorts of liberties that permit them to use their size, influence and money to tilt the playing field to their advantage. Absent any kind of regulatory oversight, these behemoths can run roughshod over individuals, trampling their rights and liberties in the process.

The LIBOR price-fixing scandal is just one example of how out-of-control our credit markets have become because of this false notion that subjecting corporations to regulatory oversight is bad. LIBOR was supposed to be a way of figuring how much banks have to pay to borrow from each other based on daily price quotes from a group of the world's biggest banks. This is the very core of our credit markets. And it affects everything from private students loans to variable rate credit cards. But after Lehman Brothers went bust, banks started submitting "fake" numbers for fear that "real" numbers would make them look bad. Apparently everyone was doing it. In the summer of 2012, the scandal caught up with British giant Barclays, which was forced to pay a fine for its misdeeds. Many more banks will be found out for manipulating LIBOR interest rates before this is over.

Think back to the Great Depression. What we lost then and now and what we need to regain is trust. To be frank, I don't know how we can win that trust in our system back. But, when it comes to credit markets, I know where we can start.

First, we need to make sure there are no more bailouts. While the bailouts have prevented a Great Depression for now, they have engendered a deep sense of cynicism and resentment which has negatively impacted credit and growth. Second, we need to know that our largest financial institutions are well-capitalized enough to withstand large economic shocks. Without this knowledge, no one can separate liquidity from solvency – exactly the problems banks had during the Great Depression. Third, we need to enforce regulations through sound regulatory oversight and civil or criminal penalties. Self-regulation is a pipe dream promoted by corporatists. And we see that time and again where regulations are not enforced, financial institutions turn to excess that leads to panic and crisis.

Doing these three things will not magically turn our economy around and get credit flowing again. But these steps are essential to restoring trust in our financial institutions and government. Restoring that trust is the first and most important step in getting our credit markets to work the way they are supposed to – in a way that enhances and insures our individual liberty, rather than the false privileges of corrupt financial institutions.

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