

# American Delusions

*delusion – fixed false belief that is resistant to reason or confrontation with actual fact*

## What Is Market Capitalism and Why Do We Need to Understand It?

Whether one envisions market capitalism as a coherent set of processes with a managing elite at the helm or as just important economic features of the overall human landscape, it long ago became a dominant feature of the so-called Western world and in the last several decades has expanded to become nearly ubiquitous. For more than 40 years we have lived in a political and social environment informed, and in many ways created, by the free-market (neoliberal) system of thinking about the economy: free-market capitalism. In academe and government another system of thinking prevails – neoclassical economics. And, it too has great influence and applications.

These systems of thought both look narrowly at capitalism as an economic system and both provide the intellectual underpinnings of government policies almost everywhere in the world. Our task here is to pose an alternative, holistic approach, one that recognizes the social and political spheres, as well as the economic as interrelated elements of the capitalist system and, importantly, focuses on the actual facts on the ground. Along the way, we will shed light on these two dominant systems of thinking and reveal them to be far more justification than explanation.

Most discussions of capitalism begin and end with markets, thus the term market capitalism. These discussions follow a set outline of features.

- The market mechanism mobilizes capital investment assigning it to best uses, provides automatic self-regulating supply optimal to the needs of customers, and allows labor and customers autonomy to enter or leave.
- Prices of goods and services are set based on the collective rational evaluation of customers.
- Enterprise owners act to maximize their profits assuring a return to their investors.
- The functions of government are limited to guaranteeing private property rights, the enforcement of contracts between participants in the market economy, and maintaining the money supply. Policing and defense of the nation state also remain the responsibility of government.

This description is common to free-market/neoliberalism as well, broadly, to the latest edition of Krugman's neoclassical introductory college economics text.

But what is missing from the dominant systems of thinking? The social infrastructure

While private ownership of property is always mentioned most prominently, markets require a social infrastructure in order to provide the “level” playing field they demand. As important is the condition of labor. Labor must be made available in a fashion that assures that it is dependent on participating in the market in order to make a living and raise a family. From the very beginning of the capitalist era (circa 1800), labor understood that wage labor constituted a substantial alteration in independence and a reduction to “wage slave” status, an expression frequently heard in the 19<sup>th</sup> century US and Europe.

Markets must be assured that buyers and sellers, with their goods and services, can conduct business without interference from others across as broad a swath of the earth as possible. Trade barriers and duties on traded items are anathema in the free market thinking. Yet, on the ground, these have been commonplace for centuries. Both Britain and the US used them extensively to protect nascent domestic enterprises.

Legal frameworks and practices have to be put in place to enforce contracts between parties. Laws must allow and protect the externalization of costs. Every enterprise seeks to get someone else to pay for as much as possible. This may take the form of polluting the environment with waste products, injuries and death to laborers, denuding the landscape and leveling mountains and/or exploiting living resources like fish to the point of exhaustion leading to the penning up of life to be processed into food. Externalization of costs is not an optional strategy because if one’s competitors are doing it you have to also, otherwise your profits will be lower and in the long run your business will suffer and possibly fail.

The social infrastructure required for market capitalism did not arise naturally. It is the result of long struggle and broad action by government and capitalists to create the required social relations in place. During the initial surge in capitalist industrialization in the 19<sup>th</sup> century we can see the back and forth struggle over government policies. With the rise of popular labor-centric political parties, government came to impose protections for workers for wages, safety, child-labor, and the very right to form unions. These were early indicators of how capitalists used government power to achieve their ends while at the same time countervailing popular forces fought back.

Both the free market/neoliberal and neoclassical schools claim that markets are self-regulating and self-optimizing. This is most famously enshrined in Adam Smith’s “invisible hand”. The persistence of these claims is most amazing. The merits of these claims are completely overwhelmed by the entire history of the market capitalism. Boom, bust, depression, recession, bubble, these are just a few of the many words used to describe the actual trajectory of market capitalism over the last 200 years and more.<sup>1</sup>

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<sup>1</sup> My favorite resource on this topic is *Manias, Panics, and Crashes: A History of Financial Crises* by Kindleberger and Aliber – originally published in 1969 and now its fifth revised edition to keep up with more recent events. Not very long. Readable and scholarly at the same time.

Prices of goods and services as seen in both the neoliberal and neoclassical theories are claimed to represent the collective valuation of many rational agents in the marketplace. As such, price is declared to be the most accurate indicator of value. Demand reflected in the price for a commodity will always assure that the suppliers respond by increasing or decreasing production. There are two key failings in the actual functioning of the price system. The first failing is that it does not work in some significant arenas. For example, petroleum is the most important single commodity in the world, both in terms of its central uses and its share of world economic output. Yet the entire history of this industry displays huge swings in supply and demand that are so disruptive that, regardless of the idealized models of market capitalism, both producer groups and governments have tried over many decades to bring order to this market through price or production controls. There has been no workable solution to date.

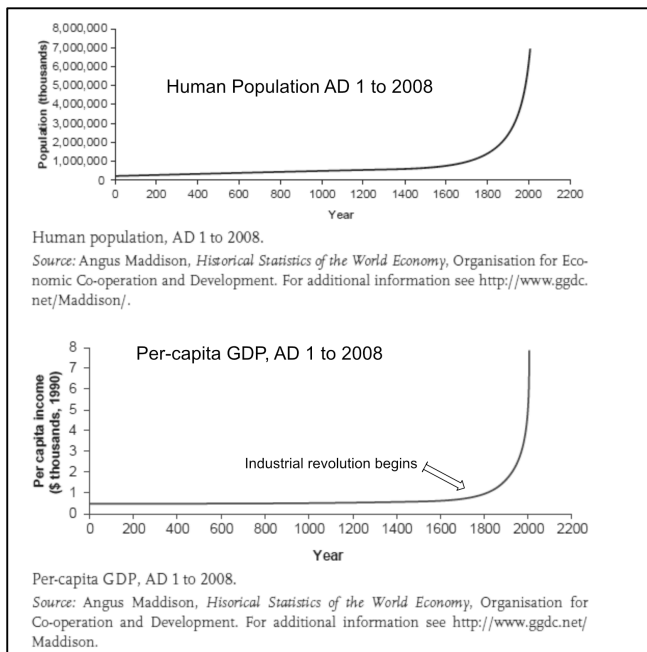
The second failing of the market capitalist price system is that all of the externalized costs are left out of the price setting equation. Imagine what the price of a gallon of gas might be if the price had to include the real cost of roads and to offset the global environmental damage caused by its use. The impact of the release of CO<sub>2</sub> is just the beginning of the external costs that the petroleum industry has been passing off for others to pay.

The notion that market capitalism will provide all of the needs of society automatically, without external direction, is similarly reduced to “silly-business” status by even the most casual observation. Housing, a basic human need, is only produced by market enterprises with extensive government support and direction. Healthcare for the vast majority of people is similarly not provided by market enterprises. The exception is the US where vast government resources support a system of market enterprises whose uncontrolled focus on profits has produced a healthcare system that is twice as expensive as almost all of the developed world counterparts while delivering abysmal health results.

Neoliberalism and neoclassical economics both envision economies with lots of producers and customers. The notion that producers will seek to dominate a market as a monopoly or oligopoly player is simply not present. Yet, the entire history of capitalism, from its very earliest best known exemplars, displays exactly this trait. Widely cited as the first global corporations, the Dutch East Indies Company (Vereenigde Oost-Indische Compagnie aka VOC), and the English East India Company held government enforced monopolies over trade. There is much intervening history of capitalism’s tendency towards monopoly power. Modern global corporations such as Siemens, Nestle, GE, Google, Facebook, have established themselves as dominant in their respective business sectors. This gives them the power to set prices and wield an enormous portion of all the investment capital in the world. To think of these behemoths as subject to the disciplines of the market is to bend the notion of markets into a conceptual pretzel. The term banana republic, coined in the first decade of the 20th century to describe countries captured by the power of corporations, still very appropriately describes the relationship between corporations and the power of the state. For example, the five largest petroleum companies in the

world have combined annual sales of just shy of \$2 trillion. This is equal to the total GDP of the bottom 131 countries in World Bank data.<sup>2</sup>

The role of the financial sector in market capitalism is troubling. In the simple, idealized world of free market capitalism, the function of banks is to aggregate savings from depositors and lend them out for productive uses, thus earning a profit in interest payments for the bank and its depositors.<sup>3</sup> Unfortunately, this state of life has been overwhelmed by the emergence of a global financial sector with the power to create money far in excess of the controls of individual governments. Gambling rather than investing other people’s money is now a central activity. As demonstrated by the global crisis of 2008-2009 this system seems destined for repeated booms and collapses. “Today, only about 15 percent of the money coming out of the largest financial institutions goes to new business investment. The rest exists in a closed loop of trading; institutions facilitate and engage in the buying and selling of stocks, bonds, real estate and other assets that mainly enriches the 20 percent of the population that owns 80 percent of that asset base. This doesn’t help growth, but it does fuel the wealth gap.”<sup>4</sup>



The much-touted innovation and dynamism of market capitalism is not to be denied. The fact is that for millennia human productivity remained nearly unchanged. For thousands of years human society existed at barely above subsistence. Since the advent of the capitalist era in the mid 18<sup>th</sup> century, the production of goods has been vertiginous. Comparatively, humans, in aggregate, became immensely wealthy.

But, in this enormous explosion of productivity is evidence of destructive outcomes of the now ubiquitous market capitalist system. Here we have to evaluate it from a global perspective observing the key features of capitalism: cost avoidance and

<sup>2</sup> “GDP (Current US\$)” World Bank Data. Accessed 9/19/17.  
[https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?year\\_high\\_desc=false](https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?year_high_desc=false)

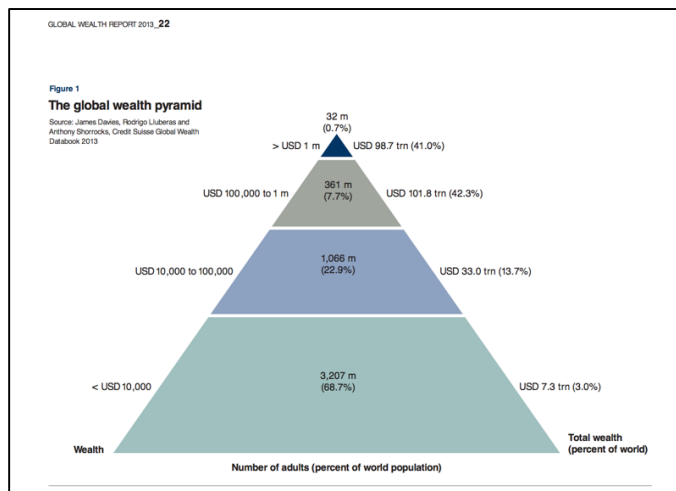
<sup>3</sup> This is my father’s banking under the rules of Glass-Steagall. It followed the genteel 3-6-3 business model: *Take in deposits at 3% interest; loan money out at 6% interest; get to the golf course by 3 pm.*

<sup>4</sup> Note: this is referencing the US economy though it applies more generally.  
References: Foroohar, Rana. “Opinion | How Big Banks Became Our Masters.” *The New York Times*, September 27, 2017, sec. Opinion. <https://www.nytimes.com/2017/09/27/opinion/how-big-banks-became-our-masters.html>. and Foroohar, Rana. *Makers and Takers: The Rise of Finance and the Fall of American Business*. New York: Crown Business, 2016.

externalization, concentration of wealth and power, chronic instability, and unsustainable growth. These features are not incidental; they are central to the entire mechanism of capitalism.

Leaders of capitalist enterprises are driven by the internal rules of capitalism to avoid every cost possible and to have someone else pay as many costs as possible. These leaders have been carrying out a prolonged campaign to rid themselves of government regulations that protect people and the environment from the results of this principle of externalizing costs. An example from the present moment is the collapse of the system of full-time employment. Companies are avoiding the traditional costs of having employees by making everyone a contract worker. This is the so-called gig or Uber economy. No company wants to pay for healthcare, vacations, childcare, or any of the other things required to raise a family and live a reasonable life. Combine this dynamic with the results of 40 years of free-market/neoliberal attacks on all government spending and family life, the need to house, feed, and educate children, is made needlessly difficult.

As pointed out earlier, capitalism tends towards concentration of wealth and power. This has been evident throughout its history. Now, following a 40 year campaign to end countervailing government policies that supported unions and income and wealth transfers, the proof is visible around the world. The top 1% own more than 50% of the wealth, the bottom 70% of the world population owns just 3% of the wealth.<sup>5</sup>



Capitalism's continuous drive for growth is transforming virtually every society into a market-centric system of wage labor and consumerism. Mass marketing and mass production are exposing every human being to profit driven decisions. An example is the explosion in the production of industrial processed food. These products are driving out traditional foods throughout the world, replacing them with ultra-processed products that feature lots of salt, sugar (including white flours), and fat. This global

mass production and marketing replicates earlier corporate successes in the US that has produced so much obesity and accompanying long-term illness, diabetes, most obvious among them.

The 2008-2009 world financial crisis reminds us of just how unstable the capitalist system is. Though it is impossible to predict when the next crisis will occur, it will occur. The looming question is whether the next one will overwhelm the capacity of governments to bail out the financial system.

<sup>5</sup> Graphic from: "Global Wealth Report 2013 - Credit Suisse." Accessed September 18, 2017. <https://publications.credit-suisse.com/tasks/render/file/?fileID=BCDB1364-A105-0560-1332EC9100FF5C83>

In the end capitalism is a system driven by individuals (corporations acting as individual players too) making decisions about what to build and produce based entirely on maximizing their individual profits. No other values matter, even the very existence of the capitalist system. Every individual participant, wealth owner, is driven to maximize their position and penalized for failing to do so, the free-rider principle in action leading to the tragedy of the commons, the depletion and destruction of the earth. There are no rules in capitalism requiring that it pay labor a living wage or worry about how labor might be housed, fed and kept healthy. Nor how the next generation will be raised and educated. It is perhaps ironic that, as capitalism is maturing into a phase requiring more and more human intellectual capital, capitalism is shedding these responsibilities. In fact the cost avoidance rule drives each of them individually to avoid taking any responsibility for such required human activities. This apocalyptic rendering follows from the logic of capitalism.

We started this essay with a task to pose an alternative approach that takes a holistic view recognizing the social, political and economic spheres as interrelated elements of the capitalist system and, importantly, focuses on the actual facts on the ground. This brief critique suggests an approach to look at the world through many lenses: economic, political, and social. A good starting point to expanding on these points is to focus attention on what the leaders of corporations and the wealthy are doing. You do not need to leap to some theory of a capitalist cabal that meets in Davos or some other resort location to plot their domination of the world. These leaders have grown up, been trained, and gained experience at the top of large corporations and accumulations of wealth. The rules of capitalism are engrained in every aspect of their thinking. Although they are powerful and wealthy, they must obey these rules. There are no free riders that survive long. So, collectively they will be acting to extend and perpetuate their place in the world.

Hopefully, this essay has provided enough of an introduction to free-market thinking that you will be able to see its utopian vision for what it is. So, when observing what the wealthy and corporate chieftains are doing, you can ignore the free-market rhetoric and pay attention to who wins from the policies they are putting in place. Follow the money. If you favor the neoclassical economics of the academy, you likewise should recognize that this system of thinking also rests on idealized views of how the world should work. Again, observe who wins from their policy directives. Follow the money.

Always keep in mind that market capitalism is an inherently unstable system with no value system beyond its own perpetuation. The present situation of the American healthcare system is an example of this in action. It functions to produce more tests, prescriptions, procedures, and devices. This is what drives the payout to doctors, hospitals, pharmaceutical and insurance companies. Your health is not on the billing form.

Over the history of the capitalist era there has been a continuing struggle by working and middle-class labor to force government to put protections in place to limit the damages that the capitalist system can impose. Early on child labor laws were put in place. Then after much conflict labor got protections to organize unions to bargain with management over wages and work conditions. In most developed countries healthcare and pensions became commonplace. Housing became a subject of

government action. Many countries recognized that family life is greatly strained by the work system so child care and comprehensive education was put in place.

The last 40 years have shown that the rich and corporations, hiding behind the mythology of free-market thinking, have attacked all of these programs, nowhere more successfully than in the US. One clear need is for the vast majority to seize back their position at the bargaining table to put in place the protections that may allow capitalism to survive until a better system emerges. It is far from clear how to go about this. Despite the rhetoric of the left wing of the Democratic Party it is still very much in the pockets of Wall St. and the wealthy. Bernie Sanders may have illustrated the opportunity to conduct politics without this big money, but it is not obvious that there is an organization that can build on that lesson.

Finally, we need to think anew about what it is we want our societies to be. The present arrangement in this moment of global market capitalism is not fore-ordained or predestined. We can live in other arrangements with more sustainable, humane values.