

AMERICA'S UNDEMOCRATIC CAPITALISM IS IN A SERIOUS SURVIVAL CRISIS¹

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Capitalism cannot exist in a political (or constitutional) vacuum. Capitalism is always part of a dualistic *political-economic* system where the state, elected either undemocratically or democratically, forms the political 'side' of the dualistic system and capitalism forms the economic 'side'.

Capitalism always needs a state to create the legal framework and/or provide the empowering conditions and regulative framework required for capitalism.

The cradle of capitalism stands in the Italian state system of the 15th and 16th centuries. In the 17th century, capitalism developed in Holland (1648) and England (1688).

The acclaimed historian Fernand Braudel (1977: 64-65) defines capitalism as follows:

Capitalism only triumphs when it becomes identified with the State, *when it is the state*. In its first great phase, that of the Italian city-states of Venice, Genoa and Florence, power lay in the hands of the moneyed elite. In sixteenth century Holland, the aristocracy of the Regents governed for the benefit and even according to the directive of the businessmen, merchants and money lenders. Likewise, in England the Glorious Revolution of 1688 marked the occasion of business similar to that in Holland (pp 64-65; emphasis as in die original).

Giovanni Arrighi (2007: 332-333) agrees with Braudel's definition:

Add as many capitalists as you like to a market economy, but unless the State has been *subordinated* to their class [*capitalist class*] interest, the market economy remains non-capitalist. Within China, large business organizations control extensive networks of commercial intermediaries ... [but] capitalists remain a *subordinate* social group with no capacity to subject the general interest to their own class interest ... [Consequently] China remains non-capitalist.

For the 300 years from, say, 1650 to 1950 the political power in all Western countries was in the hands of the capitalistic and/or bourgeois elite, and all these countries were governed in such a manner that the narrow class interest of the capitalistic elite took precedence over furthering the common interest at all times. The politico-economic system that reigned in all Western countries

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from 1650 to 1950 was, therefore, a system of *undemocratic* capitalism. In these 300 years capitalistic-driven Western empires ruthlessly exploited the countries in the South.

During this period the political power rested in the hands of absolute monarchs or undemocratically elected parliaments. England/Britain changed to a parliamentary system in 1688/89. From 1689 to 1832 only 2% of the British had the vote; from 1832 to 1867 3,2% (or one out of every seven men) had the vote; from 1867 to 1884 enfranchisement increased to 8%, and from 1884 to 1917 it increased to 15%. In 1918 general universal franchise was granted to all men over 21 and all women over 30 years. In 1928 all women over 21 were granted the right to vote (see Finer, 1997 : 1638). Britain secured a democratically elected government in 1928, but due to the Great Depression and World War II this democratically elected government only became operational in, let's say, 1950. All other Western countries also had operational democratically elected governments by 1950; for the *first time* ever the politico-economic system of Western countries was a system of *democratic capitalism*.

During the 300 years when *undemocratic* capitalism held sway, the division of domestic income in all Western countries became increasingly unequal (with the possible exception of some Scandinavian countries).

Over the past 60 years (1950 to 2010) a remarkable pattern has evolved in all Western countries: From 1950 to 1980 the domestic income of all Western countries was distributed remarkably more *equally*, but from 1980 to 2010 the domestic distribution in *all* Western countries became severely unequal; in 2010 the distribution was more unequal than in 1950.

This more equal and more unequal distribution during two consecutive periods of 30 years each was not accidental. The two periods represent two ideological regimes: a *social democratic* regime from 1950 to 1980, and a *neoliberal* regime from 1980 to 2010.

From 1950 to 1980 the energetic capitalistic horse had a democratically elected rider strong enough to rein in the capitalistic horse so firmly that he pulls the carriage of the national economy in the direction of the *common* interest. This was the golden era of social democratic capitalism.

In those 30 years Western countries achieved all their socio-economic goals remarkably well: full employment, stable prices and exchange rates, a more equal distribution of income, huge strides in the eradication of poverty.

However, the 1970s brought disaster for the USA. It lost the wars in Vietnam and Israel-Egypt, OPEC allowed the oil price to rise, stagflation crept in and Watergate tarnished the USA's stature, while the Iranian crisis led to a second oil shock.

After Roosevelt's New Deal (1933) and the social democratic consensus that Western countries had reached in the first five years after World War II, the big transnational corporations (TNCs) were subjected to strict regulations, and the democratically elected governments in the Western world were able to call to account the TNCs for their malpractices and their negative externalities to a satisfactory degree. In 1970 there were fewer than 10 000 TNCs; since then they have increased to more than 50 000, three quarters of which are domiciled in the USA.

In the early 1980s the American TNCs convinced Reagan to replace the social democratic regime with a neoliberal one. With his right-wing neoliberal counter-revolution, Reagan abolished the regulatory frameworks and gave the TNCs the *freedom*, the *power* and the 'space' to do as they pleased worldwide (in the global economy) in order to accumulate revenue for the USA and thus save America from its predicament.

From 1950 to 1980 the democratically elected riders (governments) could keep a tight enough rein on the capitalistic-oriented horses (TNCs) to ensure that the carriage of the national economy would be steered in the direction of the common interest. However, since the early 1980s thousands of wild horses (TNCs) have been galloping across the globe – particularly in Southern countries – where they wreak socio-economic and ecological havoc. These wild horses are no longer (and can no longer be) called to account by their own governments. The governments of the Southern countries, where the wild horses are causing the most damage, are even less able to control the 'foreign' wild horses and hold them accountable.

Before 1950, the capitalistic-friendly and undemocratically elected governments never called the TNCs to account. Likewise, since the early 1980s, the governments that were 'formally' elected democratically – but actually do not act as democratically elected governments should – have failed to keep a tight rein on TNCs. When Reagan called upon Americans to 'roll back the state' and to embrace 'anti-statism', he was not mouthing slogans; he was deadly serious. Ever since,

the class interest of the narrow capitalistic class has been taking precedence over the common interest.

Reagan's neoliberal counter-revolution created an American-led neoliberal, global and post-colonial empire, forced upon all countries in the world by the powerful American military.

Since the regulatory frameworks were abolished and since Western governments have stopped taking responsibility for the conduct of their TNCs, Western TNCs have the 'power' and the 'freedom' to form industrial partnerships with institutions (or corporations) in Southern countries. The TNCs have formed industrial partnerships mostly with Southern countries that are not saddled with enormous debt burdens but do have a reasonably skilled, reasonably cheap and well-disciplined labour force. The Western TNCs bring to these partnerships some of the capital and highly developed Western technology (safeguarded by WTO rules). This 'partnership industrialisation' in Southern countries produces quality consumables that are exported to Western countries at cut-throat prices. The 'combination' of Western technology and particularly Eastern cheap labour has proven to be a 'winning recipe' – provided that Western countries that are formally committed to maintain human rights turn a blind eye to the violation of human rights committed in the 'partnership industry' in the South.

The industrialisation of some Southern countries (in Asia and Latin America) led to partial *deindustrialisation* in the USA and other Western countries. This caused industrial unemployment in Western countries and is the major reason why income has again become unequally distributed since 1980.

From 1974 to 2007 labour productivity in the USA rose from an index of 100 to 200, while wages grew from 100 to only 120. From 1976 to 2007 the income of the wealthiest 1% in the USA increased from 9% to 23,5% of total income, while the income of the poorest 50% decreased from 15,6% to 12,6%. Unemployment currently stands at approximately 10%.

The wealth of the wealthiest 1% in the USA dropped from 40% in 1930 to 20% by 1970, but increased again to 40% by 1995.

With the emergence of the American-led neoliberal empire the TNCs in all Western countries became so strong (and smart) that all Western governments (and the governments of Southern countries) were subjected to a process of de-democratisation. The politico-economic system of

democratic capitalism that has been in place from 1950 to 1980 has been transformed (by the Reagan counterrevolution) into a system of "undemocratic" CAPITALISM in which the big corporations wield the sceptre.

Joseph Stiglitz (2002: 21-22) formulates it as follows:

Unfortunately we have no world government, accountable to the people of every country, to oversee the globalization process ... Instead we have a system that might be called *global governance without global government*, one in which a few institutions – the World Bank, the IMF, the WTO – and a few players – the finance, commerce and trade ministries, closely linked to certain financial and commerce interest – dominate the scene, but in which many of those [in the Southern world] affected by their decisions are left almost voiceless.

Jorge Nef and Berndt Reiter (2009: 138, 168) state unequivocally that the huge oligopolistic conglomerates that are ostensibly ‘too big to fail’ are multinational capitalistic institutions that ‘disempowered’ democratically elected governments:

A potentially *antidemocratic* trend throughout the globe is the effort by socio-economics elites and their institutional intellectuals to circumvent established democratic traditions and make politics “governable”. The trend of creating “limited” democracies, responsive to market (that is elite) force, constitutes an attempt to reduce participation and *depoliticize* politics ... [The crisis of democracy’s] contemporary dimensions [in the United States] are unequivocally connected to the encroachment of the National Security state and the alienation of popular sovereignty to the plutocratic and oligarchy practices of unrestricted markets.

Noam Chomsky (*Irish Times*: 10 October 2008) claims that the deregulated financial markets deliberately ‘price’ risk too low because they know that the state will not allow these markets to fail. Consequently these markets are ‘systemically ineffective’ and they (along with the *too* big corporations) have become ‘virtual parliaments’ that intimidate democratic governments into pampering the interests of the ‘money elite’ above the common interest.

It is glaringly obvious: the system of *undemocratic* capitalism that was in place in the West from 1650 – 1950 has been reinstated in all its glory since the 1980s – or, we should say, it has shamelessly been given a second lease on life.

In order to explain the survival crisis of *undemocratic* capitalism fully, I also have to discuss the "metamorphosis" that American capitalism in particular underwent in the 20th century.

In the 1920s productivity and GNP grew so rapidly in America that the Americans became anxious lest they would be *chronically* saddled with over-production and over-capacity. The Great Depression caused this anxiety to develop into an obsession. As "solution" to the anxiety caused by overproduction Americans sought refuge in "consumerism" and/or "consumptionism". After World War II Europe became Americanised, and after 1950 the Global South followed suit. After 1950 American "consumptionism" was sold to Europe, and after 1980 it was also sold to the poor Global South!

Since the early 1980s two powerful American trends have been at variance. On the one hand, "consumptionism" ensures that the Americans (and the Americanised world) crave more and even more consumables, while the advertising industry and mass media spur them on to remain unsatisfied and disgruntled. On the other hand, neoliberal globalisation and industrialisation in the South have significantly reduced the income of the poorest 50% in the USA.

In an attempt to obviate the clash between the two trends, America has instituted the following policies since the 1990s: consumers have been enticed with a policy of cheap money (low interest rates) to run up more consumer debt. Secondly, vast quantities of cheaply manufactured consumables, financed by Eastern countries when they buy American bonds, are imported from Asia. Consequently, since 1980 America has "progressed" (or slipped back) from being the country with the biggest credit balance the world has ever seen, to being the country with the biggest debt ever. Thirdly, the US government (especially President Obama) is trying to keep "impoverished" consumers satisfied with extended social services (particularly health services). Meanwhile the Bush and Obama administrations have had to spend trillions to save the several Big Corporations - "too big to go bankrupt" – from bankruptcy.

While American *consumer* debt, *federal* debt and *national* debt are at record levels, the capitalistic-orientated Republican Party flatly refuses to pay more tax.

How will the American escape the mess in which neoliberal global capitalism, American "consumptionism" and the undemocratic political system have plunged them? I doubt that they will be able to make an escape.

Let us consider three possibilities:

First possibility: The millions of consumers who became addicted to "consumptionism" must drastically be "despoiled" from their consuming hunger. They must become again as Puritan and as thrifty as they were before 1930. That would enable them to climb - by themselves - out of the three "debt holes" they have dug for themselves.

Second possibility: The Americans must turn around the process of de-democratization in such a manner that genuine democratic riders will once again rein in the wild TNC horses and call them to accountability.

The chances that the USA will achieve this are very slim. But if they do succeed, it will expose the "rottenness" (or Enronization) that has set in among the ranks of the unbridled corporations over the past 30 years. And then?

Third possibility: The Americans ought to abandon the neoliberal, the post-colonial and the capitalistic driven American-led empire they have built since 1980 with so much corporative ingenuity. If this can happen, the American would also have to abandon the "imperialist bonus" that have been accruing to them over the past 30 years due to the ruthless plundering of the rest of the world and the environment by the American-led militaristic "empire"! I cannot see that happening.

Time's 22 August 2011 cover read:

"THE DECLINE AND FALL OF EUROPE (and maybe the West)"

Maybe the cover should have read:

"THE DECLINE AND FALL OF THE UNITED STATES (and maybe Europe)"

Europe is also struggling with a survival crisis. The nature of their crisis is somewhat different.

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