
BOOK REVIEW FEATURE

Economics for Everyone: A Short Guide to the Economics of Capitalism

Jim Stanford

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Reviewed by Tristan Ewins

Economics for Everyone is an important new offering by Jim Stanford – a progressive economist who works for the Canadian Auto Workers union. Amongst the plethora of academic texts concerning political economy, *Economics for Everyone* is notable for its general use of accessible language. Also commendable is the book’s systemic treatment of economic issues of concern to ordinary workers, activists, and citizens.

Jim Stanford’s book addresses essential questions. In whose interests does the economic system work? What is the personal role and stake of workers and capitalists in the system? What are the values and assumptions underlying the system? Can we trust the expertise of professional economists who are the high priests of competition, deregulation and privatisation?

Stanford observes that most economists ‘fully believe that competition, inequality, economic advantage and the accumulation of private wealth are central, natural and desirable features of a vibrant, efficient economy’ (p 3). Ideology, however, infuses their arguments. As he argues, ‘the elitism of economics disempowers and silences the voices of non-experts’. The ‘opinion makers’ imply that people who question neoliberal orthodoxies such as free trade ‘must either be acting from ignorance, or else are pursuing some narrow vested interest’ (p 2). This is what Stanford sets out to challenge.

The process of empowerment begins with becoming aware of our own interests. This awareness then needs to be complemented with an understanding of how the economy works and how (conceivably) it can

be transformed. Finally, there is the matter of combining such knowledge with values, so that we might propose a real alternative – argued for on the basis of both common interest and moral right.

JIM STANFORD WILL PRESENT

THE 2009 E.L. ‘TED’ WHEELWRIGHT LECTURE

TOPIC: BEYOND THE ECONOMIC CRISIS:

HOW THE ECONOMIC SYSTEM CAN BE CHANGED

VENUE: EASTERN AVENUE AUDITORIUM,

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DATE/TIME: 20 AUGUST AT 6PM

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OTHER STATES:**

- **MELBOURNE: 11 AUGUST, 6PM, STATE LIBRARY
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Capitalism Deconstructed

In his preliminary analysis, Stanford portrays a system based on the production and distribution of goods and services. In addition to production for the market, there is the ‘domestic’ economic sector, comprising household work that does not factor into most measured economic activity, but which is crucial to social reproduction, quality of life and our very survival. To this category may also be added the important area of voluntary work (pp 20-21). Later in the text other aspects are considered: innovation, economic growth driven by the profit

dynamic, inequality, class struggle, and cycles of ‘boom and bust’ (pp 34-35).

The foundations laid down by Stanford provide the basis for an analysis that gathers in pace and complexity as the book progresses. He notes that the word ‘capitalism’ is rarely used in popular discourse. To name the system, and thus identify it as relative to others, is considered ‘radical’ (p 5). Stanford, however, considers the economy with a historian’s eye to ‘the long term’. The capitalist system can be understood as arising from the 18th Century onwards, having been preceded by other different modes of production (hunter-gatherer, slavery, feudalism) (pp 40-44). That said, capitalism need not be considered ‘timeless’ or ‘eternal’. What is more, ‘pre-capitalist economies also had markets’: there is no unique nexus between capitalism and markets. Stanford notes that ‘Most forms of socialism...rely on markets to distribute end products and even, in some cases, to organise investment and production’ (p 36). This ‘flexible’ socialism, balancing planning with democratic markets, is a prospective successor to the capitalist system as we know it.

Historical Context

It is instructive to trace the development of capitalism since its inception in 18th Century Britain. Forced off the land with the development of more efficient agricultural techniques, workers were ‘driven into the cities’ where they experienced ‘intolerable conditions’ (*e.g.* 7 day working weeks, 12 hour working days, child labour, frequent injury and early death) (pp 45-46). Reform was not ‘handed down from above’, but was won over decades of class struggle. Gains included suffrage for workers, rights to form trade unions, public education, higher wages, an eight hour day, and formation of social democratic and labour parties (pp 45-46).

The Great Depression of the 1930s was the single greatest challenge to the perceived legitimacy of capitalism. The dominant economic ideology supposed that regulation of any sort (*e.g.* minimum wages) would upset the ‘perfect’ functioning of the market: a ‘general equilibrium’ where all factors of production (*i.e.* skills, labour power and wealth) are used (pp

55-57). Stanford explains that, on the contrary, cycles of boom and bust – such as was evident in the Great Depression – are inherent in the system. The process might start with a downturn in any part of the economy. It may be triggered by high interest rates that are used to contain inflation, for example. Or the cause may be some kind of ‘supply shock’, such as the dramatic oil price rises of the 1970s (pp 295-296). Further financial crises (*e.g.* bad debts following the collapse of an ‘asset bubble’) affect the willingness of banks to provide credit, creating a ‘credit squeeze’ such as we are now experiencing (pp 291-293).

Downturns such as these can create a ‘chain reaction’ leading to a wider crisis that can spread internationally. Profits are curtailed; investors and consumers lose confidence. The ultimate consequence is that demand collapses and further unemployment results. As Stanford explains, such crises are hard to resolve because there is not sufficient co-ordination in the economy. Economic interdependence, with ‘structural reliance on profit-seeking business investment’ explains why global capitalism is inherently prone to boom-and-bust cycles (p 294).

Learning from the Depression

Writing in the 1930s, John Maynard Keynes developed important ideas as to how such economic downturns could be tackled. He argued that the economy was ‘demand-constrained’. Growth depends upon ‘the strength of aggregate purchasing power.’ Furthermore, Keynes insisted there was no natural tendency for unemployment to ‘resolve’ itself, no natural tendency to equilibrium. Failing investor and consumer confidence – or weak purchasing power – would lead to unemployment (p 57).

Learning from the Depression, though, Keynes advocated proactive government intervention – through taxes, government spending and adjusting interest rates – to attain full employment. Government had to play a key role in ‘demand management’ and ‘counter-cyclical strategy’ (pp 58-59). Deficit-financed expenditure in time of recessionary crisis could be justified as a necessary stimulus. Investment in infrastructure can buoy economic activity for the ‘here and now’, but also provide for social need into the future.

Policies supporting the ‘mixed economy’ and ‘demand management’ formed the foundation of the post-war consensus, underlying what would come to be known as a ‘Golden Age’ for the developed world (pp 58-59). Vital reforms were achieved, including greater productive capacity, higher wages and higher material living standards. And, while the Cold War led to paranoia about socialism, the presence of the Communist alternative also intensified the momentum for real reform.

Speculation, Financialisation and Fragility

Over the last 30 years, there has been a shift to ‘financialisation’ – an enormous increase in the activities of finance markets as a proportion of total economic activity. According to the US magazine *Dollars and Sense*: ‘The profits of the financial sector’ (in the US) grew from ‘14 per cent of total corporate profits in 1981 [to] nearly 50 per cent’ in 2001-2.

Stanford sees financial markets as often being ‘fundamentally divorced from the real production that businesses undertake’. While speculation can affect art markets, property, oil, and gold, speculative profit involves no production. Finance market speculation now plays a ‘dominant, wasteful and often destructive role in the economy’ (pp 216-217).

Speculative bubbles come in many forms. Recently, there has been the property/sub-prime crisis. Struggling working class families were encouraged to invest in the property market in the hope that appreciating property prices would see a positive return on investment. While such speculation can create ‘surreal’ wealth, it tends to end in disaster. Greed creates a ‘self-fulfilling’ upward speculative spiral, involving a great waste of resources (p 218). Eventually, though, some loss of confidence will lead to a downward spiral – driving many investors, small and large, to bankruptcy. With a plethora of loans gone bad, the crisis can swiftly spread through the real economy of employment, production and trade. Given the interdependence and interconnectedness of national economies, such crises can – and have – spread world-wide.

Neo-liberalism

Following the ‘oil shocks’ of the 1970s, world leaders scrambled to restore the profitability of capitalism. This led to a ‘counter-offensive’ by capitalists and their political representatives against the gains of labour and citizens made during the ‘Golden Age’. The struggle became manifest with policies of privatisation and deregulation, supported by the ruthless dissemination of an ideology that ‘private markets left alone work best’. That neoliberal ideology has also been taken further so that workers and citizens ‘internalise’ the logic of austerity; to stigmatise the role of trade unions; to accept insecurity in work and income; and to accept as ‘natural’ a significant rate of unemployment. Great effort has been devoted to reducing expectations for wages and conditions, minimising the social wage, implementing policies of ‘user pays’, and leaving families to ‘fend for themselves’ (pp 46-49).

Stanford supplements this analysis of neoliberalism with analysis of how changes in the ‘organisation and intensity of work’ affect employees. In ‘disciplining the labour market’, employers and governments have increased ‘the cost of job loss’. Unemployment benefits have been woefully insufficient, and activity tests have been taken too far – removing choice and degrading the vulnerable (p 105).

Finally, Stanford notes that neoliberalism has been notable for the emphasis its exponents have placed upon the management of inflation. Inflation creates uncertainty amongst investors, companies and households, reducing the value of investment returns. Inflation can be caused if wages grow faster than productivity, if there is excess demand, or if there are ‘excess profits’ with the ‘jacking up’ of prices (pp 205-207). Progressives and organised labour, however, have questioned the dominant neoliberal concern with inflation. Resort to interest rate hikes can radically compromise consumer confidence – leading into a recessionary spiral (p 202). Stanford argues for a more balanced approach. Notably, wage pressures without productivity gains can be justified where the return on wage labour is unfair or unjust. The short term effect may be mild inflation, but change is essential as a matter of social and distributive justice.

Capitalism and Class

Under capitalism, most people must sell their labour power in order to survive. Meanwhile, a tiny minority owns the vast majority of wealth, including the means of production. Some private enterprises command more wealth than certain countries (*e.g.* General Electric is valued at \$US 675 billion) (p 86). About 50% of all labour in advanced economies is wage labour; with 40% unpaid work (domestic and volunteer). ‘Top management and owners’, meanwhile, account for 2% of the population at most (pp 65-67), comprising the ‘capitalist class’. In advanced economies this class dominates the economy and thus also political life (thereby illustrating the anti-democratic nature of the capitalist system).

Here, Stanford is at pains to avoid any confusion over terms such as ‘worker’. The working class comprises not only those engaged in menial tasks: the term refers to all wage labour, from scientists to higher education professionals. Some professionals think they are of a ‘higher class’ than other workers, but they are workers nonetheless. Both unskilled workers and highly skilled professionals are expected to have ‘flexibility’ in hours and conditions (pp 65-67). However, the most vulnerable workers are particularly disadvantaged (usually lacking organisation, bargaining power and skills): they include hospitality workers, retail, cleaners, child care workers and others. Divisions of consciousness and status within the working class are a stumbling block to a shared class consciousness and to worker solidarity.

Unions may be repressed by the state in the context of laws regarding their organisational and bargaining rights, including the right to engage in industrial action. Worker organisation and confidence are also affected by the impact of higher unemployment, reduced social programs, ‘false consciousness’ and sharper labour segmentation (divisions within the working class). Higher productivity, meanwhile, can lead to material benefits for workers, so long as it is not achieved through greater labour intensity. Finally, competition may undermine workers’ conditions, unless they can organise and bargain on an industry wide, or even international, level (pp 108-110). All these factors affect worker confidence and organisation.

Class Struggle

Stanford's analysis of the possibility and necessity of class-based responses to economic adversity has strong resonance in Australia. As the Australian Council of Trade Unions (ACTU) demonstrated in the 2007 Federal Election, by mobilising the resources of organised labour it is still possible to make great political impact. The 'Your Rights at Work' campaign played an integral role in turning the tide of public opinion. When the extreme policies of the Australian government were subjected to strong and sustained scrutiny, its support collapsed. Being endowed with free will and facing the impact of exploitation, many people still strain against neoliberal ideology. The key is to maintain a permanent campaign footing. Organised labour, combined with other community and advocacy groups, is part of the 'big picture' – the combination of cultural and class forces necessary for qualitative change.

Australia's 'GetUp!', an internet-based political lobby group, is indicative of a new potential for civic mobilisation. Emerging with the advance of information and communications technology, GetUp! has mobilised over 300,000 Australians for progressive causes, ranging from campaigns about human rights to the environment and 'economic fairness'. Stanford recognises that individual workers are vulnerable and replaceable (pp 108-110), but by 'combining forces' workers and citizens can increase their leverage and power.

Varieties of Capitalism

Stanford's book identifies four varieties of modern capitalism. The 'Anglo Saxon' model (US, UK, Canada, Australia) is usually the least egalitarian, with a scaled-back role for government. The 'Asian' model (Japan, South Korea, China) follows a pattern of 'paternal corporatism', with strong regulation. The 'Continental' model (France, Germany, Italy) involves a 'moderate' role for government, but with significantly greater equality. The 'Nordic' model (Sweden, Norway, Denmark and Finland) is more strongly egalitarian, with concerted government

regulation, a comprehensive social wage, and high levels of unionisation (pp 49-51).

Stanford notes that not all countries have ‘fallen fully under the neoliberal heel’. The shorter working week and the length of annual leave in France stand in stark contrast to the over-worked corporate legions of Japan (p 316). Egalitarian Sweden, meanwhile, supports ‘government program spending’ (everything from dental care to child care) of 56.7% of GDP, compared to 34.6% for the United States (p 316).

It follows that, even if there is no immediate ‘end in sight’ for the capitalist system, nevertheless there *is* scope for reform. Stanford suggests a key role for unions – improving wages, benefits and working conditions, especially for the most vulnerable. Government expenditure is proposed as a means to ‘soak up’ unemployment. Targeted interventions can also improve sectoral performance (*i.e.* of different industries) in an economy. A stronger array of transfer payments is suggested to tackle inequality and poverty; as well as ‘social wage’ measures including the provision of high quality public services – in health, education and elsewhere. Finally, Stanford argues for sweeping reform in the governance of the global economy. This includes ‘[reducing] large trade imbalances, stabilising financial flows, helping governments “regulate their economies in the public interest” and [enhancing] development opportunities for poor countries’ (p 317).

Into the Future

Some speak of a ‘post-industrial’ economy marked by the dominance of service industries. Others talk of a ‘shareholder economy’ where pension funds, mutual funds and the like make capitalism ‘fairer’ and reduce conflict between workers and capitalists (pp 37-38). After consideration, Stanford demolishes notions that the capitalist system has already overcome its contradictions and oppressive aspects by these means. Many services are produced in ‘large-scale factory-like workplaces’ and are no less dehumanising than the production systems that preceded them (pp 38-39). And, despite the existence of pension funds, most wealth is still owned by a very small ‘elite’. In the United States pension funds

account for only 6.7% of stock market wealth. In the United Kingdom the figure is 12.7% (p 222). Most crucially, pension funds tend to behave just like other institutional investors. Share value is ruthlessly maximised, regardless of genuine need for less-profitable goods and services and the human cost of constant ‘downsizing’.

Governments have turned to ‘Public Private Partnerships’ (PPPs) to provide essential infrastructure and services. However, despite the catchy-name – suggestive of some ‘congenial corporatism’ – such arrangements are usually less cost effective than purely public debt finance. Indeed, private investors in that context enjoy something of a parasitical relationship, despite claims of bearing ‘risk’. According to Stanford, PPPs are a ‘sure fire’ opportunity for financial interests looking for massive profits at the public’s expense (p 249).

What Would a Transition to Socialism Involve?

Stanford identifies two central qualities of socialist political and economic organisation. Firstly, there must arise widespread public or non-profit ownership, co-ops, Government Business Enterprises (GBEs), public services and infrastructure, and mutual societies. These institutions can be motivated by ‘public well-being’ rather than profit, although improving returns on collective investment may be considered a factor for co-operative enterprise. Secondly, there must be a larger role for economic planning. Some decisions might be made centrally, directed to serving social goals at a macroeconomic level. A national fibre-optic broadband network, in the form of a public authority, could be one example. A government-owned savings and investment bank, meanwhile, could provide liquidity in times of financial crisis, and provide financial services to all without discrimination against the poor.

Also, through pension funds/wage earner funds or other comparable vehicles, there could arise collective and democratic control over investment. Through such measures a socialist government might seek to minimise unemployment and ensure sustainable development (pp 324-325). In the context of a ‘democratic mixed economy’, however, there is

still a role for price signals and other signals regarding product quality, including those that help to drive innovation.

A transitional socialist program may also include the establishment of appropriate labour market regulation, and a broad and inclusive social wage. Essential here is a regime of progressive taxation and a generous tax-transfer system. Progressive taxation could include taxes on companies, personal incomes, wealth, inheritance, resources and luxury goods. With an increasing cost of living, reflected in Australia by the cost of water, fuel and other factors, measures also are needed to compensate pensioners and low-income workers. Such conditions demand further labour market regulation. Decent pension rates, sufficient to eliminate poverty, could be provided for all who have the need. The unemployed, in particular, ought not be discriminated against or reviled for the sake of 'labour market discipline'.

Also central for any reform agenda is socialised healthcare, including collective consumption of pharmaceuticals and 'bulk billing' of medical services (*e.g.* in Australia Medicare and the Pharmaceutical Benefits Scheme). Universal health care schemes could be taken further to include dental care, high quality aged care and extra beds and staff at public hospitals.

On similar reasoning, tertiary education should be provided for through progressive taxation. Where 'user charges' apply (such as Australia's Higher Education Contribution Scheme – HECS), repayment schedules could be set with progressively scaled thresholds depending on wealth and income.

Other areas of social wage provision might include child care, free public transport, public recreation facilities such as pools, sports grounds, playgrounds, investment in education at all levels – including teachers and infrastructure, investment in libraries with public internet and 'more conventional' information (*i.e.* books!). Finally there could be public subsidy for alternative participatory media, to enhance civic awareness and mobilisation, and empower ordinary people by transcending 'one way information flows'.

But Hasn't Socialism Already Failed?

Stanford's analysis of current economic difficulties leads towards a socialist response. Of course, socialist initiatives come in many forms. Concrete attempts to build some sort of socialism within the context of liberal democracy include post-war Labour in Britain, the nationalisation of banks and other companies in France during the 80s, the Swedish Meidner plan of early 1980s – involving the use of 'wage earner funds' – and Australia's centralised wage fixing system. Capitalist opposition ended up stalling these efforts – even in Sweden (pp 326-328).

But progressives and radicals should take heart. The class struggle 'ebbs and flows' over the decades. The neoliberal ideology which sought to legitimise the assault upon the rights of workers worldwide is now facing a severe crisis of legitimacy of its own. So drastic and sudden has been the onset of economic crisis, neoliberalism simply does not have the answers to the worldwide 'meltdown'. Many will be looking for answers, and here the Left retains a valuable 'armoury' of ideas. Having heeded the lessons of history – also making use of the possibilities arising with new information technology – the future could be different.

Venezuela and Bolivia, with support from Cuba, claim to be 'building new forms of socialism'. With strong democratic mandates, governments across Central and South America are enacting reforms - from reform of tax to provision of social services and strategic nationalisation. For some, such developments comprise a 'beacon of hope', indicating that indeed change is possible.

There are also examples of radical reform, 'from the grassroots up', that give some sense of what future socialism might look like. Stanford points to examples of public and non-profit enterprises that are thriving despite their status as 'anomalies' in the broader capitalist system:

- Rabobank in the Netherlands is a Co-operative bank, employing 55,000 staff, having 600 billion Euros in assets and focusing on lending for clean technologies;

- The Mondragon Co-operative in Spain is a worker-owned co-op which runs over 150 manufacturing, finance, and retail enterprises and employs over 80,000 people;
- The ‘Recovered companies’ in Argentina comprise about 200 factories, employing 10,000 people, that were seized by workers following the 2001 economic crisis, and now operate on a ‘non for profit’ basis (p 329).

These examples prove that there are circumstances under which workers, acting collectively, can achieve fundamental change. They could be extended with further support from government. Tax credits for co-operatives, for instance, combined with low-interest loans and advice on management through an expert public authority, could spur a process of transformation.

In the immediate future, though, there are limits to the prospects for change. Strategic compromise could be necessary – reflecting what is possible, given the consciousness of workers and the balance of class forces. Rather than ‘nationalisation without compensation’, government could work to promote collective capital formation amongst workers, or to provide majority or full public shareholding of important enterprises in strategic industries (*e.g.* mining, communications). Stanford suggests that ‘nationalisation with compensation’ might also be viable – especially during economic downturns – with an eye to the ‘long term’.

Finally, the socialism of the future might be more diverse and flexible. Alongside a movement for economic democracy and social justice, competition could persist, as a spur to innovation. A democratic mixed economy could comprise a variety of co-operative enterprises, private enterprises, government business enterprises, public services and authorities and public infrastructure.

The Current Challenges

With the discrediting of neoliberalism, there arises the prospect of a ‘turning of the tide’. It should be remembered that the steady march of liberalism and nationalist revolts against imperial empire, at first

experienced set-backs. However, over the long term, over centuries sometimes, these movements have often emerged triumphant. Now a new situation beckons, and Stanford's book gives us some tools for interpreting the situation, prospects and strategic options.

Capitalism has essentially achieved what Karl Marx said it would. It has developed the means of production to the point where it is possible, now, to eliminate poverty and provide for a rich tapestry of human need. The productive strength of the economy is such that, were measures taken to reduce the working week, we could replace over-consumption with family time, civic activism, education, recreation, or a more profound search for meaning beyond the capitalist treadmill. We have the material basis in advanced economies where, as Marx put it, we could build 'an association in which the free development of each is the condition for the free development of all.'

We also have at our disposal the material means for distributive justice. Subsidy could be provided to those who are employed in the most menial and repetitive tasks. Industry focused tax-breaks for both workers and employers could reduce the working week for these people to not more than 30 hours, while still allowing for decent material quality of life.

The concern with economic redistribution also has a global character. Were every government in the developed world willing to devote only 1-2% of their country's GDP to help the underdeveloped world, millions of people would be lifted from destitution. Instead 'dictatorial' conditions have been forced upon these poor nations by the IMF and World Bank, retarding their development and enforcing policies of small government, deregulation, privatisation, and the oppression of labour.

Destitution faced by our most vulnerable, in the midst of plenty, is intolerable and unnecessary. We speak here of the influence of that ideology that tolerates 'natural' unemployment and the winding back of social benefits in order to 'discipline' the labour market (pp 157). We also speak of the stigma associated with welfare – when so often it is the system that fails. Further, we face an environmental crisis unlike anything experienced before in the history of humanity.

Stanford's work is timely and relevant in drawing our attention to these challenges. At the time of writing, attempts are being made to co-

ordinate a response to the world recession. Only through such co-ordination – including regulatory reform – is recovery imaginable. Such a recovery could be greatly aided by strategic socialisation of credit, including re-establishment of a public ‘peoples’ bank and of democratic credit unions, operating within regulatory guidelines.

Regrettably – perhaps for fear of frightening or deterring what should be a mass readership – Stanford devotes little space to overtly discussing the Marxist intellectual inheritance. Contributing factors to economic crisis – the tendency of the rate of profit to fall, overproduction leading to recessionary correction, the tendency towards monopoly – are relatively neglected. Through much of the world Marxist political movements have crumbled, but the broader tradition remains a rich and diverse source, even if now it is but one among many to be drawn upon.

Regardless, this is a valuable book – broad, practical and accessible. Stanford provides a strong foundation for anyone wanting to understand economic fundamentals. Compared to other texts, *Economics for Everyone* is readable and comprehensive. It reminds us of the historical context of capitalism and the hope that it might one day be replaced by something better. It refutes the ideological foundations of neoliberalism and the narrow capitalist interests upon which such ideology rests. And it accepts the role of class struggle in the process of change – recalling that all wealth comes ultimately from work and from nature.

In these times of crisis and upheaval there is need for understanding, ideas and hope. Learning in itself is an empowering process. Let us hope this book – and Stanford’s public speaking, including his forthcoming Australian visit – helps to spur real change.

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