

# The Occupy Wall Street Movement and the Coming Demise of Crony Capitalism

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by: Ravi Batra, Truthout | News Analysis



In 1978, to the laughter of many and the derision of a few, I wrote a book called, "*The Downfall of Capitalism and Communism*," which predicted that Soviet communism would vanish around the end of the century, whereas crony or monopoly capitalism would create the worst-ever concentration of wealth in its history, so much so that a social revolution would start its demise around 2010. My forecasts derived from the law of social cycles, which was pioneered by my late teacher and mentor, P. R. Sarkar. Lo and behold, Soviet communism disappeared right before your eyes during the 1990s, and now, just a year after 2010, middle-class America, spearheaded by a movement increasingly known as "Occupy Wall Street (OWS)," is

beginning to revolt against Wall Street greed and crony capitalism. Will the revolt succeed? It surely will, because the pre-conditions for its success are all there.

**The first question is this: Why does rising wealth disparity create poverty?** My answer is that it causes overproduction and hence unemployment and destitution. It is all a matter of supply and demand. Inequality goes up when official economic policy does not allow wages to catch up with the ever-growing labor productivity, so that profits soar and rising productivity increasingly raises the incomes and bonuses of business executives. I have detailed this process in an earlier article. Then money sits idly in the vaults of bankers and big-business CEOs and restrains consumer demand, leading to overproduction and hence layoffs. The toxic combination of mounting layoffs and absent job creation raises poverty, which, according to official figures, is now the highest in 50 years.

**The next question is: how has the government either restrained wages relative to productivity or made the rich richer and the poor poorer?** It is easy to see that almost all official economic measures adopted since 1981 and contained in the following list have devastated the middle class. The list includes:

1. *The Reagan income tax cut of 1981 that benefited the rich, but made it necessary to sharply raise all other federal taxes, paid mostly by the poor and the middle class, to finance that tax cut.*
2. *Unenforced antitrust laws, leading to mergers among large and profitable firms, but killing high-paying jobs in numerous industries.*
3. *Permitting the oil industry mergers in the 1990s that are now preventing oil prices from falling in the middle of the worst slump since the 1930s.*

4. *Permitting relentless mergers among pharmaceuticals and health insurance companies, so that America, far more than any other nation, now spends almost 15 percent of its gross domestic product (GDP) on health care that is mediocre by European and Japanese standards.*
5. *Unchecked use of outsourcing that kills high-paying jobs in manufacturing and services.*
6. *Ignoring the growth of the trade deficit that has destroyed our manufacturing base.*
7. *The 1999 repeal of the Glass-Steagall Act under President Clinton that led to reckless lending by banks and an unprecedented housing bubble, which collapsed in 2007 to trigger the ongoing slump.*
8. *The Bush tax cuts and bailouts that further benefited the rich while nearly doubling the government debt.*
9. *And finally, the decimation of the real minimum wage by President Reagan and other Republicans. (In 1981 the hourly minimum wage bought \$8 worth of goods compared to \$6 by the end of Reagan's presidency in 1988, and to mere \$5.15 in 2006 under Bush.)*

**Looking at this nine-point list**, is there any government program that a big business CEO would hate? Stated another way, **is there any measure that has helped the middle class?** I can't think of any. Thus, over the past three decades whatever the government did, ostensibly to help the people, actually ended up hurting them. Mergers, outsourcing and free trade raise productivity, but also lower wages, whereas the other provisions of the above list directly enrich the wealthy. The nine-point list is really a list of exploitation.

**Let us now look at President Obama's record since January 2009 when he took office.** The president's first act was to engineer another bailout, à la George W. Bush. The idea was that the \$800 billion package of assisting banks and faltering industries would save or create some four million jobs. Did the measure succeed in its avowed purpose?

According to the latest estimate from the Congressional Budget office, the bailout created nearly 1.5 million jobs. Even if we accept the administration's claim of four million, the bailout was extremely wasteful and enormously enriched the rich. Dividing 800 billion by four million yields 200,000. In other words, the government spent \$200,000 to create one job. When the average wage is less than \$50,000 per year, where did the other \$150,000 go? This suggests that companies that hired those four million people received \$150,000 for each job they created. **Thus, three-fourths of the bailout, or \$600 billion, went to businesses, and a mere one-fourth benefited the unemployed.** This is the best case for the Obama measure. It is clear that the bailouts, Bush's and Obama's, were extremely wasteful and hugely enriched the opulent.

**The fact is that government deficits are not working and have always benefited the wealthy.** Not surprisingly, the fastest and the sharpest rise in income and wealth inequality has occurred since 1981, when the culture of mega-deficits first began. Lasting prosperity occurs only when wages rise in proportion to productivity, as was the

case through much of American history, especially from 1940 to 1980. Whenever wages trail productivity, debt and profits soar, only to be followed by overproduction and soaring poverty and misery for the middle class. Such was the case in the 1920s and the 1930s and such again has been the case since 1981.

**If President Obama really wants to create millions of jobs, then all the economic measures adopted since Reagan's presidency must be abandoned.**

Of course, the Republicans would oppose him tooth and nail in this resolve; they would scream about the president hurting job creators, who in fact are job destroyers. Big business has decimated American jobs through mega-mergers, outsourcing, oil speculation and by shifting factories to Mexico and China. The nation can only prosper if the destructive ability of job destroyers is restrained through increased taxes or the creation of free markets.

When the government bails out mega banks and Wall Street firms, it amounts to shooting the economy in the foot. Our president seeks to bring about change, which was his campaign slogan. But once elected, he got sidetracked by thinking that change is possible through compromise. This has never happened before. **Never in history have the exploited prospered by cooperating with the exploiter.**

Compromise is what produced the government's nine-point list of measures described above. The Republicans were able to impose these measures whenever some Democrats compromised with them. When Reagan raised the gasoline tax and excise taxes in 1982, it was through the cooperation of the Democrats, who cooperated again in 1983 when Social Security and self-employment taxes went up sharply to pay for the massive income tax cut of 1981. The repeal of the Glass-Steagel Act, the Bush tax cuts and bailout were all the handiwork of Republican lawmakers and right-wing Democrats.

**America does not need another dose of increased government spending, but a rational economic policy that generates free-market capitalism to take the place of the current monopoly capitalism.** In 1776, the nation declared independence; coincidentally, the same year Adam Smith, the father of modern economics, demonstrated how small businesses generate lasting prosperity for all, not just a privileged few. That is what we need again. It is well known that small firms have created the bulk of American jobs in recent years. This is then the best argument for breaking up business conglomerates not only to create jobs, but also to lower the oil price and the cost of health care.

**The government should also adopt strong, not toothless, measures to eliminate the trade deficit, which is now running at \$500 billion per year. This alone will create five million manufacturing jobs.** Eliminating the trade deficit will raise US GDP by the same amount, and to produce that much output, new workers will be needed. Suppose it costs a business \$100,000 to hire a worker, including salary, benefits and profit. Dividing 500 billion by 100,000 yields five million. In other words, eliminating the trade shortfall will generate five million new jobs, paying the average wage and benefits.

**The trade deficit can be eliminated by setting up a low export-exchange rate,** the way China and other Asian nations have done. But first, the government must see the value of balancing our trade and then proper economic policy can be devised to reach the goal.

**Outsourcing is now the biggest job destroyer. The government should impose a hefty tax on this practice. This way, if a company has to outsource some**

**work, it will compensate the nation for creating joblessness in the economy.**

Finally, we need to eliminate the federal budget deficit. This can be done by repealing the Bush tax cuts for the wealthy and by enacting a small tax on financial transactions, while preserving crucial programs for the retirees. There is no reason to cut Social Security and Medicare, because President Reagan raised taxes sharply to guarantee the benefits to retiring baby boomers. In short, President Obama should do away with the nine-point list of exploitation mentioned above. He will then be able to bring about the change that he promised during the election campaign in 2008.

**Einstein once defined insanity as doing the same thing over and over again and expecting different results.** By now, we should know that excessive government spending is one such insanity. It creates very few jobs and primarily benefits the rich. In fact, I have shown mathematically to some audiences that, under reasonable assumptions, increased government debt goes completely into the pockets of the opulent. As the latest piece of evidence, from September 2010 to September 2011, the deficit rose \$600 billion, but only 400,000 jobs were added.

I call upon the OWS movement to demand that the above nine-point list of exploitation be repealed, so that a free-market capitalism of small firms is reborn. This will strengthen the president's hand and enable him to face Republican lies and tactics that are only meant to further weaken the economy and force the president out of power. **We need to make sure that Mr. Obama is re-elected, provided he accepts the repeal agenda, because the Republicans always do the same thing over and over, namely make the rich richer and the poor poorer.** Additionally, we should also work to defeat Republican incumbents and rightist Democrats who will compromise to maintain the status quo and possibly cut Medicare.

Our efforts are bound to succeed. I am an economist and historian and made many forecasts in the past about the economy and social change. While 5 percent of my economic forecasts have been wrong, to my knowledge I have never made an error about forecasting a revolution. **My latest estimate is that monopoly capitalism will go the way of Soviet communism by 2016.**

**O' brave protesters of the OWS movement, your effort will not only shape the 2012 elections, they will also end, once and for all, the brutality of the rich and powerful, who are responsible for the sorry state you are in. The change that you are about to bring will be glorified as what Abraham Lincoln did for black Americans. I hope that, with your support, Mr. Obama will be the harbinger of that change.**

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