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Why Wealth Redistribution Cannot Solve Capitalism's Crisis

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"Redistribute the wealth!" is the rallying cry of the capitalist left all over the world. Tax the rich, increase the wages, increase the state's social spending and investment to create jobs and rein in climate change … all that and more, while leaving the basic framework of capitalism – commodity production, wage labor, profit, global competition – intact.

At first sight, this program seems logical. After all, economic growth is stymied by a lack of effective demand, and this demand is diminished by the rising income inequality. So why not take part of the mind-boggling fortunes of the super rich and use it to raise the income of the poor? Look at the Walton family, which owns more than half the stock of the Walmart supermarket chain. Six members of this family own more than the bottom 30% of all American families together, while workers at Walmart earn so little that they need to apply for food stamps to survive, and collection boxes are installed at Walmart stores so that needy Walmart "associates" can buy a turkey for Thanksgiving. If only, so it is said, people like the Waltons would understand "the genius of Henry Ford", who supposedly raised the wages of his workers so that they could buy the products of their own labor: a win-win situation in which the workers improved their living standard and Ford increased its market. Likewise, so the capitalist left claims, a redistribution of wealth would make everybody a winner today. Unemployment would fall, living standards would rise; the expansion of the market would end the crisis of overproduction and thus raise the capitalists' profits, while social tensions would decline.

It remains a curious fact that no government on earth is adopting such a marvelous program, so clearly advantageous to capitalism as well as to the working population. Indeed, when political parties of the capitalist left come to power, no transfer of wealth from rich to poor occurs. Francois Hollande, the 'socialist' president of France, is not raising taxes on the rich, he is lowering them. US President Obama, who talks a lot about the need to address income inequality, launched a stimulus program of which less than 5% went to the poor; the bulk of it went to the banks and other big capital entities. Under the rule of the Workers' Party (PT), Brazil became the country with the widest gap between rich and poor in the entire world. The second widest gap is in "communist" China, which has scores of new billionaires, many of them high ranking Communist Party leaders, trillions of dollars in the coffers of its central bank and hundreds of millions of people living in dire poverty.

If redistribution of wealth from the rich to the general population were a solution to the economic crisis, you would think that at least some capitalists would be smart enough to act in their own best interests and try it. Instead, all governments, whether from the left or the right, preside over a process of pauperization of the many and enrichment of the few. They differ in their rhetoric and tactics, but what they do is essentially the same. The excuse of the left leaning governments is that the working class would be attacked even harder if the right were in power. Of course when they are in opposition, the left parties devise ambitious wealth distribution plans. The less their chance of coming to power, the more radical these plans tend to be.

But the rising inequality is an *effect* of the crisis, not its cause. Therefore, redistribution of wealth cannot be a solution to the crisis of capitalism. It is an empty slogan, but one whose appeal is obvious. The more people have to struggle to make ends meet, the more obscene the concentrated wealth of the rich appears. Naturally this provokes anger, and demands for "economic justice." Of course, we support the fight against pauperization, against social cuts, for raising the minimum wage and so on. But we denounce the illusion that capitalism can accommodate "economic justice," that pauperization and the rise of income inequality can be stopped, and that the crisis can be resolved within the framework of capitalist society. The program of the capitalist left is based on mystifications. Let's take a closer look at some of them.

The Henry Ford-myth

In 1914 Henry Ford doubled the wages of many of his workers to 5 dollars a day. Wikipedia writes: "Ford's policy proved that paying people more would enable Ford workers to afford the cars they were producing and be good for the economy". This myth is still popular, especially in North America. We heard it mentioned several times at Zucotti park in New York during the Occupy Wall Street protests. But Ford did not double the wages to turn his workers into his customers. If that had been his purpose, he might as well have given his cars away for free. Since he was paying the wages, he would be indirectly buying his own cars with his own money. Not very profitable.

Not that a worker could afford a car in 1914 anyway, even while making 5 dollars a day. That only became possible many years later when the high productivity resulting from the mass production methods which Ford pioneered had brought down the cost price far enough. Then, the Ford factories moved to the suburbs, and for its workers the possibility to buy a car became an obligation.

Ford was no friend of the working class. His tactics including playing off white and black workers against each other, and the use of company police to ruthlessly control the work force. He had another reason to double the wages. He was a genius, but his genius consisted in finding new ways of intensifying the labor process. He was the first to introduce moving assembly lines. Productivity was rising fast in his factories but it was hampered by the heavy turnover, as so many workers soon had enough of the hellish pace that became the norm in the Fordist mode of production. In many departments, 300 workers a year had to be hired and trained to fill 100 slots. That constituted an enormous drag on productivity, to which the wage-rise was the solution.

Ford also doubled the wages because he could. He enjoyed a near monopoly in an exploding market. His sales doubled every year. If we look for comparison at companies today, there are some, like Microsoft, Google and Apple, who enjoy to some extent a similar advantage (they too can afford to pay higher than average wages to attract talent), but the overall context is different. There are certainly still companies that could afford to raise wages but don't because there is not enough pressure on them to force their hand. But there are many more which can only stay in business by lowering their labor costs, either by eliminating jobs or cutting wages and benefits.

The Myth of the New Deal and the Popular Front

The myth of the New Deal or what generations of progressives have designated as the "Roosevelt Revolution," has an even firmer hold on the imagination of the left, as does the nostalgia for the Popular Front, and its model in France (1936), for both are now – especially now – held up as exemplars of progressive social and political policy, and as assaults on the temples of wealth, forerunners and models for today's demands for income redistribution and government spending to overcome the economic crisis. Both the New Deal and the Popular Front are portrayed by the capitalist left today as having brought about economic recovery and *social justice* through a redistribution of wealth that put an end to the "Great Depression" that began in 1929.

But did the New Deal redistribute income and wealth? Did its programs provide a solution to – or even significantly ameliorate – the devastating impact of the economic crisis?

At the heart of the myth of the New Deal lay the social and economic programs which Roosevelt championed: first the abortive National Recovery Administration (struck down by the Supreme Court), which actually set aside the anti-trust laws introduced by earlier progressive administrations, and legalized a network of compulsory cartelization of industry with the aim of jumpstarting the capitalist economy. The failure of that gambit aside, there were the social programs that have come to define the New Deal in the hearts of much of the left today: The Tennessee Valley Authority, the Works Progress Administration, the Wagner Act, Social Security, more progressive taxation.

The greatest impact of the New Deal, and its plethora of programs, was to quell the growing radicalism of the working class, which progressives and the new President clearly saw as a threat to the capitalist system. Yet the promise to put America back to work through deficit spending, itself made possible by virtue of the fact that the crisis itself had led to a threatening *deflationary* spiral, as well as to America's role in the global economy as a *creditor* nation (in stark contrast to today), was itself an abysmal failure. Public works programs like the TVA or the WPA, absorbed just a small part of the "army" of the unemployed, and "relief" payments to the unemployed barely mitigated their desperation, but the immediate impact of those programs was to blunt the spreading radicalism of the working class, for whom mere existence had become increasingly desperate. Perhaps the most important effect of the Wagner Act, which opened the legal way to mass industrial unionism, was to provide a means to *control* working class resistance, and channel its outbreaks into a network of institutions where it could be contained. Indeed, the New Deal did not eliminate the unemployment that was the bitter harvest of the great depression. Unemployment in the US in 1933 when Roosevelt took office at the height of the great Depression was 25.2%. A second economic downturn in 1938, threatened to cast the nation back into the same crisis conditions that had prevailed five years before, and despite a massive *rearmament* program, and war preparations initiated by the New Deal, in 1940 unemployment stood at 13.9%, and was only wiped out by America's entrance into the world war itself. On December 8, 1941 when the US entered World War Two, there were still six million unemployed in the US, despite several years of a massive rearmament program which Roosevelt had undertaken in the knowledge that the US had to go to war. The vaunted economic "recovery" for which the capitalist left celebrates the New Deal, then, was due to war production and inter-imperialist war itself, a war that the US was prepared to fight not just because of its capacity to produce the armaments and raw materials necessary to wage it, but because the New Deal had created the institutions through which the danger of class struggle itself had been neutralized. The real fruit of the New Deal, then, was world war, from which the US emerged as the dominant world power, economically, politically, and militarily, with its basic socio-economic institutions not just intact, but enormously *strengthened*.

The electoral victory of the Popular Front, following a massive strike wave in France in 1936 in response to the same economic crisis that had brought Roosevelt to power in the US four years earlier, put Leon Blum and the left in power, with the support of the Stalinist 'Communist' party. The target of the Popular Front, beyond ending the strike wave, which it promptly did, was an assault on the power of the "200 families" that controlled the Bank of France, and thereby gained control of the money supply and the nationalization of the armaments industry. Yet, the comrades of the communist left saw the victory of the popular Front as "The Defeat in France," as their lead article in *International Council Correspondence* was titled. The nationalization of the armaments industry, and the creation of the money supply to set it into high gear, was a necessity in the face of the prospect of imperialist war, the bases for which the Popular Front set out to create (that rival factions of French capital preferred a Nazi dominated Europe to one shaped by the Anglo-Saxon powers changes nothing in terms of understanding the *capitalist* nature of the Blum government). As the left communists then pointed out: "The popular-front government can do no damage to the French bourgeoisie. Its only damage will be to the workers. The popular-front government is the government of French capital"[1].

Both the New Deal and the Popular Front came to power in the midst of a devastating economic crisis, and in each case not only did their triumph put an end to the prospect of an ever-spreading class struggle, but it enabled the ruling class to introduce the economic and political programs that responded to the fundamental needs of *capital*. Indeed, in this regard, many of the economic and social programs of both the New Deal and the Popular Front bear a startling resemblance to similar programs initiated by Hitler and the Nazi regime, confronting the same global economic crisis as did the US or France: deficit spending, compulsory cartelization, state control or even nationalization of banking and industry, the creation of unions to "manage" the working class, and massive investments in war production, which diminished unemployment and the social threat it represented, and which was an imperative for capital as its "solution" to the crisis – imperialist world war – became clear.

Today, in the midst of another devastating economic crisis of capitalism, the *myths* of the New Deal and the Popular Front, having entered into the collective consciousness or imaginary of a new generation of the left, constitute a formidable ideological bulwark of capital in a new century. With respect to the capitalist left's longing for a *new* New Deal, it might be wise to listen to one of the radical historians of the new left in the '60's, William Appleman Williams, who put it in these stark terms: "The New Deal saved the system. It didn't change it"[2].

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[1] *International Council Correspondence*, Vol II, Number 8, July 1936, p. 7.

[2] William Appleman Williams, *The Contours of American History* (World Publishing Co., 1961), p. 439.

The myth of national independence

The myth that a redistribution of wealth can solve the crisis implies another one: the myth of national independence; the myth that governments have the leeway to chart an independent course and transfer wealth from rich to poor at will. But the more developed the economy has become the more each country has become a part of a global production chain. Capitalism is now one giant machine with, to quote William Greider, "no one at the wheel"[3]. No one can take the wheel to drive the machine away from the abyss because the machine itself dictates the course. It has its own laws, its own logic which brought us to today's crisis and makes it inevitable that the deepening of this crisis will lead to a redistribution of wealth, not from, but to the rich, regardless of the government in power.

There have been attempts by various state-capitalist regimes in the 20th Century to follow an independent course. By now, such efforts have been almost completely abandoned, mainly because the resulting lack of integration into the global system led to a growing lag of productivity that meant poverty for the masses and meager profits for the Stalinist ruling class. Today, only the extreme fringe of the capitalist left still defends an autarkic course. But the more moderate left continues to pander to the myth that a proper left government would take money from the rich and use it to spend its way out of the crisis while still maintaining the country's competitive position in the global economy. A few of them, "global Keynesians," recognize that this would be impossible for any individual country but they pin their hopes on agreement between the main players: like Thomas Piketty who had to conclude from his data[4] that the gap between rich and poor was not influenced at all by whether the left or the right was in power, and who therefore proposed a global wealth tax as the only possible cure. As if fiscal competition could be suspended. In reality, we see the opposite trend.

No country can ignore its obligation to be attractive to capital; today less than ever. As water finds a myriad of ways to the lowest possible point, capital always finds its way to the highest possible rate of profit, wherever on the globe. And it starves those areas that fall short. Now that capitalism is mired in a systemic crisis and a deflationary spiral threatens to pull down the value of capital everywhere, capital flows not only to where it can valorize most, but also to where the risk of devalorization is lowest.

So to remain attractive for capital, and thus prevent a flight of capital, a country must offer the owners of capital a better or at least equal expectation of profit then what it could obtain elsewhere. The crisis accelerates a competition between countries in reducing 'the costs of doing business', by lowering taxes on wealth and profits, by lowering wages and benefits, by making it easier to lay off workers, by lax environmental regulation, by devaluing currencies. They must cut pensions and other social spending to keep the confidence of the owners of capital in their future ability to meet their financial obligations, because if they lose this confidence capital will withdraw and steep interest rates will strangle their economy. This gives an inherent advantage to the countries whose advanced technological development and military power inspire such confidence. That is in the first place true for the US, whose national currency is as well the principal international form of money. That makes confidence in it practically an obligation. So the pressure is not equal everywhere; some countries

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[3] William Greider, *One World, Ready or Not* (Simon & Shuster, 1997), p.12. Greider continues: "in fact, this machine has no wheel nor any internal governor to control the speed and direction. It is sustained by its own forward motion, guided by its own appetites."

[4] Thomas Piketty, *Capital in the Twenty-First Century* (Harvard University Press, 2014).

have more leeway then others. But even for the richest and most powerful ones the priority is to be attractive for capital. They can do so with other means than the weaker ones. The US, with its hand on the dollar-spigot, has created money as never before, just like the capitalist left says is needed. And all that money did create a redistribution of wealth. Only, it was – and is – a redistribution of wealth to the wealthy, since the bulk of that money served to buy mortgages, equity, treasury notes and other assets, to prop up their prices, to keep them attractive for capital.

The weaker countries have even less options. Yet it's there that the capitalist left has the most chance to put its recipes to work. It's conceivable, for instance, that the capitalist left (Syriza and the CP) could win the elections in Greece, presumably on the promise to reduce unemployment, increase social spending and increase economic growth. But economic growth depends on competitiveness, which depends on productivity. How would the left keep the Greek economy competitive, without resorting to lay-offs and austerity measures just like the right? Technological innovation might provide an alternative, but that would require capital that Greece doesn't have and even if it would find it, such change would make many more jobs superfluous and increase unemployment. Make-shift job programs would be nothing more than a fig leaf for that trend. What probably would happen if the left won in Greece is that the new government would try to negotiate better conditions from its creditors without obtaining any meaningful results, as the latter would have no incentive to make concessions. This might lead Greece to drop the euro and return to its national currency, the drachma. The weakness of that currency would indeed make the Greek economy more competitive (by making itself cheaper). But the weight of its debt (still mainly in euros) would rise, as would the price of everything Greece imports. This would increase inflation, and if the government really were to increase its spending to increase the consumer power of the under-privileged, it would rise even more. This would eat away whatever gains the working population was granted and to rein in hyper-inflation, the government would have to revert to steep cutbacks. The pauperization would continue.

We suspect the leaders of Syriza and the CP realize this and will avoid the responsibility. They are more comfortable and more useful for capital in opposition. Capitalism makes everything, including politics, a market. Within the political market, social conditions determine supply and demand. Increased social tension increases the demand for political forces, from the left and or the right, who can encapsulate those tensions within the framework of capital. Parties like Syriza are the supply that meets this demand.

The money myth

By this we mean the myth that money = value = real wealth. It is the basic conceit of capitalism. If it were true, things would be easy and the redistribution of money would indeed be a great way to combat the effects of the crisis. If it were true, the many trillions of new dollars, yen, yuans, pounds and euros that have been created by the central banks since the outbreak of the crisis would have meant massive new wealth and thus massive additional demand. The world economy would be in full swing. Instead we see anemic growth at best, a return of recession, increasing pauperization and a growth of the total debt burden with a staggering 36 % increase since 2008[5].

[5] See: *Geneva Report warns record debt and slow growth point to crisis*. Financial Times, September 28, 2014.

To believe that money equals real wealth is to believe in magic. But the purpose of capitalism is not real wealth per se but profit: surplus value, which is not created out of thin air but results from capitalist production. But a great deal of money is being created out of thin air. So money does not equal value either. Yet it represents value. Money is buying power, access to the whole world of commodities. Its total value can be no more or no less than the total value of what it can buy. That includes not only the commodities in circulation (producer and consumer goods and services) but also treasured capital, which is absolutely indispensable for the functioning of capitalism. The credit system depends on it. The larger it becomes, the more treasured capital is needed. But when the Fed creates, as it did in recent years, $600 million of new money per hour, it obviously does not create new value. It creates fictitious capital. But dollars created out of thin air have the same buying power as dollars resulting from the sale of a commodity (realizing value). When money increases while the value it represents stays the same, the total buying power does not change but a redistribution of buying power takes place. Fictitious capital claims its share of the pie. To what effect? That depends on where the new money flows.

Money-creation increased steeply when capitalism in the 1970's suffered its first global crisis since the end of World War II and was facing declining productivity growth, a falling rate of profit, market saturation, recessions, increasing worker's struggle and other social unrest. Preventing a collapse of production by subsidizing industry and consumer demand was the main purpose of the monetary expansion. But this was addressing the symptoms, not the cause of the crisis. The vast increase of the quantity of money in circulation without a corresponding increase of value in circulation could only result in a growing loss of money's buying power. Hyper-inflation spread in the periphery and was moving towards the center of the system. This was a threat capitalism could not live with. Hyper-inflation made money increasingly unable to represent value. If unchecked, it would quickly have led to a breakdown of the world economy.

In the 1980's the growth of the money-supply in general circulation was sharply curtailed. It was a shock therapy which triggered a deep recession but drove inflation down. But again, this did not address the cause of the crisis. The capitalist state remained dependent on massive creation of fictitious capital to keep a collapse at bay. But while in the 1970's fictitious capital grew in general circulation, in the 1980's and beyond it grew mainly in the treasured form of capital, in financial assets. Instead of ending deficit spending, the state increased it. But through tax cuts, social spending cuts and the deregulation of financial markets, it assured that capital was the direct beneficiary. This alleviated the downward pressure on the profit prospects of capital. And because the increase of fictitious capital did not so much enter the general circulation of commodities, it did not create inflationary pressure. It did create asset-inflation but in the short term, at least in the strongest countries, this was more helpful than harmful for capital. With money flowing more directly to it, capital's buying power increased much more than its incentive to invest in production. So the demand for financial assets in which to store value increased and so did their prices. That proved that they were a good investment which raised the demand even more, and so on. It is the wet dream of the capitalist, to make money with money, without having to pass through that pesky phase of production.

In the 1980's the financial assets of the OECD (the most developed countries) grew twice as fast as their economies. In 1992 their "value" was twice that of their GNP, in 2000 three times, and so on it went. During the 1980's and the following decades, many other deeply impacting changes took place, such as the IT-revolution, the end of the cold war and of China's autarky, globalization and the restructuring of capital in a post-Fordist direction, but here we're focusing on money in order to deal with the question of whether money, either taken from the rich or newly-created, can solve capitalism's crisis.

Of course for the owners of capital new money did create additional buying power and thus wealth. Some of that trickled down and fostered demand and economic growth. A global pattern developed, for which the relation between the US and China was (and is) emblematic. The former invests in and buys from the latter far more than it sells to it. It is rewarded with direct profits but most of all with cheap imports which keep inflation low. It pays for its chronic trade deficit with an international currency, which it creates itself. It thereby accumulates public debt, a large part of which is bought by China with dollars earned from its trade-surplus. China does so to prevent the dollar from falling and its own currency from rising so that it can continue its export-driven growth. The Chinese state also forces Chinese capitalists to keep a huge part of their dollar earnings in the central bank, to rein in their spending to keep inflation in check. The central bank's foreign currency reserve continuously grows (now almost $ 4 trillion). To what extent this hoard consists of fictitious capital cannot be known, as long as it stays in the coffers of the central bank. That is the nice thing about this recycling game for capital: it sterilizes the fictitious capital that helped fuel growth both for China and the US. As long as it remains inert in the central bank, it can do no harm. What if China were to divide its 4 trillion of dollar reserves, or a substantial portion of it, amongst its many poor? Then the fictitious nature of this treasure would reveal itself in hyper-inflation, in a decline of China's competitive position, in global economic chaos[6]. Hyper-inflation would also result from a massive redistribution of wealth in the most advanced countries. The fortunes of the Waltons and other multibillionaires have the same sterilizing function as the Chinese central bank. They can continue to accumulate as long as they continue to increase in "value" and thus as long as the demand for financial assets continues to grow. The difference between fictitious and non-fictitious capital is not readily apparent since they take the same forms. Only in theory can they be considered as separate categories. In practice, money as a whole is partly fictionalized when it grows faster than value. Therefore the whole economy is threatened when the fiction becomes apparent. Money in its treasured form is a commodity and as such it must have use value. Its use value is to serve as latent capital, that is, to make it possible, through the credit system, to set in motion forces of production and create value that can be realized into more money, not just now but in the future. If it is disconnected from this function it loses its use value. Like any commodity that is overproduced, it loses its exchange value. Then the pyramid-scheme crumbles and asset-deflation occurs.

This has happened several times in recent history. In 1990 Japan's stock market lost half its value; real estate went down by more than two thirds. Overnight, assets turned into liabilities and Japan's mighty banks were suddenly awash in a sea of red ink. In 1997, this happened to the Southeast-Asian "tiger' economies. In 2008, the same threatened to occur in the heart of the system, the US and Europe. And once again, accelerated creation of money was the only way to prevent a collapse. More of it was and is being created than ever before: like the Fed's"Quantitative Easing" policy of $600 million new money per hour. What was new was that all detours were avoided and the new money was directly used to buy financial assets to prevent their deflation. There was no alternative. The pyramid scheme must continue or collapse. New money has to be fed into it, to prop up the value of the old. Likewise China and

[6] More on this in: Will China save capitalism? In Internationalist Perspective 55 https://internationalistperspective.org/issue/internationalist-perspective-no-55/

others had no alternative but to keep on buying American debt and stuffing billions of dollars in their treasuries. The can is kicked down the road but nothing is solved. Another sharp turn of the screw seems near. The policy recommendations of the capitalist left provide no way out. They too believe in the illusion that money is real wealth, only for them it's in the wrong hands. If applied, their recipes would be a shortcut to collapse.

Once again, the capitalist left holds out the prospect of *reform* as a solution for a social and economic crisis that cannot be resolved so long as wage labor and the commodity form, the veritable bases of the social relations that shape capitalist society, are not overturned.

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