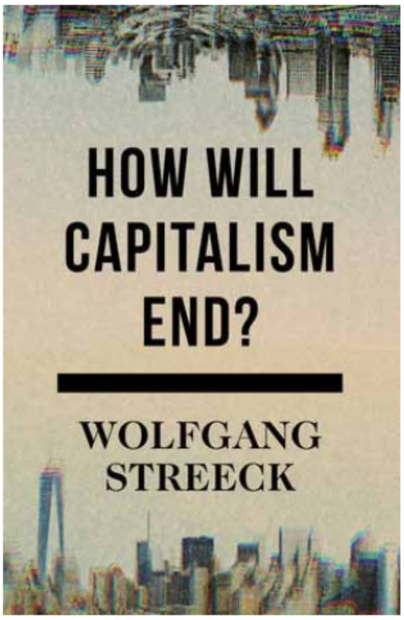

HOW WILL CAPITALISM END?
BY WOLFGANG STREECK
Reviewed by Brian Chance

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Capitalism is usually associated with the study of economics but a thoughtful book called *How Will Capitalism End?* has been written by the eminent sociologist Wolfgang Streeck. The book offers a different perspective on this vital subject and the main thrust is that the global capitalist system is likely to bring itself to an end as a consequence of its internal contradictions.

Streeck contends that capitalism becomes the means of accumulating wealth in the private ownership of a minority, with the majority dependent for their living on the whims of that minority. He suggests that the process starts with the desire for new and different goods and services leading to the growth of consumerism. Entrepreneurs provide these preferred goods and services and constantly exert pressure on government in order to gain greater freedom of operation to give greater efficiency. The pressure on government leads to widespread privatization and a weakening of protection for workers. The natural state of working for the common good is replaced by the commodification of labour as the cost of wages. The need for protection is known and trade unions negotiate fair wages and terms of employment but the cost and inconvenience of industrial action by workers to protect their interests weakens their power and strengthens the power and influence of business interests. Their dominant economic theory is that growth brought about by self-regulating markets in land, labour and money, regarded as commodities, will be the best way to satisfy the desires of wage earners as consumers. The marketing of money brings the development of the international finance industry with enormous influence over policy and which the author likens to a private government. Its activities foster the growth of capitalism and markets worldwide as globalization.

Streeck considers that the key period for these developments starts in the 1970's after a period when democratic socialist influences were dominant. The period from the 1970's has been marked by three dominating trends, declining growth, growing inequality and rising public and private debt. He contends that the three trends are mutually reinforcing. Low growth kept wages low and any surplus flowed upwards to the rich minority. Inequality dampened growth by reducing effective demand. The pressure to raise wages to reduce inequality brought inflation; controlling inflation brought rising public debt. Efforts to reduce inequality by way of tax limitation, low interest rates and finally quantitive easing have caused increases in debt, both public and private, to very high levels. The high level of debt militates against growth in the productive economy and Keynesian stimulus is no longer effective. The initial desire for a higher standard of living, subsequently fostered by business, has led through the weakening of democratic government to the current situation in which daily life seems to be controlled by bankers and remote international organizations of all sorts, which do not act in the interests of ordinary people.

The author describes it as an intensifying decoupling of capitalism from social democracy causing widespread dissatisfaction and the rise of populism. He suggests that the mutually reinforcing destructive forces have no final corrective mechanism and must lead eventually to the end of capitalism.

With no alternative in sight, the author's rather bleak conclusion is that:

What is to be expected on the basis of capitalism's recent historical record is a long and painful period of cumulative decay: of intensifying frictions, of fragility and uncertainty and of a steady succession of 'normal accidents' – not necessarily but quite possibly on the scale of the global breakdown of the 1930s.

Streeck does not suggest a possible outcome. Although he explains that capitalism escaped from the democratic socialist restraints that were in place after the Second World War to protect societies from a repetition of the disasters of the 1930s, he accepts that it is not possible to return to those containing and constraining policies and institutions. They were intended to ensure the fair distribution of wealth but they held back the changes that would have increased the wealth available for distribution and finally led to a very high level of inflation.

Streeck chooses to look to his own calling of Sociology to inspire a way forward.

This is a brief outline, which cannot do justice to the closely reasoned case made by the author, but it does show clearly the need to consider how the laws of economics have allowed this apparently intractable situation to arise and to show how the same laws can create a different capitalism that truly works for the common good.

Although the author gives the most careful consideration to the fate of capitalism he strangely gives much less attention to what capitalism actually is. Streeck defines capitalism as:

A modern society that secures its collective reproduction as an unintended side effect of individually rational competitive profit maximisation in pursuit of capital accumulation, through combining privately owned capital with commodified labour power.

Elsewhere in the book he calls capitalism simply 'capital accumulation' but he does not define capital. The specific examples of capital that he gives are of material goods but it is nevertheless clear that in his view of capitalism, capital refers to the *ownership* of capital including money and investments of all kinds that give title to the means of production. Streeck does not give much consideration to land, which he sometimes calls 'nature'. He mentions real estate and the expectation of an open ended increase in its value but does not distinguish between the land and the buildings. He does not mention the rent of land at all. He makes it clear that the sum of all this, including land, is the wealth that makes the minority rich. The intention here is therefore to enquire into the nature of capital and its ownership.

The defining characteristic of capital is that it is wealth intended to produce more wealth for future enjoyment rather than for the current subsistence of the producer. Real wealth is real goods and services to satisfy needs and desires, produced by labour on the natural resources drawn from the land. Land cannot be wealth until worked upon to produce goods and services so it cannot be capital either. The wealth that is also capital includes stocks of all kinds produced and held available as wealth in the process of trade, but the wealth usually classed as capital is that to be used to assist labour in the provision of more goods and services in the future. It is only the intended use that distinguishes capital from wealth in the possession of the consumer to be used for the gratification of personal needs and desires.

Development in this way is made possible by the division of labour and this requires an increasingly complex web of exchanges. Starting from self-sufficiency with only surpluses being exchanged, labour becomes increasingly specialised until, in a modern developed nation, the product of work nearly always passes through many intermediate exchanges before reaching the consumer. When needs and desires are satisfied by exchange, markets of all kinds arise to facilitate these exchanges. Markets in wealth arise naturally and can operate for the common good.

If all exchanges can be continued freely in this way to the benefit of the whole community, how is it that there is an increasing divide between the rich and the poor? It is the relationship between those who produce the capital and those who benefit from its use that needs investigation. The owner of capital is the capitalist but ownership of capital is an uncompleted exchange. The owner must satisfy the claims of those who produced it by offering in exchange the enhanced provision of wealth made possible by the use of the capital. This continues the chain of exchanges although this particular exchange continues so long as the capital remains in use.

The process may be seen more clearly by the way in which exchanges are recorded. The claimant in an exchange needs evidence of the claim and it is money that is used to verify uncompleted exchanges. Money is a token representing an existing claim for completion of an exchange. However, as Schumpeter said, you cannot ride upon a claim to a horse. Similarly, you cannot manufacture on a claim to a machine. Claims in the form of money and financial instruments such as shares, debentures and other loans are not capital. They are evidence of an uncompleted exchange of wealth.

This misunderstanding would not in itself cause confusion if the money always represented a just claim for completion of an exchange but unfortunately this is not always so.

There are two ways in which money may properly be obtained to claim capital. The first is investment using savings. Savings represent claims on wealth that are not exchanged for goods and services for present gratification. The money may be personal savings or it may be the savings of others channelled through shares, bonds, pension funds, peer-to-peer lending and savings institutions generally. The second way is by bank credit. Banks create new money for the purpose, which is proper provided that it is repaid from the sale of goods made with the use of the capital. These transactions continue the flow of exchanges so that all may continue to satisfy their needs and desires. In each exchange the money is only a token representing an outstanding claim and is not itself capital. If the savings or bank credit are invested indirectly through institutions, these holdings are also tokens representing an uncompleted exchange and are not themselves capital.

This is a brief outline of a natural capitalist system in which capital is owned and used for the common good. Capitalism as it is now known allows the capital to be owned by a minority at the cost of the majority and the story starts with claims to the ownership of land. It is clear that Streeck regards land as capital, which can be owned privately. He does not recognise that this is the fundamental cause of the capitalist crisis. It is the collection of the rent of land by the owner that destroys the natural process of exchange. The economic rent of land is a natural surplus of wealth intended to meet by exchange the needs of those who provide the communal services and also to meet the needs of those who cannot provide for themselves and cannot otherwise be provided for. The landowner does not produce any wealth in exchange for the rent claim and the chain of exchanges is broken. This is the engine that continually drives wealth from the majority to the rich minority.

The collection of rent by the landowners is not the whole problem. There is a limit to its use for immediate personal gratification. The landowner uses the rent money to invest in capital. This may be directly or through the same forms of investment used for savings and bank credit. The ownership of capital provides another source of unearned income. The benefit of capital use is retained by the owner instead of being returned to the community, who in effect produced it, by the normal process of exchange. The availability of all these additional claims spawns the finance industry and this introduces a new phenomenon – the creation of money as various kinds of loan in addition to that required as credit. A branch of the finance industry appears to manage all these claims and develops new markets to trade money in foreign exchange and derivative transactions of doubtful value to the majority. It operates mainly for the benefit of the rich minority and increases the divide between the rich and the majority. Claims to wealth generated in this way bring additional obligations on the majority in the form of work to provide the wealth for which they receive no wealth in exchange. The majority are no longer able to share in the increased prosperity.

Various attempts have been made over the years to correct this situation, as illustrated fully by Streeck, but they have not been successful. The policy adopted since 2008 has been the creation of new money by central banks as Quantitive Easing. This additional money does not represent an already existing uncompleted exchange. It immediately creates, in addition to the claim, an additional obligation to produce wealth. The intention is to increase production in the same way as bank credit but the claims created by the new money gravitate to the rich, who do not recognise the obligation to use it to generate new wealth. The obligation, or debt, created by the new money therefore remains with the majority, and the divide between the rich and poor widens further. Because money used in this way does not produce additional wealth, as it would if it were bank credit, there is no natural way of repaying QE. Attempts to reduce the quantity of money in order to withdraw QE are likely to have serious international financial repercussions. QE is another, perhaps final, stage in the self-destruction of capitalism in its present form.

Thus does capitalism bring about its own downfall. It starts and ends with the belief that there can be justice in the private ownership of the economic rent of land. This leads to the belief that land is a commodity that can be bought and sold. This is accompanied by the ideas that money and labour are also commodities. Streeck accepts these commonly held beliefs and consequently is unable to advocate the remedy. But capital is essential if a community is to prosper. It is the way to satisfy needs and desires more readily and the growth of capital naturally leads to increased prosperity.

The need is to ensure that the benefits stay with the community as a whole and do not fall into the hands of a minority. The way to ensure justice is to collect the annual economic rent of land to meet the communal costs of the community.

When freely negotiated, it is the justified compensation paid for the right to privately use a particular plot of land and thereby to exclude all others. By retaining this revenue for common use it would become possible to reduce all tax on earnings so that the whole value of production would be available for exchange. Money would be returned to its proper function as a token representing an uncompleted exchange. The value of uncompleted exchanges, including capital in use, would naturally fix the total money supply.

This natural form of capitalism could follow a chaotic interregnum as foreseen by Streeck or it could be brought about in an orderly way now. All that is needed is an open heart and a clear mind. There can be economics with justice and a social democracy that works for the common good. There is a future for capitalism.

BOOKS WORTH READING

Anna Minton's new book *Big Capital: Who is London For?* exposes the dire effects of land speculation in London. It is not only spoiling the skyline of the city but destroying the homes of local people and driving them, through high rents, out of the city. She writes "The UN Declaration of Human Rights includes the right to adequate housing. But in the UK housing is now, first and foremost, a financial asset, a safety deposit box for the super-rich and a cash cow for growing numbers of Russian, Middle Eastern, Asian, Chinese and some British investors".

Further, she writes that "London and many other British, European and North American cities no longer serve people from a wide range of communities and income brackets, excluding them from expensive amenities and reasonably priced housing and forcing them into intolerable conditions or out of the city altogether, raising the question of who is the city for? Today, capital flowing to every aspect of land, property and housing means the whole system has opened itself up to financialization. From the market in student housing to 'super prime' properties, the result is a system failing to meet the needs of people. . . Why is this happening? And how can we change it, so that housing becomes about people rather than about profit?"

She observes that after the war ways were sought for "removing conflict between private and public interest" and there was a general concern for the common good. Various housing schemes were implemented and various forms of land tax were proposed "which would siphon off the profits of soaring land values for local benefits". But all this came to an end in 1985 when Nigel Lawson scrapped all development taxes "in tune with the spirit of the age and deregulation". Then came the "Big Bang". Consequently "the tax mechanism to dampen speculation and provide benefits to the community, is no longer there".

Gathering evidence from all quarters, including the experience of ordinary people, Minton shows the colossal consequences of deregulation and land speculation. Her subtitle "Who is London for?" asks how it is that London and the other great cities have ceased serving the people who live in them and become the casinos of land speculators, producing unhuman living conditions for thousands, and exploitation such as 'beds in sheds' accommodation. She explores a number of remedies, for example Community Land Trusts, self-build cooperatives and similar projects, which provide local solutions. But the most practical all-round solution she commends is the introduction of a land tax which would not only halt land speculation but restore the cities to the people who live and work in them.

Lastly, we highly recommend the book *The High Cost of Free Parking* by Donald Curran Shoup - even for the very few parking non-enthusiasts amongst you.

Donald Curran Shoup is a professor of urban planning at UCLA, and he is more than capable of applying land value tax theory to the complex issue of parking in a thoroughly persuasive manner.

In this 2005 publication he lays out the problem of free parking and outlines the history of why this idea became so prevalent. Though mostly writing from an American perspective, Shoup basically argues that all parking must be prized according to the frequency of use - in theory adjusting pricing in such a manner that there is always one single parking space available.

Ultimately, this very fine book leaves the reader asking herself the question: Assuming that all parking revenue goes into the public purse (which unfortunately is not always the case), then what are parking fees other than a land value tax characterised by extremely frequent transactions?