

Intro Economics for the 99%: Occupy Wall Street, November 14, 2011

People who have had the misfortune to have taken a standard economics course in high school or college have been seriously mis-educated. These courses have two major themes. One is to get people to think of themselves as “consumers” – and concentrate on how we spend our money. The other is to “explain” that production is the result of cooperation between labor and capital, with each getting its market-determined “fair share.” The “conclusion” is that our economy is one which is driven by consumption, the decisions of all of us as to how we spend our money.

Trying to understand our economic system by looking at “consumption” is an upside down, back to front, way of looking at things. It ignores the different roles played by the 99% and the 1%. Mostly importantly, it takes the wrong starting point. To understand our economic system, we must look first at production, secondly at who gets the income from that production, and thirdly at what people do with that income.

What is “production?” It is the result of people working, laboring, using natural resources such as land and the products of earlier human labor – tools, machines, raw materials – to produce new goods and services – food, houses, health care etc. By working, we add value to the natural resources and the products of earlier labor. What is really important to understand here is that the land, the tools and the machinery are necessary for us to produce, but these things don’t do the producing themselves.

Mainstream economics does not see this. It insists that production is the result of the combined effort of labor and “capital.” But machinery doesn’t make an effort. Nor do capitalists. Capitalists’ only role is to “allow” workers to use the machinery and the natural resources that they own. Their income comes from what they own. So they pay wages and get to keep the rest of the value that workers produce.

Capitalists did not produce the natural resources – land was here before human beings. And they did not produce the machinery. So how did they get to own them, to own what we can call “the means of production”? For that we need to go back in history. In the US, we have to look at the genocidal assault on the original peoples of this continent and the transformation of land into private property. We have to look at the slave trade and the wealth created by slaves. But capitalists’ ownership of the means of production is not just the result of historical events, it is an ongoing process, and they own more every year.

The only things we produce that belong to us are the things we produce in our own homes, the things we produce when we are self-employed, or when we are part of worker-owned cooperatives. But no matter how hard we work very, very few of us are able to survive this way. Almost all of what we need to live on is produced by corporations. We need food, but the corporations own the land. We need electricity, but we don’t own the power plants. We need cars (or subways) but we can’t make them for ourselves because we don’t own the automobile plants. The plant and equipment needed for production, the means of production, are owned by corporations, by capitalists.

So we have to work for the agribusinesses, and Con Ed, and General Motors. And when we do this, the things we produce are not owned by us, but by the corporations that employ us. And so they are able to say:

- If you want food and electricity and cars, you must work for us, because we own the land and the machinery that you, the workers, need in order to produce food and electricity and cars. In return we will allow you to live. We will pay you a wage that will allow you to buy the food your household needs to turn into meals, and the car you need to get to work. This is our offer – take it or leave it. The rest of the money we make from selling what you produce belongs to us in the form of profits.
- We will pay you enough to raise children to be our future workers, to replace you when you die, because we do indeed need you. It is, after all, you who do the work of producing which provides us with our profits. We will even allow students to borrow money to get the education we want you to have, so that you will be more useful to us, but we will collect that money back, with interest. You will end your life with nothing and your children will, like you, be dependent on us for their survival.
- And just to make sure that you come begging to us, cap in hand, for jobs, we will make sure that there are *always* more workers than jobs, so that some of you will be unemployed and will get nothing at all. We will then encourage you to fight among yourselves as to who gets the jobs and who doesn’t. Right now we are quite happy with the high level of unemployment because we are able to cut wages even when our profits are increasing.

In return for this “contract” between workers and the capitalists who employ them, the capitalists get to keep all that workers produce, after they have paid these basic wages. Thus the income of capitalists comes not from their work, their labor, from what they *do*, but from their *ownership* of land and machinery. Their income is, in the phrase used by the IRS, “unearned income.” They do nothing for it. They do not work for it. They do not sweat for it. *They do not produce.* What they get to keep is called a “surplus” – the difference between what workers produce and what they get to keep.

This surplus takes different forms. The capitalists share it around among themselves. Some goes as “profits,” some goes as “interest,” and Wall Street, the financial sector of our economy, is where they work this out among themselves. Financial institutions such as banks do not organize production, they provide money to the corporations who do manage production, and then they split the surplus between them. Some money is given out as “executive compensation,” and they call it “salaries.” But whatever name they give to their income, neither the bankers nor the corporate executives produce. None of them contribute, in any way, to the actual production of anything at all.

But we’re only half-way through an analysis of how our economic system works. Next we need to ask what capitalists do with this surplus. They use it in several ways:

- They employ people to do the paperwork required for their financial transactions. (These people work as hard as any other workers and there are no unions in the US world of finance.)
- And yes, they live well – they have \$5000 suits and million-dollar houses and yachts, and they have absolutely no idea what it is like to worry about not having enough to feed their kids. But their “consumption” in fact constitutes a very small proportion of the surplus.
- What capitalists mainly do is take this surplus and plough it back into the purchase of more machinery, more office buildings, more high-tech equipment, so that production (and their profits) will grow, grow, grow. Thus while some of what we produce consists of consumption goods (the basics for us, the luxuries for them), a very large proportion consists of new factories, new office buildings, new plant and equipment.

Why do they do this? Because if a corporation doesn’t keep growing it “dies” – it loses out to other corporations, and goes bankrupt or is gobbled up, taken over, by those who have successfully “grown.” That’s how the system works. That’s why capitalists do not even get to “enjoy” all their wealth.

So capitalists may, as individuals, be greedy. But it is not greediness that drives our economic system. We can’t understand the way things work unless we understand that greed is not what drives the economic system in which we live. What drives the 1% is not their desire for consumption, but the need for profits that can be re-invested. So we, the workers, the 99%, produce more and more, year after year, decade after decade, century after century. But we, the workers, do not get to enjoy the fruits of our labor, no matter how much we produce. That’s just not how it works. (We do indeed get to live longer than our grandparents did, but that is because this is also “profitable” to them. Cows also live healthier lives, not because agribusinesses care about cows, but because they make more money that way.)

The system thrives on greed. It rewards the owners of wealth. But it also gives a small share of the newly created wealth to those who administer this system of robbery, the corporate executives, so that they too can become capitalists. It attracts those who care only for themselves, the greedy, but it also turns some ordinary, potentially decent, human beings into embodiments of exploitative capital. And so, basically, it is capital that is “greedy.”

Of course, every now and then, the capitalist system falls into crisis. They stop using their profits for investment, for the construction of new factories, new offices, and then they throw the workers onto the trash heap because they do not need them. But that is another story....

And the story after that is, of course, how we can take back from the 1% the land and the factories and everything that we produced in the past. That can only happen when we, the 99%, recognize, as Occupy Wall Street and increasing numbers of people recognize, the injustice, the inequality and the absolute absurdity of the capitalist system we live in.

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