

The Occupy movement has registered global discontent about the failure of parasitic capitalism. Business and governments must work together to ensure the real economy flourishes again, writes Ian McAuley.

The only odd thing about the Occupy Wall Street Movement is that it didn't happen three years ago, when Americans saw their taxes — taxes that they reasonably expected to be spent on schools, roads and hospitals — appropriated to bail out banks and auto companies whose executives had mismanaged their businesses to the point that America was on the brink of economic collapse, and had rewarded themselves amply in the process.

Perhaps they believed that the newly elected Democrat administration would steer America back to a path of economic justice and prosperity, as the Roosevelt administration had done in the Great Depression. Perhaps it was only when they saw that once rescued, the bankers resumed their irresponsible behaviour, that they took to the streets.

James Arvanitakis and Juan Salazar, Lauren Carroll Harris, Ben Eltham and Kate Ausburn have all written in *New Matilda* about a global wave of discontent exemplified by the protestors in New York's Zucotti Park. They point out, correctly, that this discontent has many dimensions. (Some conservative commentators disparagingly say the protestors have no focus.)

There is, however, a unifying theme, and that's about economic failure. A failure of the American model of capitalism, and of the government that they reasonably expected would ensure the economic system delivered shared prosperity.

America's specific economic woes are well documented at [Business Insider](#) web here.

Drawing on official statistics, they show how the spoils of economic growth over the last half century have gone to so few people. Most tellingly, they point out that since 1964 there has been no increase in average hourly earnings. In fact they have fallen from their peak in 1969, when the post-war era of growing and shared prosperity ended. As those days slip behind us — most Americans alive today were born after 1969 — the "American dream" is looking more like a dreamtime myth.

Some may say that all that's on display is the politics of envy, and some others may say that inequality, while undesirable, does not in itself constitute economic failure.

But this is about more than envy. Psychologists point out that we are envious only of those whose circumstances are close to our own. An unemployed steelworker may be envious of an employed steelworker, who may be envious of the person who beat him for the foreman's job, but they are not envious of their steel company's CEO who is taking 350 times the worker's pay, or of the bank executive who has just taken a seven figure bonus in spite of having almost wiped out depositors' savings. That sentiment is stronger than envy: it's moral outrage — an outrage clearly on display at the demonstrations.

Capitalism needs mechanisms of rewards to encourage innovation and effort, but when those rewards lose any connection to contribution, and when the well-off can protect themselves from their own folly while throwing others out of work, the system loses its legitimacy and heads down a the path of self-destruction.

For a start, when the rewards of hard work are hoarded by a few bankers and senior executives, the incentive power of monetary rewards is lost. Even more destructive is the influence of privilege itself, because the privileged group finds there is more to be gained from using political influence to protect and extend privilege ("rent seeking" in economists' terms) than from the hard work of investing in new activities in competitive markets.

As income disparities endure, wealth disparities become even wider. The wealthy start to separate themselves from society in literal or metaphorical gated communities with their exclusive suburbs, private clinics and private schools. This isolation impedes social mobility — one of the contributors to economic dynamism — and within a generation or two there emerges an oligarchy with a sense of entitlement.

Having excluded themselves from society, the wealthy engage in a tax revolt, using their influence to fight against progressive taxation and against public services in general. The governments, bullied by these campaigns, try to cope by cutting services. Because rising inequality and unemployment increase the need for

social security and outlays, the only way governments can respond is to cut outlays on services such as health, education and infrastructure — the very services that contribute to a nation's long-term prosperity.

One particularly destructive phenomenon of recent times has been the detachment of the finance sector from the real economy. A hundred years ago Rudolph Hilferding, in his work *Das Finanzkapital*, forecast the emergence of a capitalism in which the processes of production would be subordinated to the accumulation of money in the financial system. His prediction has come true, and within what were once seen as real-economy firms, financiers have displaced engineers and entrepreneurs from the top ranks.

The business theorists of earlier times (Chester Barnard, Peter Drucker, Kawakami Hajime, Adolf Berns, Gardner Means to name some) taught that a firm's purpose was to do something useful — to operate an airline, to make cars, to distribute and sell goods — and to share the resulting prosperity between employees, shareholders and customers. Of course that was a pure model, but in the brave new world where finance dominates, that model doesn't exist even as an ideal. The purpose of a firm now, particularly a publicly listed firm, is to make money.

That's a parasitic model of capitalism — a parasite so stupid that it eventually kills its host. That parasitic process brought down the Soviet Union, where the Party oligarchy wrecked the economic system that maintained their privilege. We now see it among the financial elites, who don't understand that making money makes sense only so long as there is a real economy to provide the real services which money can buy. When people fail to understand the difference between wealth and money, when they fail to understand that money is worthless unless it is backed by real wealth, they are on a path to economic destruction.

There may be some protesters in Zucotti Park — anarchists, romantics, communists (they're rather old by now) — celebrating the troubles of capitalism. But they also have supporters among those who understand that capitalism, if it functions well, is far preferable to any competing economic system, and who are concerned that it is now in danger. They know what happened in the 1930s, when economic systems collapsed. In Europe both capitalism and communism were discredited, as were the weak democracies which could not get economic systems functioning. Hitler's stormtroopers marched into that political and economic vacuum.

Post-war, in the democracies at least, a new order flourished: the political and economic order hammered out at the Bretton Woods conference in 1944. That was essentially an international order, to protect against beggar-thy-neighbour trade policies that had contributed to the problems of the 1930s, and to protect against currency crises.

There were also domestic compacts, largely unwritten, including the notion that one of the prime functions of the state was to protect capitalism from its own self-destructive tendencies. The state was to provide or regulate where markets fail, and to provide those public goods, particularly education and infrastructure, which the market does not provide efficiently, and which are necessary for economic growth. One government function was to sustain reasonable minimum wages, so that businesses have an incentive to employ people productively, and to ensure that the state is not left with the burden of paying out welfare to compensate for corporations' failures, because public revenues are needed for public goods.

Those compacts became unfashionable, but, if capitalism is to survive they need to be restored. That will be difficult, because governments too have lost legitimacy; like indulgent parents who have spoilt their children, they convey the impression that they will always yield to the petulance of those who seek to sustain or extend unjustified privilege.

In Australia's case the federal government has a particularly hard task because it has dispensed so much privilege over the years — to miners, health insurers, licensed clubs, pharmacists, superannuants, and private schools to name a few — and such privilege has given their beneficiaries the power to lobby for more. If the government doesn't yield to petulance, there is always an opposition which can take the side of privilege, and ridicule the public interest in three word slogans.

Yet, there are surely some in business who understand that this model cannot sustain itself. Greed and short-sightedness need to be curtailed to allow the real economy to flourish.

We can do it. Humans are adept at developing cooperative arrangements to protect themselves from their own dysfunctional behaviour. We develop formal and informal contracts among ourselves to regulate social behaviour. Practical philosophers, such as Thomas Schelling, Robert Axelrod and Mancur Olson demonstrate that we rely on regulation as a way of enhancing opportunities for mutual gain. Expressed in everyday terms it becomes a no-brainer: I welcome the road rules, for instance, because others are bound by the same rules, and that means I have the freedom to use the roads safely. In the absence of such rules lies not freedom but a Mad Max scenario of mutually assured destruction.

In the world of public policy, however, there is the notion that regulation of business is undesirable — a failure to understand that business too, needs its road rules. And there is the notion that governments can and should buy peace through appeasing bullies, when, in reality, each appeasement results in a loss of respect and the encouragement of even more bullying.

Policymakers and businesspeople need to change their ways of thinking. And, to encourage them, my recommendation to the protesters in New York, Sydney and around the world is a short placard-friendly slogan: "Save Capitalism From Greed".