

Review

Tom Mayer

Michael D. Yates, *Naming the System: Inequality and Work in the Global Economy*.
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Shantytown in Katatura, Namibia
Photo by Andy Tanenbaum

The Global Capitalist System

Michael Yates, a long time professor of economics at the University of Pittsburgh and currently an associate editor of *Monthly Review*, has written a lucid and accessible overview of capitalism as a global economic system. Reading *Naming the System* requires no prior economic background, but the text provides extensive information on important economic subjects like income inequality, poverty, unemployment, labor force distribution, child labor, wage rates, growth, and capitalist crises. Whenever possible the author uses statistical information to compare the United States with other countries. Among the things I found particularly attractive were the treatment of capitalism as an integrated global system rather than a loose collection of national practices, the author's informed sympathy about the travails of working people, and his sustained critique of neoclassical economic theory. The most important objective of *Naming the System*, says Yates, "is to encourage people to take action to change the nature of the economic system" (p. 29). The book will surely have the desired effect upon its readers.

The capitalist system generates inequality, and this is perhaps its most fundamental and pervasive pathology. By virtually any standard, the inequality generated by capitalism is extreme, and it occurs both within and between countries. The assets of the three richest persons on earth, for example, exceed the combined gross domestic products of the poorest 48 nations (p. 57). After a period of relative stability following World War Two, both wealth and income inequality have increased sharply since about 1970. In year 2000 the Gini index of United States income inequality was 17% higher than it had been three decades earlier. It is estimated that the richest one percent of American families received as much as 70% of the nation's income growth during the 1980s. *Naming the System* also documents the inherently damaging consequences of inequality for the physical and psychological health of poor people. It turns out that income inequality rather than average income is the best predictor of unemployment, incarceration, and mortality rates within the fifty American states.

Capitalist economies seldom achieve full employment for any long period, and this persistent job deficiency is not accidental. The existence of a substantial pool of unemployed people is useful some would say indispensable to the capitalist class. This pool, which Karl Marx called the reserve army of labor, protects capitalist profits by limiting wages, increasing the pliancy of workers to management supervision, and dampening working-class militancy. In fact neoclassical economists claim that some unemployment is desirable to prevent accelerating inflation. *Naming the System* shows that official statistics underestimate the amount of capitalist unemployment, and that unemployment is associated with a wide range of medical and social problems. These problems include cardiovascular disease, cirrhosis of the liver, suicide, imprisonment, family stress, divorce, and emotional depression (pp. 70-1). Unemployment rates are not evenly distributed over the working age population of the United States. They are persistently 70% higher among Hispanics and 120% higher among Blacks than among white people. Indeed, the labor force participation rates of Black men have decreased over several decades probably in response to poor employment prospects.

In poor countries unemployment takes the form of marginal underemployment or employment in what economists call the "informal sector". The problem of surplus labor is even more intense here than in the more affluent regions of the world capitalist system. In urban Mexico, for example, between 20 and 54 percent of the labor force is employed in the informal sector. And although China is growing rapidly, millions of Chinese people are effectively unemployed. According to Yates, "the world is literally awash in surplus labor, and by extension, awash in the human misery that is unemployment's inevitable by-product" (p. 89).

For many people who sell their labor within the global capitalist system, having a job is only slightly better than unemployment. Most jobs are stressful, pay little, and use few human capabilities. Child labor is common all over the world, especially in agriculture. Yates estimates that 250 million children between the ages of five and fourteen work in the global economy (p. 105). Four major employment trends occur within modern capitalism: (1) movement of labor out of agriculture, (2) increasing employment of women, (3) shift of labor out of manufacturing towards the production of services, and

recently (4) transfer of production to poor countries where wage rates are much lower. Efforts to reduce the costs of labor have always been central to capitalism. One way of doing this is by minimizing the use of skilled labor. Capitalists eliminate skilled labor by mechanizing production and also by establishing a detailed division of labor in which complex tasks are partitioned into simple components performed by unskilled workers.

Wage rates vary widely both within and between countries. The average wage for manufacturing work in Denmark is 100 times greater than it is in Bangladesh (p. 112). Women earn less than men almost everywhere. Job injuries and employment related diseases are also ubiquitous. Children are frequently injured at work, and (worldwide) an average of 3,000 people die every day as a direct consequence of their jobs (p.108). In recent decades employers have made a concerted and largely successful effort to push down the wages of workers. Partly due to this anti-labor offensive, full-time employees in the United States now work more hours yearly than in any other affluent capitalist country.

The critique of neoclassical economic theory, with its market fetishism and insistence upon a minimal economic role for government, is one of the strongest features of *Naming the System*. The text provides evidence about five different kinds of market failures: (1) failure to provide goods whose benefits are general rather than specific (e.g. lighthouses), (2) failure to eliminate established economic inequalities, (3) failure to consider social and environmental costs to which no prices are attached, (4) failure to allow entry into markets dominated by large firms, and (5) failure to reduce involuntary unemployment during economic depressions. Although Yates identifies many problems with neoclassical theory as a whole, he also differentiates two important camps within it: liberals and libertarians.

The liberals, of whom Keynes is the most important thinker, recognize the existence of market failures. They see that full employment will not occur automatically, and favor an activist government to make it happen. This government should manage the economy in the public interest using methods like differential taxation, minimum wages, government spending, income subsidies, and regulation of capital flows. World War Two, which finally pulled the United States out of the Great Depression, validated the liberal approach, and the quarter century following the war was the heyday of liberal economic policy.

The libertarian branch of neoclassical theory, which currently includes the great majority of professional economists, has dominated the discipline over the last three decades. Libertarians -- sometimes called market fundamentalists -- fervently reject most forms of government economic intervention including price subsidies, restrictions on foreign trade, and environmental regulations. Regulation of the money supply by a central bank is sufficient to prevent depressions and iron out recessions. The Great Depression of the 1930s resulted from bad government policy. Libertarians claim that globalization and the electronic revolution have made Keynesian macroeconomic policies impotent and irrelevant.

The inadequacies of neoclassical economic theory are most glaringly evident in the poor countries of the capitalist world system. The poverty of these countries, according to the theory, results from insufficient capital. Economic policy should aim at attracting capital from abroad by removing all barriers to foreign investment. In particular, poor countries should specialize in lines of production that involve cheap labor, with which they are well endowed. But empirical evidence does not support these policies. Most poor countries adopted neoliberal policies after 1980, but their growth rates subsequently declined. NAFTA [North American Free Trade Agreement], which was crafted along neoliberal lines, increased inequality both within and between the participating countries. In general, the condition of poor countries deteriorated substantially after opening their economies to foreign capital. Their problems derive from the structure of the global capitalist system and their positions within it, not from the misguided behavior of their people.

The deficiencies of neoclassical theory are also apparent in the rich countries of the capitalist world system. Contrary to its predictions, minimum wage laws do not cause more unemployment. Indeed, careful research shows that the relationship between wage and unemployment rates tends to be inverse -- higher wages associated with lower unemployment -- rather than direct -- higher wages associated with higher unemployment -- as neoclassical economists proclaim. The popularity of this theory among business elites and professional economists is not due to scientific success or predictive power, but to its use in justifying capitalism.

The core of capitalism is not market exchange, as neoclassical theory asserts, but the exploitation of workers by capitalists. Exploitation exists when wages do not absorb the entire value added by the activity of production. The exploitation of workers enables the production of surplus within the workplace. This surplus begets both profits and the accumulation of capital. Since accumulation and the pursuit of profits are the driving forces of capitalism -- that is, they motivate the capitalist class, generate capitalist economic development, and underwrite reproduction of capitalist class relations -- the exploitation of workers constitutes the linchpin of the entire system. By the same token, the reproduction of capitalism requires that rising wages do not strangle the production of surplus in the workplace.

Wage rates are controlled by in three major ways: unemployment or underemployment (which creates downward pressure on wages), mechanization (which eliminates high paid jobs), and state repression (which curtails working-class militancy). Yates estimates that nearly one-third of the global labor force belongs to the reserve army of unemployed or underemployed workers mentioned earlier (p. 179). He also points out that imperialism seriously weakens the international working-class movement by enlisting workers of advanced capitalist countries in the project of imperial domination. The role of the state in maintaining capitalist class relations subverts meaningful democracy in all parts of the global system. Elections are deprived of significant political content because all major contenders support the existing economic system, and even among the look alike candidates campaign spending strongly influences who wins.

Moreover, capitalism readily coexists with any political dictatorship that defends private property.

Despite the various institutions designed to protect profits and accumulation, economic crises are endemic to the capitalist system. The basic cause of capitalist economic crises, according to Yates, is a persistent tendency for profit rates to fall as the accumulation process proceeds. Capitalist crises temporarily weaken the system creating opportunities for significant social change. If class relations remain intact, however, capitalist crises restructure the accumulation process and eventually restore both profit levels and business confidence. A weakness of this clearly written and usually informative book is the author's reliance upon the antiquated labor theory to explain the falling rate of profit tendency. This often criticized 19th century theory is simply not a credible interpretation of contemporary global capitalism. It sits uneasily with the two plausible crisis theories that Yates considers at some length: profit squeeze theory and rising surplus theory.

Although the capitalist economic system has proved highly resilient, *Naming the System* staunchly maintains that it has fundamental contradictions which will curtail its longevity. The most pervasive contradiction of capitalism is that between the freedom of market exchange and the servitude of working life. This opposition defines work, which could be a deeply satisfying part of human experience, as a burdensome and alienated necessity. It also induces a fetishized and insatiable hunger for consumption. Fetishized consumption along with relentless accumulation create another potent capitalist contradiction: the tendency to devastate the natural environment. The glaring opposition between inexorable capitalist expansion on the one hand and a sustainable environment on the other is a profound barrier to indefinite perpetuation of the system.

The disintegration of state socialist economies during the last decades of the previous century has made world capitalism more dominant than ever. Nevertheless anti-capitalist struggles continue and cannot be permanently eliminated. Although labor movements are indispensable in any serious effort to transcend capitalism, unions are primarily defensive organizations and usually accommodate to the system. Yates, like Lenin, thinks that revolutionary political parties can represent the whole working class more effectively. He also believes that democratic organization and democratic education can help sustain the anti-capitalist commitments of working-class institutions. The author has devoted much of his life to the education of workers, and these opinions certainly deserve respect. Exactly how democratic organization and education can inoculate working-class organizations against an opportunistic accommodation with a seemingly impregnable capitalist system remains unclear.

The final chapter of *Naming the System* discusses contemporary struggles for a better world. These struggles include the Brazilian landless workers movement, the revolt of the "poors" in South Africa, the student anti-sweatshop movement and the Teamsters for a Democratic Union initiative in the USA, the Columbian peasant based revolutionary army, and the Maoist rural guerrilla movement of Nepal. Yates considers both the achievements and the disastrous pathologies of Communist societies, and acknowledges

that permanent overthrow of global capitalism is still a long way off. He implies, however, that the movements listed above can form the kernel of a sustained international offensive against capitalism.

This is extremely doubtful to say the least. Notwithstanding many sincere efforts to find new beginnings, the highly fractured international left has not yet recovered from the failure and disrepute of its century long effort to construct post-capitalist societies by using state power. Whether state power can take us beyond capitalism remains an open question. The use of state power to build socialism may operate within the polarities of revolutionary tyranny and liberal reform. Some of the contemporary movements discussed by Yates have been short-lived (e.g. the student anti-sweatshop movement). Others are mutually antagonistic in their tactics, strategies, and long-term objectives. These movements do indicate the ubiquity and irrepressibility of opposition to capitalism, but they are not harbingers of a global anti-capitalist offensive.

A work that intends to encourage concerted action for a better world should err on the side of optimism. This is doubly true if the prospective audience tends to be individualistically distracted, ideologically disoriented, and/or politically paralyzed by feelings of despair. Being overly sanguine about the prospects of certain contemporary social movements is a very minor flaw. *Naming the System* achieves its main objectives: it provides both economic enlightenment and penetrating critique. I will recommend this book as an informative and reliable introduction to how the world capitalist economy functions and why it must be changed.