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Dean Baker's war of position

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Abstract: The US economist Dean Baker, along with his colleagues at the Center for Economic and Policy Research, has for the last decade been waging a Gramscian 'war of position' against neoliberal orthodoxy in the US. With the collapse of the housing market bubble (which Baker predicted) and the ensuing global economic crisis, his analysis has had more of a hearing in the mainstream. According to Baker, the internationalisation and deregulation of financial markets has been a mechanism for redistributing upwards the benefits of labour productivity growth and led to a hugely overblown financial sector prone to self-deception, criminality and highly speculative short-term profiteering. An alternative can be found, argues Baker, in Latin America's rejection of neoliberalism.

Keywords: Center for Economic and Policy Research, Daniel Fusfeld, housing market, neoliberalism, Wall Street

For the past several months, the American economist Dean Baker has been a regular guest on CNN, CNBC, PBS and Bloomberg, among many other mainstream US television networks. The *New York Times* and the *Wall Street Journal* frequently quote him in articles on the current economic crisis and it is also common to see him on C-SPAN's daily *Washington Journal* programme. This would probably not be worth mentioning in a discussion of his recent work were it not for the fact that, in the decade prior to the crisis, Baker's consistently correct economic analysis and the policy changes he recommended had been completely ignored by this same mainstream media.

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Before the current economic crisis, it was rare to hear his voice in the mainstream, as even Left-liberal economists, like Paul Krugman, Joseph Stiglitz, Robert Kutner and Nouriel Roubini, had been kept to the very margins of public debate over US economic and financial policy. That is, up until the housing market bubble began to burst in 2007–8 and, with it, all the dogmas of neoliberalism or the so-called new economy, which the mainstream media has been all along cheerleading for, treating western capitalist globalisation as the ultimate triumph of the 'free market' over the dark forces of state-centered Marxism and Keynesianism. Indeed, Wall Street's 'irrational exuberance' during the 1990s and early 2000s was always one-upped by the corporate media and, as a result, any economists remotely associated with old fashioned demand-side economics – that is, Keynesian macroeconomics – were deemed either quacks or nasty party crashers.

Baker's latest book, *Plunder and Blunder*, slices a lucid path through the mess of confusions surrounding where the current near-depression came from, the policies and people responsible for it, and how the crisis can be reversed.[1] Yet for those – especially on the Left – who are unfamiliar with where Baker himself came from, a useful first task is to sketch out his intellectual formation, since it is possible to mistake his present mainstream visibility in the US with 'Washington Consensus' economic liberalism.

In fact, nothing could be further from the truth, as Baker has over the past fifteen years been one of its fiercest intellectual critics. All the same, each of Baker's strategic interventions has been directly aimed at winning the debate over mainstream economic and social policy – that is, the contest between Wall Street and its highly paid army of economic advisers and congressional lobbyists in Washington (those pushing the standard 'trickle up' pro-corporate agenda) and essentially everybody else (labour unions, the industrial manufacturing sector, healthcare professionals and local grassroots civic organisations). In short, Baker's work is a war of position in the classic Gramscian sense: a professional attempt to reclaim mainstream economics on behalf of society's popular classes. It is crucially important that this war of position is not ideological but based rather on the public's need for basic facts and unbiased information about the economy.

In 1999, Baker co-founded with the economist Mark Weisbrot the Center for Economic and Policy Research (CEPR), a thinktank in Washington whose primary work is countering – through systematic empirical research and clear prose writing, in weekly columns in both the print and electronic media and on their website – neoliberal economic orthodoxy and proposing practical alternatives to it based on rational analysis of economic fundamentals. In this way, it is fair to call the CEPR crew *economic fundamentalists* and this largely explains their appeal over the past few years for the programmers at Bloomberg, CNN and PBS: with all the neoliberals now thoroughly discredited, including the big dog himself, Alan Greenspan, there is a desperate and, of course, largely self-serving need on their part to present economists who actually know what is going on. Also important about CEPR – and it is precisely this vital and distinguishing aspect of the Center that has been crudely abridged by the corporate media – is its non-imperialist worldview. For example, Weisbrot's

cutting-edge scholarship on Venezuela's Bolivarian revolution, which includes the authoritative 2007 empirical study, *The Venezuelan Economy in the Chávez Years*, has not only been well ahead of the curve academically but stands almost entirely alone in the US context, even on the Left, in its principled and outspoken opposition to Washington's ongoing war on the Chávez government.[2]

Recently, the *Guardian* perspicaciously summed up CEPR's work since the Center's founding in 1999:

> Set up in 1999 with a total budget smaller than some other thinktanks' entertainment funds, CEPR has been a professional thorn in the side of orthodoxy. The dotcom bubble? It called that, while others frothed about a new economic era. The American housing bubble? Baker saw it coming in 2002, and even sold his family home. But if CEPR were only about spotting market trends, it might as well have gone into fund management. No, what makes the institution so valuable is that it is one of the few US thinktanks to analyse domestic and international economics from an avowedly progressive point of view. It helped successfully defend America's social security system against George Bush. It attacks the terrible policies of the International Monetary Fund with the fervour of a terrier (Weisbrot was at it again yesterday, telling reporters 'the IMF needs to get out of the development game'). Every assault is made with economic rigour, so that even hard-boiled conservatives acknowledge their case. In a world of Goliaths, CEPR makes a rather effective David.[3]

Both Baker and Weisbrot were trained in economics at the University of Michigan during the 1980s. The economics department that they joined had been transformed in the 1970s by the iconoclastic work of professor Daniel Fusfeld. Fusfeld began as a mainstream liberal Keynesian but was soon radicalised by the student and labour militancy of the 1960s anti-war and civil rights struggles. He set about reading Marx's entire body of work on economics and then began teaching a course in the department on Marxist economic theory. Fusfeld's seminal essay of the late 1960s, 'Fascist democracy in the United States', made a big impact on the way the radical Left thought about the relations between economic and social policy and the fight against white racial oppression. In his *The Basic Economics of the Urban Racial Crisis*, this essay's thesis is developed systematically through a sharp critique of the US government's 1968 Kerner Commission Report. The prevailing liberal bourgeois dogma about the black ghetto – that its persistence is due not to an exploitative set of economic relationships already built into the capitalist system as a whole but rather a 'culture of white racism' – not only misrecognised 'the seriousness and depth of the problem' economically speaking but, in politics, permitted a radical displacement of the class struggle-based attack on racial discrimination. Fusfeld saw the new liberal psycho-cultural approach to racial discrimination as a restoration of ideological conservatism – that is, the selection of a few among the class of oppressed minorities to positions of professional, managerial and white-collar employment (so-called 'black capitalism') at the expense of the masses of low-paid African American and Latino workers, thus 'strengthening an inhumane system' instead of directly confronting it.[4]

In the field of macroeconomics, Fusfeld's important academic article, 'Conceptual foundations of modern economics', initiated a clean break with the narrow, highly abstract and mostly wrong mathematical models of neoclassical theory, offering in their place new models in economic theorising based on labour history, economic history and labour economics – the *gestalt* (or holistic) method of economic analysis, a broad institutional and historical approach to the economy.[5] His magnum opus, *The Age of the Economist*, is a concise elaboration of this method and remains one of the best economic histories ever published. As students of Fusfeld in the 1980s, Baker and Weisbrot internalised it but just as important was their emulation of his moral and intellectual authority on campus, which came from a dynamic combination of scholarly rigour and a political commitment to the goals of liberatory socialism.

In Ann Arbor during the 1980s, Baker and Weisbrot were student activists of a special quality. They not only played key roles in intellectually shaping the community's anti-US intervention movement, centred around Nicaragua and El Salvador (largely through their work on the Latin America Solidarity Committee and the editorial board of the *Michigan Daily* newspaper) but spent a great deal of time on the ground, as grassroots organisers. Then, in 1986, at the height of both the Nicaragua solidarity campaign (which through militant student, faculty and local Church group activism had been able to establish an official sister-city relationship between Ann Arbor and Managua) and the anti-apartheid divestment movement (which eventually forced the university to disclose its institutional ties to the white South African government and then begin severing them), Dean Baker ran for Congress as the Democratic candidate for US Representative from Michigan's Second District. His opponent was the right-wing Republican incumbent Carl Pursell, an aggressive proponent of US militarism in Latin America, a strong supporter of the Contra war against the Sandinista government and a friend of the South African apartheid regime. Baker's campaign electrified the University of Michigan's Ann Arbor campus and, for a time, it looked as if he might defeat Pursell. He ended up losing by a relatively narrow margin.

Soon after earning his PhD from Michigan, Baker went to work as an assistant professor at Bucknell University and then joined the Economic Policy Institute in Washington as a senior economist, where, in the late 1990s, he authored a number of key articles in macroeconomics as well several books, including *Getting Prices Right: the battle over the consumer price* (which received a Choice Book Award as one of the outstanding academic books of the year) and, with the American economist Robert Pollin, *Globalization and Progressive Economic Policy*, published by Cambridge in 1998. A few years later he published, with his comrade Weisbrot, a breakthrough work called *Social Security: the phony crisis*, the first systematic refutation of the neoliberal argument in favour of privatising the US's Social Security Trust Fund. There is little question that this critical text played a significant role in helping to repel the Bushies' attempt in 2002 to carry out their nefarious plan. Had they been successful, the current economic crisis would be unfathomably worse.

Still, not until 2005–6 did the economics profession begin to take notice of his published work. By that time, more than a few were raising eyebrows about the fantastic rise in house prices but none except Baker had actually performed the empirical research on this gigantic asset bubble in the making. Around this time, Baker published another systematic work in macroeconomics, though it has yet to make the same impact as *The Phony Crisis*. *The Conservative Nanny State* documents all the hidden and not so hidden ways that the richest Americans acquired their enormous wealth: by using their corporate lobbyists in Washington to gain for themselves and their businesses massive government subsidies, 'demanding the sort of government help', as Baker put it, 'they would deny to working mothers trying to provide their kids with health care, child care, and decent housing and education'. In keeping with his strong criticism of government-protected patents that serve only the well heeled, he made *The Conservative Nanny State* free for everybody, self-publishing it online. A year later, in 2007, he published with Cambridge *The United States Since 1980*.

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All the basic themes of Baker's scholarship and public policy work over the past twenty years are in *Plunder and Blunder*. Like his previous books, this one focuses on a consequential current events issue; in fact, it seems silly to put the current economic crisis in such mundane terms. Yet given that most of the US corporate media remains in denial over the housing bubble and continues to act as though the stock bubble never happened, *Plunder and Blunder*'s main argument is that much more essential to understand.

Baker's starting point is essential, that 'beneath all the surface complexity of our current mess lies a basic story – not only of institutional failure, but also of energetic self-deception'. He returns to this theme again and again, each time enriching it with an illustrative case study just as pungent as the last. By the end of the book, 'institutional failure' and 'energetic self-deception' become impossible to separate: this obscene dialectic is none other than the hallmark of late US capitalism itself, crystallised by Baker in his ironic phrase 'the prophets of boom'. A nice double entendre, it refers specifically to the chief economist of the National Association of Realtors, David Lereah, whose 2005 book, *Why The Real Estate Boom Will Not Bust and How You Can Profit from It*, was instantly canonised by the corporate media. For several years, Lereah was by far the most widely quoted authority on the housing market and any economists calling into question his thesis were simply not tolerated. In any case, dissident voices were few and far between. As Baker documents, only a few years earlier, the entire economics profession had managed to elude the $10 trillion stock bubble and so, even if the media had actually pursued a dose of rational analysis on the housing boom, there was virtually nobody to call on … other than Dean Baker.

Baker's rational analysis of the housing boom, based entirely on mainstream economic methodology, was very straightforward and elementary: between 1995 and 2006, house prices in the US had grown by 70 per cent, even after adjusting for inflation. In big cities such as New York, Boston, Los Angeles,

Chicago, Phoenix, Miami, San Francisco, and Washington, DC, the average house price had gone from around $200,000 to over $500,000 – a rise of more than 150 per cent. Using government data, he was easily able to show that, going back to 1895, house prices in the US had always tracked the overall rate of inflation, around 3 or 4 per cent annually. Yet with the media saturating the public every day with stories of buyers flipping houses or condominiums for huge profits (of making $150,000 profit by buying and selling a condo within the same day) and all the nation's mainstream economists approving such reckless and brain-damaged behaviour (above all, Federal Reserve Board Chairman Alan Greenspan, who informed Congress in 2002 that there was no housing bubble), Baker's published reports on the housing boom were completely ignored. From here, all the esoteric financial instruments that have now come to be known by name (derivatives, collateralised debt obligations and credit default swaps), as well as the ones we already knew of but never paid attention to (subprime loans, such as adjustable-rate mortgages and interest-only mortgages, 'liar loans', so-called because borrowers had to simply write down the numbers needed on their mortgage application to qualify for one, regardless of their real income or actual credit history, encouraged in such ridiculous behavior by the mortgage company officers themselves) were put into fast and furious motion. All their massively destructive social and economic consequences are facing us now.

In the US thus far has been the destruction of more than $8 trillion (and counting) in housing market wealth – around $110,000 per American – with millions of families facing the loss of their home, hundreds of companies heading toward or already into bankruptcy, tens of millions watching their life's savings disappear in front of their eyes and around five million thrown out of work just within the last six months (October 2008 to March 2009). Yet most of the US financiers responsible for this catastrophe remain incredibly rich. Baker puts it plainly: 'Top executives in the financial sector fueled the housing bubble in ways that probably would have landed less prominent citizens in jail.'

More recently, Baker has formulated the matter a little less guardedly, in response to President Obama's placing of Clintonite Wall Street insiders Robert Rubin and Lawrence Summers in charge of his new administration's financial policy. To place financial policy in the hands of Rubin and Summers, he wrote, is 'a bit like turning to Osama Bin Laden for aid in the war on terrorism' – for, as Baker notes, one of the major achievements of Rubin and Summers under Clinton 'was to prevent Brooksley Born, head of the Commodity Futures Trading Commission, from regulating credit default swaps in 1998 – more WMD'.[6]

The story that Baker tells is indeed very seedy, one drenched in corporate filth, overflowing with the most putrid bourgeois incompetence, excess and waste. In a word, his narrative is one of the most succinct empirical accounts of corporate criminality ever published. What is fundamentally different about Baker's story, though, is that corporate criminality is not treated as an aberration, as the conspiratorial work of a scheming crew of the already super-rich

within what is an otherwise sound economic system. His main point is the exact inverse: it is precisely *because* corporate criminality is in the very nature of capitalism – the universalisation of crime and bourgeois hegemony always go hand-in-hand – that deregulating financial markets results in huge economic frauds like the stock and housing bubbles. Baker illustrates this fundamental point with several salient examples.

The first is high-risk loans. Up until the election of Ronald Reagan in 1980, the rules governing financial markets, most of which were put in place during the 1930s and 1940s to avoid a repetition of the Wall Street crash of 1929, were viewed by most elected officials and mainstream economists as absolutely essential to a well-functioning (that is, bubble-free) economy. Yet, all along, the business class and its policy-makers had been working to repeal these rules, such as the Glass-Steagall Act, which mandated separation between investment banks and commercial banks. Apparently nostalgic for the miserable days of the Great Depression, the US bourgeoisie fought hard to bring back the specific conditions for totally unrestrained (that is, privatised) short-term profiteering – for good old-fashioned bourgeois 'plunder and blunder'. With Reagan, they finally had their man and the weakening of these rules began immediately after he took office in 1981, the first result of which was the savings and loan debacle of the 1980s, which caused the failure of 2,400 US thrift institutions and cost US taxpayers $560 billion. Still, not until Clinton's administration was the Glass-Steagall Act repealed, throwing the doors wide open to financial giants like JP Morgan and Goldman Sachs to better exploit these new markets and grow even larger. The Cambridge economist Ha-Joon Chang, who is currently a senior research associate at the CEPR, has described the move as a straightforward case of 'Keynesianism for the rich and monetarism for the poor' – monetarism for the poor since the plundering of the economy by wealthy investors was all the time creating enormous budget deficits and so, as usual, the rich told the working classes to begin 'tightening their belt'.[7]

Deregulation enabled a surge in high-risk loans, which themselves were enabled by the existence of what Baker terms 'wrong incentives everywhere'. It is actually a very mundane matter once you look into it. After deregulation, mortgage issuers earned their money by issuing mortgages, not holding them as had been the case for more than fifty years previous, when banks sought honest mortgage appraisals 'because they wanted to ensure that the collateral in the house would cover the value of the loan if the homeowner defaulted'. But with the overwhelming majority of new mortgages being sold hurriedly in the secondary markets (the stock market), the banks no longer had any use for accurate loan appraisals. As Baker says, 'the issuers wanted to make sure that appraisals would come in high enough to justify the size of the mortgage. Instead of accurate appraisals, they wanted the highest ones possible.'

The long and the short of it is that the loan appraisers quickly realised that the bank would not contract them again if their appraisals were too low to allow mortgages to be issued. An extremely perverse incentives system thus emerged, by which loan appraisers had nothing to lose and everything to gain

by simply lying about the real value of the loan. Even worse was the fact that since these bad loans had just been sold in the secondary markets, their original issuers no longer faced any of the risks. Simply issuing as many loans as possible became the priority, so long as the mortgages looked good enough on paper to be sold on the stock market. Thereafter, the banks bundled these bad loans together with other assets and traded them on Wall Street as securities. And how did the banks slip past the bond-rating agencies in charge of assessing the real value of these mortgage-backed securities? This is also a very mundane matter: the bond-rating agencies are paid by the banks requesting the rating (another direct result of deregulation) and so they had a strong incentive to deliberately lie about the rating in order to gain more customers for the bank. Where were all the government regulatory agencies? 'The relevant regulatory agencies', Baker says, 'mostly looked the other way.'

The second area is what we know as 'credit default swaps'. In a nutshell, with a colossal amount of very questionable debt now circulating in the financial markets (around $45 trillion as of June 2007), wealthy investors began betting on the probability that a particular bond would default. Completely unregulated, the use of credit default swaps exploded during the peak years of the housing bubble, for the simple reason that a radically unregulated and highly leveraged financial sector is a prime opportunity for speculation, since credit default swaps 'had notional values that could be several hundred times their capital'. Baker emphasises that the most important element to understand in all this is the existence of 'an incentive structure that placed an enormous premium on short-term profits, often at the expense of longer-term profits or even longer-term corporate survival'. His explanation is exceptionally lucid:

> Executives in the financial sector are paid in large part in bonuses based on how effectively they reach profit targets or stock options, the value of which are hugely responsive to short-term profits. In both cases, there's an enormous incentive to show short-term profits … This arrangement gave managers little incentive to plan for the long-term health of their companies and encouraged all forms of risky behavior. The highest incomes flowed from generating large fees, even if there would be losses from the assets being sold. This was certainly the case with the issuance of highly questionable subprime and Alt-A mortgages, as well as credit default swaps. In these cases, the underlying assets were often very risky and could lead to large losses, but the fees from issuing and bundling mortgages and from selling credit default swaps led to large short-term profits.

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Unlike the bursting of the stock market bubble in the late 1990s, the bursting of the housing market bubble in 2007–8 set into rapid motion a severe economic downturn in the US and then a worldwide financial meltdown. The reason is simple: the housing market bubble was a transparent attempt by Wall Street to postpone the inevitable, the exhaustion of two straight decades of frenzied bourgeois plunder and blunder. Without the housing market bubble, Wall Street's domination of the economy would have come to an immediate halt. In

fact, this was precisely Bill Clinton's promise to voters in 1992 – 'to put people first' and not Wall Street. Of course, this was merely Clinton, the master of 'triangulation' politics, at his very best. Wall Street's share of the economy eventually reached around 30 per cent by the time he left office in 2000. The Bushies simply followed the whole neoliberal logic of right-wing Reaganism and 'bipartisan' Clintonism – slashing federal government spending on education, health and infrastructure development while privatising state-owned enterprises.

President Obama was elected almost entirely on the basis of the uncanny timing of the housing market collapse and the concomitant financial meltdown of September 2008, just two months before the US elections. Doubtless had the housing market bubble persisted through November, the contest between Obama and McCain would have been an extremely close one, resulting perhaps in yet another stolen election by the Republicans. Moreover, Obama's essentially unconditional support for the $700 billion Wall Street bailout left him in a very vulnerable position with voters, given that 90 per cent of Americans strongly opposed it. Alexander Cockburn and Jeffrey St Clair's analysis of the 2008 election is persuasive: that had McCain opposed the Wall Street bailout, he could have easily gained the upper hand over Obama going into October. 'He could have gone into the first debate attacking Obama for his support of the bailout. He could have sent Palin round the country denouncing Wall Street greed and predatory bankers, as she did in her debate with Biden. Unlike McCain, Obama and Biden, Palin had no Wall Street cash showing in her campaign war chest, filled only with virtuous mooseburgers.'[8]

Yet, so far, President Obama has been squandering this rare historic moment – for example, by axing $80 billion in social spending from his economic stimulus bill, which was done solely to appease the Right. As the economist Paul Krugman pointed out, these substantial cuts were not based on any coherent economic argument but rather were offered as a way for centrists 'to demonstrate their centrist mojo'. His analysis of Obama's logic was at the time incisive: 'he let conservatives define the debate, waiting until late last week before finally saying what needed to be said – that increasing spending is the whole point of the plan'.[9] At the end of *Plunder and Blunder*, Baker goes further than has Krugman in laying out what President Obama needs to do to stop the massive hemorrhaging in the US economy, by showing how he can immediately reverse the catastrophic course on which neoliberalism and Wall Street's fraternity of bankers have put us over the last thirty years.

Baker notes that, between 1945 and 1973, there were no bubbles in the US economy and this was directly due to the fact that US workers shared widely in the benefits of productivity growth. During this period, the real income of the typical family rose at a 2.8 per cent annual rate. To appreciate the scale of this kind of growth, Baker provides an interesting set of statistics. If this real income growth had been maintained, US workers 'would be able to take an additional 24 weeks of vacation each year, or reduce our average workweek to 21 hours, and still have the same income in 2030 as we do today'. This same story can be told about Latin America, as well as virtually every other region of today's

global economy. In the case of Latin America, Mark Weisbrot shows that, for the region as a whole, growth in real income per person between 1960 and 1980 was 82 per cent. But, beginning in 1980, this rapid growth in GDP experienced by the Latin American economies came to a sudden halt: between 1980 and 2000 it was only 9 per cent and a mere 1 per cent between 2000 and 2005.[10] This happened because the neoliberal 'Washington Consensus' (forced trade liberalisation, the elimination of tariffs, the abolition of restrictions on international investment flows, the privatisation of state-owned industries) and the adoption of higher interest rates and tighter fiscal policies was aggressively imposed on the Latin American countries (in the 1990s alone, more than $178 billion of state-owned industries in Latin America were privatised). As Weisbrot points out, the resulting long-term failure of neoliberalism in Latin America has produced the new Bolivarian revolutions now sweeping across the hemisphere, where Left-populist candidates running against neoliberal policies have taken the presidency in Venezuela, Argentina, Brazil, Bolivia, Ecuador, Uruguay, Paraguay, Nicaragua and now El Salvador. In the case of Argentina, it immediately rejected the IMF's economic prescriptions, engaging in the largest sovereign debt default in history and, as a result, has grown its economy by about 9 per cent annually for the last five years. Venezuela's government has been sharing the country's oil wealth with its poor majority, providing free health care, subsidised food and much improved access to education and literacy programmes – policies that have reduced poverty in the nation by more than 30 per cent.

The great lesson learned by the Latin Americans is that the internationalisation of financial markets spells doom for any national government wanting real income growth for all its citizens. Instead, imposing tight restrictions on international investment flows and nationalising privately owned (that is, multinational) industries is the only way to go. Whereas in Latin America this has proved to be the completely correct approach, in the US mainstream, such basic economic common sense – that is, a rational assessment of neoliberalism's total failure to bring economic growth and prosperity to the majority and a consequent total rejection of it by economic policy-makers – is considered to be totally outlandish. In this way, Baker's main point is formulated in the starkest of terms: behind the internationalisation of financial markets, that is, the radical deregulation of Wall Street, is a singular goal: to shift the benefits of labour productivity growth exclusively to those at the top of the income ladder. Crucially important, Baker stresses, is that this upward redistribution of income 'was largely a result of conscious policy changes'. It is a simple point but profound in implication.

First, it points up the fact that the greatly overblown size of the financial sector, now rapidly shrinking back in scale – for example, the banking giant AIG is today 80 per cent government-owned, after having lost $60 billion more in the last quarter alone – has not been a 'trigger' of economic growth, technological innovation and investment in infrastructure development but a massive drain on the economy. Baker's numbers here are rather startling. Throughout the postwar period, Wall Street was a relatively minor player in the economy,

accounting for less than 10 per cent of corporate profits. During this time, real wage growth for US workers was impressive, as productivity gains were passed on to workers in the form of substantial pay raises. 'Higher wages led to more consumption, which encouraged companies to invest in new plants and equipment. That investment increased productivity, which provided the basis for further wage growth. In this way, growth fed upon itself.' But, between 1980 and 2004 all this was reversed, with Wall Street becoming 30 per cent of the economy and real wages for most workers declining by 2.7 per cent. For example, in 1964 the pay of CEOs was twenty-four times the pay of a typical worker – in 2000, it was 300 times. In real terms, the minimum wage was 26 per cent lower when Reagan left office in 1989 than when he took it in 1981. As a result, we got a $10 trillion stock bubble in the 1990s and an $8 trillion housing bubble in the current decade.

Of course, this story is well known to most US workers, that for the past thirty years the rich got a lot richer and working people a lot poorer. And they are keenly aware of whom to blame: according to a recent survey on Capitol Hill, 99 per cent of those calling their Congressional representatives about the Wall Street bailout registered total opposition to the plan. Yet because of the strong anti-union bias in the US media, a great number of these same Americans are either unclear about or oblivious to the central role that corporate union busting has played in this enrichment of the few at the expense of the many. In contrast to many Left-liberal economists, Baker puts the Right's attack on labour unions front and centre in explaining Wall Street's hegemony. As he shows, after Reagan fired all the striking air traffic controllers in 1981, other major employers soon followed suit and, as a result, labour unions lost much of their bargaining power. In short, the period of the last thirty years has been one of a violent class struggle between Wall Street and organised labour. And Wall Street was able to win control of national economic policy largely because they used the corporate media to constantly demonise labour unions and glamorise the financial sector.

Second, and directly related, is the Federal Reserve Board's high dollar policy and the trade agreements signed in the 1990s by Clinton (NAFTA, among other pacts). The latter were consciously and deliberately designed to put US manufacturing workers in direct competition with low-paid workers in the developing world. Baker puts it provocatively: 'Imagine what would have happened if, in the name of free trade, a deal was struck to put our most highly educated professionals – doctors, lawyers, and dentists, for example – in direct competition with their much lower-paid counterparts in the developing world. That would put downward pressure on their earnings, just as current trade deals put downward pressure on the earnings of blue-collar American workers.' Again, without these neoliberal policy changes, the stock and housing bubbles would never have happened. As Baker documents, the US economy only became susceptible to bubbles after the pattern of growth had been deliberately collapsed – 'when most workers no longer shared in the benefits of productivity growth, and businesses no longer routinely invested to meet

increased demand based on growing consumption'. In terms of the high dollar policy, this boosted profits on Wall Street but decimated US manufacturing, as the high dollar made US exports extremely expensive on the world market.

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The force of *Plunder and Blunder* lies in two areas: the reversibility of the current economic crisis and the need for thinking big. To put it another way, there is on the contemporary Left – especially the US Left – a type of enduring irrational pessimism about capitalist crisis that has made it a more or less politically irrelevant factor in the current conjuncture. In the main, the US Left today has basically withdrawn its energies from the ongoing class struggle, preferring to talk about culture and identity and how we can fight capitalism by simply refusing to participate in it. It is not an overstatement to say that Baker and Weisbrot and the other fine economists at the CEPR are alone right now on the US Left in offering to Americans a clear alternative to neoliberalism. While the criticism of neoliberalism is abundant, concrete proposals of what to replace it with are much less so. CEPR's website (www.cepr.net) features every rational proposal that this Left thinktank has so far come up with and so it is unnecessary to go into detail about them. I will mention only three of their most important – precisely those which, if put into practice, would have the greatest impact.

The first is that, given that most of the big banks on Wall Street are insolvent and are now either fully or partly owned by the government, the legion of corporate managers and executives at these firms should have imposed on them the same disciplinary tool that factory workers, schoolteachers, bus drivers and so on have always had imposed on them when they perform their jobs incompetently – that is, immediate termination. If the investment banks are unhappy with this new regulatory structure, 'they will receive no money from the Fed, either directly through the discount window or indirectly through banks that are part of the Federal Reserve system. Furthermore, if they become insolvent, the Fed will guarantee that it will do absolutely nothing to protect them or their creditors.' The positive outcome of this everyday public, independent scrutiny of the investment banks will be not only a shrinking back to normal size of the US's hugely bloated financial sector – to around 6 or 7 per cent of the real economy, what it was all through the long non-bubble postwar period – but a solid protection against any future bubbles emerging. More important, perhaps, is that now a large pool of smart, creative and talented people will be going into the hard sciences, engineering, teaching and other productive careers, instead of wasting the best years of their life working on hedge funds.

Baker adds on to this necessary proposal its logical corollary: a re-imposition of stock transfer tax. As Baker shows, other than the US, no country in the world with a stock market lacks such a tax, including the UK. In an article he published last year, 'A stock transfer tax: the right medicine for Wall Street', Baker notes that

> The UK imposes a modest stock transfer tax of 0.25 per cent on every purchase or sale of a share of stock. This sort of tax would make almost no difference to a typical middle class shareholder. However, a tax of this size, with

> comparable taxes on various other financial instruments, like options and futures, would put a serious crimp in the money shuffling business that has wrecked so much havoc on the US economy. Furthermore, such a tax could raise a great deal of money, easily in the neighborhood of 1.0 percent of GDP or $150 billion a year. Imagine that we could finance national health care insurance with a financial transactions tax, or provide quality child care and pre-school education, or build up a green twenty-first century infrastructure, or maybe just have a nice middle class tax cut of $1,000 per family.[11]

In *Plunder and Blunder*, he demonstrates that this transaction tax of 0.25 per cent would actually be *less* than the commission people were paying in 1980 or even 1990. Yet it would be a very serious cost for those buying and selling stock by the day or hour, which would lead to a substantial reduction of the volume of trading – 'a positive development from the standpoint of the economy and society as a whole'. No rational objection to the tax is possible, since it is exactly how the government treats people who gamble at casinos or play state lotteries.

The second is not directly in *Plunder and Blunder*, although reference to it is made several times: to immediately abolish government-protected patents for prescription drugs. If this policy change were made, instead of spending $330 billion annually on medications, the US would spend only $30 billion. Baker shows that this is one of the most transparent cases in US society of the upward redistribution of wealth through the state, from patients to the drug companies – a gift from taxpayers to the corporations of $300 billion a year, *more than 20 per cent of all corporate profits*.[12]

The third has to do with the housing crisis. Since 2007, Baker has been arguing that a simple remedy exists for the millions of people facing home foreclosure – that the government change the rules on foreclosure by giving homeowners facing it the option of staying in their homes as long-term renters, paying market rent. As he says, this would come at no cost to the government and with no additional government bureaucracy. At least one US Congressional representative, Raul Grijalva, has been listening to Baker – in 2008, he proposed such a change in his Saving Family Homes Act. The great virtue of this rule change, in stark contrast to the $300 billion guarantees for new mortgages on homes facing foreclosure (the plan proposed by Wall Street and backed by President Obama, which has no chance of making any impact on the current situation except to worsen it) is three-fold: (1) it avoids the problem of giving an incentive to other homeowners to also default on their mortgage; (2) it does not tax the people who are struggling to keep up with their own mortgages in order to help those who default; and (3) it rejects taxing ordinary people to help out the bank executives, who issued hundreds of billions of dollars of bad loans.[13]

Overall, Baker's most profound insight – and this insight governs his whole activity as an economist and public intellectual – is that, in the US, we were once directly on the road to full employment, universal healthcare and genuine economic democracy. The Right calls this socialism and, for the past thirty years, it did everything in its power to sabotage this steady march forward of the

American working classes, playing every card in its hand – from reinventing Jim Crow (through the explicitly racist 'war on drugs' and by massively defunding public education and health) to destroying labour unions and beginning a second cold war (the invasions of Nicaragua, Grenada and Iraq, as well as the death squad counterinsurgency campaigns it has funded all across the Third World – in Haiti and Colombia, for example). Not only have they ultimately failed but, in November 2008, they were roundly defeated in the election booth. In this historic moment, the American people did more than elect the nation's first African American president – they sent a clear message that they want nothing less now than to get back on that same path again, a path that the rest of the hemisphere is now firmly walking and that most of the world has either already long been on or is single-mindedly aiming for every day.

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