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Economising with reality

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The Economist magazine is always good for a laugh.

I remember reading an issue where it reviewed the 20th century and, in the process, asserted that that century had proved Marx wrong. It argued that the idea that capitalism was marked by two classes, a capitalist class and a working class, and that these classes would become polarised with one extremely wealthy and the other much poorer had been refuted. They explicitly pointed to America, stating that US workers would find Marx's comments hard to believe.

Yet in the very same issue they presented statistics which showed that inequality had increased massively in the US over the last 30 years and that, more over, the average US worker has seen their real wages stagnate: in 2000 they earned less in real terms than they did in 1973.

Another example occurred post-Seattle. In response to the protests, it produced a leader entitled "*The Case for Globalisation.*" In it they asked "*how convincing is it to blame accelerating globalisation for the migration of jobs from North to South,*

when America has an unemployment rate of less than 4% and real wages are growing right across the spectrum?!" The same issue had a graph that showed the reality of the situation.

Between 1979 and 1996, the real median weekly earnings for High school drop-outs and High-school graduates dropped by 30% and 18% respectively. College graduates' earnings were up by about 9%, to a wage unchanged for 10 years. So, the magazine concentrated on the last 4 years out of the 20! And the real wage growth in this four year period? Approximately a 2% rise for drop-outs, 4% for high-school graduates and 6% for college graduates. And it complained about "*a mere rabble of exuberant irrationalists on the streets*"!

Clearly, the editorial writers did not read their own journal otherwise they would not be auto-refuting themselves. The facts it presents do not always point to the logical conclusion the magazine makes. The editorial or the last paragraph in an article will always be, no matter what, a paean to free market liberalism. So the journalists write one story, the sub-editors add the "free market" stance to the final paragraph and the slant of the article while the editorials expound on the benefits of the market, regardless of the facts. In this, it is a lot like a free -market version of Pravada.

The February 10th issue of the magazine presented another example of its doublethink approach to reporting. In "***America's pension challenge***," the magazine argues that Bush's privatisation proposal might be okay as long as he listens to criticism and changes it in nearly every way. This in spite of knowing full well this is something he will not do having repeatedly editorialised about this facet of Bush's personality over the past four years.

So, in other words, the article states that everything about the Bush Social Security reform plan is wonderful except for, well, pretty much everything about the plan. The last paragraph of the article shows why the magazine took this schizophrenic position. It notes that the changes it suggests

“are the ones that will actually stop Social Security going bust” and so *“in that regard, Mr Bush’s new retirement accounts are no help.”* However, *“this misses the point.”* The real issue is ideological, namely:

“Giving people greater control of their savings is desirable in itself: that is why private accounts deserve their place in this reform. It is wrong that in the world’s most advanced economy so many retirees should rely so heavily on the state. That idea is at the heart of Mr Bush’s ‘ownership society’ — and it is worth supporting.”

In other words, **the Economist** admits that there is no real crisis, that the details of Bush’s plan are wrong and, if fixed, would rescue Social Security anyway. But here is the kicker, the magazine supports the plan for the same reason George Bush does: because of their ideological prejudices.

Of course, if Bush’s fatally flawed plan does become law it will be as one of his usual bloated crony-capitalist monstrosities. Then **the Economist** will point to their editorial and piously wash their hands of the whole thing, saying *“We never supported doing it that way. We endorsed the proper version of privatisation.”* And then they will enthusiastically support of Bush’s next stupid plan.

Perhaps this strange behaviour can be explained from the fact that half of **the Economist**’s readership is in the US and that the average household financial assets of it’s readership are \$330k? Or, perhaps, it can be explained by **the Economist** being ideologically driven? Undoubtedly, both factors are at play.

And what if the Bush Junta imposed a “proper” version of privatisation? Would that be any better? For an answer, we can look to the Chilean system usually applauded by privatisers as a positive example in support of their plans. This system, it should be remembered, was imposed on the Chilean people by the fascist dictatorship of General Pinochet. The followers of Milton Friedman were given free-reign by the military rulers to

create a capitalist paradise and privatising social security was one of the policies introduced.

The military was the only group to be excluded from the joys of privatisation. Perhaps the results of the scheme explain why they preferred to remain on the road to serfdom and “rely ... on the state”? According to Chile’s Superintendent of Pension Fund Administrators, in any given month, only about half of Chileans with personal retirement accounts contribute to them. Most participants had accumulated less than \$3,500 as of September 2004. Under half of Chilean workers (49%) are contributing to private accounts. Looking at the private accounts themselves, 59% are worth \$3,481 or less, 19% are worth between \$3,482 to 8,702, 11% are between \$8,703 to \$17,403 while the same number are worth more than \$17,404.

In summary, like the neo-liberal Chilean economy, the privatised social security system did not work. Its free market system went into meltdown in 1982 and its pension scheme has failed the vast majority. The rich, however, did get richer and poor poorer, so it’s appeal to Bush’s Republican party is obvious.

But why let little facts like these get in the way? Other facts do not. For example, Bush has said he will veto any attempt to reduce the costs of his new Medicare prescription drug law. Over its lifetime, 75 years, it will cost \$8.6 trillion. So that amount of money is considered manageable. And yet Social Security, the program Bush claims is in utter crisis, faces a shortfall of only \$3.7 trillion over the same period of time. The difference? Well, the Medicare bill is going to make the pharmaceutical corporations mega-bucks. Privatising Social Security will make Wall Street mega-bucks. Draw your own conclusions.

Oh, and did I mention that Social Security privatisation involves huge transition costs? The ideological supporters of privatisation used to acknowledge the costs, arguing that the budget surpluses created under Clinton would pay for that. Sadly, Bush’s tax cuts, wars and domestic spending on subsidies for

agribusiness conglomerates and the pharmaceutical industry transformed the surpluses into deficits. Now, like Bush, they are simply denying there is a problem.

And what are these costs? The Bush Junta is using its favoured tactic, namely to lie and claim that the 10-year increase in public debt caused by their plan would be \$743 billion. This tactic was used in the Medicare bill and deflates the bill. This is because the plan’s “10-year” period includes several years during which it has not yet been implemented. Factor this in and the true cost of the first 10 years is more like \$1 trillion. The next decade would entail \$3.5 trillion in additional borrowing. And so on.

In other words, the transition costs will be larger than the amount needed to save the current system. So, in other words, the American people is being asked to spend more money than is required to fix an effective and popular system in return for less benefits for them and higher profits for corporations — for the sake of ideology. An ideology whose major claim to fame is justifying and augmenting the power and wealth of the elite while imposing market discipline for the general population!

As Proudhon once said, every society decays once the ideologists get hold of it. The market fundamentalism we have been subjected to since the 1970s confirms his insight. The neo-liberals seek to impose their ideas, regardless of their impact. Their ideological biases are such that they will even support plans which even they admit are deeply flawed simply because they agree with the underlying capitalist base.