A Volatile Economic Future
Capitalist Crisis and Corporate Crime

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The unraveling of the reputations of firms that were once the toast of Wall Street continues and the end is not in sight. But one thing is certain: already fragile prior to Enron, the legitimacy of global capitalism as the dominant system of production, distribution, and exchange will be eroded even further, even in the heartland of the system. During the halcyon days of the so-called "New Economy" in 2000, a *Business Week* survey found that 72% of Americans felt that corporations had too much power over their lives. That figure is likely to be much higher now.

Like the massive overvaluation of stocks that led to the dot.com collapse on Wall Street in 2000-2001, corporate fraud was an essential feature of the "New Economy." To understand this, one must begin with two developments that were central to the dynamics of global capitalism in the 1980's and 1990's: finance capital's becoming the driving force of the global economy and the crisis of overcapacity or overproduction in the real economy. The last two decades saw the deregulation of financial markets, with barriers to the movement of capital across borders and across sectors -- e.g., the U.S. Glass-Steagall Act banning financial institutions from engaging in both investment banking and commercial banking -- being progressively eliminated. The result was a tremendous burst of speculative activity that made finance the most profitable sector of the global economy. So profitable was speculation that in addition to traditional activities like lending and dealing in equities and bonds, the 80s and 90s witnessed the development of ever more sophisticated financial instruments such as futures, swaps, and options -- the so-called trade in derivatives, where profits came not from trading assets but from speculation on the expectations of the risk of underlying assets.

The attractiveness of finance relative to other sectors of the economy, like trade and industry, was underlined by the fact that in the late 1990s, the volume of transactions per day in foreign exchange markets came to over $1.2 trillion, which was equal to the value of trade in goods and services in an entire quarter. With the speculative sector awash in cash, much of it from outside the U.S., industrial firms became more and more dependent on massive credit and the sale of shares for financing instead of on retained earnings. This dependence became even more marked in the late 1990s, as the boom of the Clinton years began to taper off. This boom had resulted in a burst of global investment activity that led to tremendous overcapacity all around. By the late 1990s, the indicators were stark. The U.S. computer industry's capacity was rising at 40% annually, far above projected increases in demand. The world auto industry was selling just 74% of the 70.1 million cars it built each year. So much investment took place in global telecommunications infrastructure that traffic carried over fiber-optic networks was reported to be only 2.5% of capacity. Retailers suffered as well, with giants like K-Mart and Wal-Mart hit with a tremendous surfeit of floor capacity. There was, as economist Gary Shilling put it, an "oversupply of nearly everything."

Profits apparently stopped growing in the U.S. corporate sector after 1997, leading firms to a wave of mergers, some motivated by the elimination of competition, others by the hope of extracting renewed profitability from some mystical process called "synergy." The most prominent of these were the Daimler Benz-Chrysler-Mitsubishi union, the Renault takeover of Nissan, the Mobil-Exxon merger, the BP-Amoco-Arco deal, the blockbuster "Star Alliance" in the airline industry, the AOL Time Warner deal, and Worldcom's takeover of long distance carrier MCI. In fact, many mergers ended up consolidating costs without adding to profitability, as was the case, for instance, with the much-ballyhooed AOL Time Warner deal.

Where mergers could not be effected, cutthroat competition ruled, resulting in bankruptcies such as that of giant retailer K-Mart. With profit margins slim or nonexistent, survival increasingly meant greater and greater dependence on Wall Street financing, which increasingly came under the sway of hybrid investment-commercial bankers like JP Morgan Chase, Salomon Smith Barney, and Merrill Lynch, which aggressively competed to put together deals. With little to show in terms of an attractive bottom line, some firms took the route of trading future promise for hard cash in the present, something that creative investment managers were especially good at in the high tech sector. It was this seemingly innovative technique of trading on illusion that resulted in the stratospheric rise of share values in the high technology sector, where they lost all relation to the real state of companies. Amazon.com, for instance, saw a constant rise in its share values even as it had yet to turn a profit.

But in the end, trading on illusion could only get you so far. Reality intervened in 2000, resulting in the wiping out of $4.6 trillion in investor wealth in Wall Street, a sum that, as *Business Week* pointed out, was half of the U.S. Gross Domestic Product and four times the wealth wiped out in the 1987 crash. Its boom extended artificially for three or four years by the dot.com craze, the U.S. economy entered into recession in 2001. And precisely because reality was masked so long by the illusion of prosperity, the longer it would take to rectify the massive structural imbalances that had built up, if at all.

In the end, there was no getting around the fact that your balance sheet had to show an excess of revenue over costs to continue to attract investors. This was the simple but harsh reality that led to the proliferation of fancy accounting techniques such as that of Enron finance officer Andrew Fastow's "partnerships," which were mechanisms to keep major costs and liabilities off the balance sheet, as well as cruder methods like Worldcom's masking of current costs as capital expenditures. In the context of deregulation and the benign approach to the private sector that accompanied the reigning neoliberal, "hands-off-business" outlook, it was easy for such pressures to erode the so-called "firewalls" -- between management and board, stock analyst and stockbroker, auditor and audited.

Faced with the common specter of an economy on the downspin and slimmer pickings for all, the watchdogs and the watched threw off the pretense of being governed by a system of checks and balances and united to promote the illusion of prosperity -- and thus maintain the financial lifeline to unsuspecting investors -- as long as possible. This united front could not be maintained for long, however, since it was very tempting for those who knew the real score to sell before the mass of investors got wise to what was happening. In the end, business acumen was reduced to figuring out when to sell, take the money, and run . . . and avoid prosecution. Enron CEO Jeffrey Skilling read the handwriting on the wall, resigned, and made off with $112 million in the sale of his stock options a few months before the fall. Not so lucky was Tyco's Dennis Kozlowski, who was not content with raking off $240 million and was still trying to milk his cash cow when his company went under; he is currently under prosecution for tax evasion.

More culprits will be unmasked no doubt, and who knows, the cast of odious characters may ultimately even include George W. Bush and Dick Cheney. But it is worthwhile to remember that while there are villains aplenty, it is the dynamics of the system of deregulated, finance-driven global capitalism that is the central problem, and this is not something that can be banished by Bush pieties like "There is no capitalism without conscience," or addressed with quaint solutions like "good corporate governance."

In the meantime, foreign investors are fleeing the U.S., the dollar is on a downspin, and the overhang of overcapacity is greater than ever. The mixture of this deepening structural crisis of the economy with the crisis of legitimacy of neoliberal capitalism promises a volatile future indeed.

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