

Outrage, Misguided

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The U.S. midterm elections register a level of anger, fear and disillusionment in the country like nothing I can recall in my lifetime. Since the Democrats are in power, they bear the brunt of the revulsion over our current socioeconomic and political situation.

More than half the "mainstream Americans" in a Rasmussen poll last month said they view the Tea Party movement favorably--a reflection of the spirit of disenchantment.

The grievances are legitimate. For more than 30 years, real incomes for the majority of the population have stagnated or declined while work hours and insecurity have increased, along with debt. Wealth has accumulated, but in very few pockets, leading to unprecedented inequality.

These consequences mainly spring from the financialization of the economy since the 1970s and the corresponding hollowing-out of domestic production. Spurring the process is the deregulation mania favored by Wall Street and supported by economists mesmerized by efficient-market myths.

People see that the bankers who were largely responsible for the financial crisis and who were saved from bankruptcy by the public are now reveling in record profits and huge bonuses. Meanwhile official unemployment stays at about 10 percent. Manufacturing is at Depression levels: one in six out of work, with good jobs unlikely to return.

People rightly want answers, and they are not getting them except from voices that tell tales that have some internal coherence--if you suspend disbelief and enter into their world of irrationality and deceit.

Ridiculing Tea Party shenanigans is a serious error, however. It is far more appropriate to understand what lies behind the movement's popular appeal, and to ask ourselves why justly angry people are being mobilized by the extreme right and not by the kind of constructive activism that rose during the Depression, like the CIO (Congress of Industrial Organizations).

Now Tea Party sympathizers are hearing that every institution--government, corporations and the professions--is rotten, and that nothing works.

Amid the joblessness and foreclosures, the Democrats can't complain about the policies that led to the disaster. President Ronald Reagan and his Republican successors may have been the worst culprits, but the policies began with President Jimmy Carter and accelerated under President Bill Clinton. During the presidential election, Barack Obama's primary constituency was financial institutions, which have gained remarkable dominance over the economy in the past generation.

That incorrigible 18th-century radical Adam Smith, speaking of England, observed that the principal architects of power were the owners of the society--in his day the merchants and manufacturers--and they made sure that government policy would attend scrupulously to their interests, however "grievous" the impact on the people of England; and worse, on the victims of "the savage injustice of the Europeans" abroad.

A modern and more sophisticated version of Smith's maxim is political economist Thomas Ferguson's "investment theory of politics," which sees elections as occasions when groups of investors coalesce in order to control the state by selecting the architects of policies who will serve their interests.

Ferguson's theory turns out to be a very good predictor of policy over long periods. That should hardly be surprising. Concentrations of economic power will naturally seek to extend their sway over any political process. The dynamic happens to be extreme in the U.S.

Yet it can be said that the corporate high rollers have a valid defense against charges of "greed" and disregard for the health of the society. Their task is to maximize profit and market share; in fact, that's their legal obligation. If they don't fulfill that mandate, they'll be replaced by someone who will. They also ignore systemic risk: the likelihood that their transactions will harm the economy generally. Such "externalities" are not their concern--not because they are bad people, but for institutional reasons.

When the bubble bursts, the risk-takers can flee to the shelter of the nanny state. Bailouts--a kind of government insurance policy--are among many perverse incentives that magnify market inefficiencies.

"There is growing recognition that our financial system is running a doomsday cycle," economists Peter Boone and Simon Johnson wrote in the Financial Times in January. "Whenever it fails, we rely on lax money and fiscal policies to bail it out. This

response teaches the financial sector: Take large gambles to get paid handsomely, and don't worry about the costs--they will be paid by taxpayers" through bailouts and other devices, and the financial system "is thus resurrected to gamble again--and to fail again."

The doomsday metaphor also applies outside the financial world. The American Petroleum Institute, backed by the Chamber of Commerce and the other business lobbies, has intensified its efforts to persuade the public to dismiss concerns about anthropogenic global warming--with considerable success, as polls indicate. Among Republican congressional candidates in the 2010 election, virtually all reject global warming.

The executives behind the propaganda know that global warming is real, and our prospects grim. But the fate of the species is an externality that the executives must ignore, to the extent that market systems prevail. And the public won't be able to ride to the rescue when the worst-case scenario unfolds.

I am just old enough to remember those chilling and ominous days of Germany's descent from decency to Nazi barbarism, to borrow the words of Fritz Stern, the distinguished scholar of German history. In a 2005 article, Stern indicates that he has the future of the United States in mind when he reviews "a historic process in which resentment against a disenchanting secular world found deliverance in the ecstatic escape of unreason."

The world is too complex for history to repeat, but there are nevertheless lessons to keep in mind as we register the consequences of another election cycle. No shortage of tasks waits for those who seek to present an alternative to misguided rage and indignation, helping to organize the countless disaffected and to lead the way to a better future.

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