

## The ABCs of the Economic Crisis: What Working People Need to Know

Kebede, Melaku Debas

Veröffentlichungsversion / Published Version

Zeitschriftenartikel / journal article

### Empfohlene Zitierung / Suggested Citation:

Kebede, M. D. (2020). The ABCs of the Economic Crisis: What Working People Need to Know. [Review of the book *The ABCs of the Economic Crisis: What Working People Need to Know*, by F. Magdoff, & M. D. Yates]. *Pakistan Administrative Review*, 4(1), 1-7. <https://nbn-resolving.org/urn:nbn:de:0168-ssoar-70856-2>

### Nutzungsbedingungen:

Dieser Text wird unter einer CC BY Lizenz (Namensnennung) zur Verfügung gestellt. Nähere Auskünfte zu den CC-Lizenzen finden Sie hier: <https://creativecommons.org/licenses/by/4.0/deed.de>

### Terms of use:

This document is made available under a CC BY Licence (Attribution). For more information see: <https://creativecommons.org/licenses/by/4.0>

## BOOK REVIEW

### The ABCs of the Economic Crisis: What Working People Need to Know

#### Melaku Debas Kebede

Lecturer, Department of Governance and Development Studies  
Bahir Dar University  
Bahir Dar, Ethiopia  
E-mail: [melakutg@gmail.com](mailto:melakutg@gmail.com)

**Book Reviewed:** *The ABCs of the Economic Crisis: What Working People Need to Know* by Fred Magdoff and Michael D. Yates. Monthly Review Press, New York. ISBN 9781583671955; eBook ISBN 9781583674024, 2009, pages 144.

**Reference:** Reference to this review should be made as: Kebede, M. D. (2020). Book Review: The ABCs of the economic crisis: what working people need to know? *Pakistan Administrative Review*, 4(1), 1-7.

---

#### Introduction

The book has twelve chapters and analyze the long term downturns and recessions in the economy of the United States. Most parts of the book discuss events and situations, like capital accumulation, employment, housing, recessions, and downturns of capitalism, neoliberalism and financial market in the US economy. The authors have tried to address the challenges, problems and disgusting face of capitalism in the entire book. What makes the book interesting is that every argument propounded by the authors is supported with statistical data and case studies, which makes them more persuasive and sound. The book underlined the role of workers in the economy and their unproportioned rewards in the capitalist system. The book probed that a capitalist having sufficient money is unable to produce tangible products but can amass the largest profits. Whenever, the capitalists are rewarded maximum profits at the cost of the labor, they would sustain and employ more employee but when there is a downturn in profit, the capitalists cut employees and the unemployment rate would skyrocket, wages will be reduced, working hours will be suspended and so on, hence, all these have negative impact but what makes it disgusting is that when profits go high the wages of the employee remain constant.

The book has a total of twelve chapters; these are *the calm before the storm, what makes capitalism tick, capitalist economies are prone to crises, mature capitalism's concentration of production and slow growth, can the tendency to slow growth be overcome and economic stagnation sets following the Second World War*. The second theme addresses issues about neoliberalism and the financial market, which *consists of neo liberalism, the financial explosion, how did it happen and the explosion of debt*. The last theme is used to review the *great unrevealing and the government to rescue*.

#### Objective of the Book

Even though, the authors didn't specifically sketch out the objective of the book, reading out the entire gist of the book, the objective is to let know the workers about what is happening in the

capitalist economy. They analyzed the capitalists and politicians (government) in the one hand and the worker or the poor on the other hand, and intrinsically analyzed the challenges, and problems of the worker. But the authors did not come up with what would be better? either to live up or what? No solution is proposed by them. That is why we figure out that the authors wanted the people just to know what is happening in the capitalist system.

### **Chapters Review**

In the first chapter, the authors started their discussion with some promising situations of capitalism in the USA economy in early 2006 or before the problems were unearthed in the year 2009. Capitalism was supposed to facilitate the construction industry as it boomed, absorbed those looking for a job and pushing down the rate of unemployment and wages were also rising. Generally, the economy was overturned but these all have happened before the storm was come to face the capitalist economic policy, which was claimed as the right economic policy. But sooner or later all promising situations changed because the unemployment rate rocketed, housing prices fell, high rate of household debt and also financial firms and business firms were indebt too. Series of downturns, recessions and long sustained depressions occurred. The authors have impressively examined many case studies and supported their arguments with statistical data that makes their argument more plausible and persuasive. However, despite the authors had stated so many disgusting events under the era of capitalism in the USA but have failed to indicate the solutions. So, does retreating from capitalism and slipping into other ideology is a solution? Or are there other solutions to skip out those problems? There are a lot of questions that the authors have raised concerning the problems e.g. is there a fault in the ideology itself? Were evil men and women conspiring to ruin the economy, while enriching themselves? Or is the fault of the leaders and mainstream economists? The authors put forward these questions without addressing them well.

In the second chapter, the authors traced out pertinent points regarding capitalism. In the first place, the authors have explained about irrationality has happened because of capitalism. As it is clearly stated in the book the farmers, workers; who made car, teachers; who teach children, can produce something tangible which is useful for the people but capitalists who sell complex financial instruments can't produce anything tangible and important to the people but amassing many profits than those who can produce tangible products. Even the brokers without exerting effort create money. Therefore, the authors considered those who converted money into money without producing any tangible products as irrational. Even though the author has interesting arguments in this regard, they over-pronounced on the dark side of capitalism.

In the second place, the authors analyze the unequal relations between the workers and the owners of means of production and the surplus profits geared towards the capitalists. We strongly agreed with the authors in the way in which they explain as to what the surplus profits belong. They stated that the owners alienated the worker from the profit as they claimed the profit a reward to their money but in a real sense profits are the result of the exploitation of the workers and the result of their (worker) hard working. And lastly, the authors showed us the synergies between the capitalists and the politicians. The politicians need money to hold office and sustain their power and money on the other hand is abundant in capitalists hence the capitalists tradeoff their money to catch the politicians to safeguard their prime interest of making profits against the workers. In so doing, the government would take the role of redistributing money (resources) from the poor to the rich. As the authors stated, the capitalists are not only limited in domestic cases but they forced other nations' politicians especially the poor nations to open their economy that would allow them to make more profits. We staunchly appreciate the arguments propounded by the author and the way workers are being exploited and politicians bypass the workers. The politicians are practically instituted to guard the capitalists through their suit policies made in favor of the capitalists.

The authors, in the third chapter, said that capitalist economies are prone to crises because whenever something wrong happened in the bank (borrower) others who have a relation with the borrower would have automatically plugged to crises. Under this subtopic, the authors touched upon many interesting and normative issues that are happening in the capitalist economy. Initially, the authors tried to show what capitalist economies are? And how does it favor the capitalist than the laborers. The authors criticize the mainstream economy by backing it with economic data. Impressively the author refers to lots of recessions, depressions that the capitalist economy did show for many years. The way that the book tries to show us how a mainstream understanding of capitalists' myth holds true, as it is stated that if mainstreams hold how could problems of recession, depression, unemployment, inflations required? However, the authors wanted to disprove the idea of the mainstream as they have to first find where the problem lies? Hence the authors try to trace whether the problem is intrinsic because of the theory itself or not. The authors only listed out the problems that came after capitalism instead of finding out any problem in the theory. Hence if the problems are not happening, the authors are sure to be on the side of the mainstream. One major thing, the authors have generally been criticizing the capitalist economy only by taking the situations that did happen in America but failed to show how the theory of the mainstream failed in another part of the world because there might be a success story in another part of the world like Germany.

In the fourth chapter, the authors entertain the competition between firms, the way that the world economy is firmly controlled by few firms? Competition over prices and the oligopolistic nature of the market are points which the authors try to address under this theme. Additionally, the book stated that capitalism in its early stage accompanied by many stimulants creates a lot of investment opportunities but now investment outlets diminished and there exists a high concentration of productions and finally capital accumulation will slow down and growth will have decreased. Despite the authors' argument sounds true but one thing that needs to be considered is the authors forgot the role of Foreign Direct Investment in lessening the problems of investment opportunities. Through FDI a country can revive its economy by investing somewhere else where investment outlet is available just like in Asia, Latin America, and Africa.

In the fifth chapter, the authors stated the extent to which the capitalist economy grows slow and identifies no means to re-vibrate the sluggish economy. The authors asserted that there are epoch-making innovations behind the capitalist economy like the steam engine, railroad, and automobiles. These innovations make trade, productions, and investments more ease hence re-vibrate the economy but nowadays no epoch-making innovations are made, which can be used to overcome the slow growth. There are no domestic outlets that absorb the surplus capital hence the opportunity of the economy is simply stagnation. The authors underestimate the capacities of foreign investment to cure the slow growth. Moreover, the author stated that the Second World War was one of the main causes to move forth the world economic inertia especially after the Great Depression. Hence the authors considered violence and conflict as a means to overcome the slow economy as the demand for production, automobiles, and Gun machines will increase and private companies take the advantages of these increased demands for their supplies. But in my view this actually can't cure the slow economy rather further devastates the economies. Maybe the authors saw it from the perspective of the American economy, which it took the advantage of the Second World War to sell war materials, ships and guns without taking either side of the war early and their economy uses that historical moment for increment. During this period the annual GDP of the US reached 5.9, which is the highest in ever history but all those were involved in the war were beaten sorely and need a couple of years to rebuild their economy.

In the six-chapter, the authors address Economic Stagnation Sets in Following the Second World War. As we noticed from the very beginning, the authors back their arguments with statistical data

through the entire book. This is one important quality of the book. But sometimes numerical or statistical data could mislead. Therefore, it is better to embrace qualitative measurements parallel with the quantitative one. The authors try to show the reviving economy of America following WWII which they claim the war for creating huge investment choices and opportunities for American firms. But had downturns from the 1950s because of a lack of investment outlets, production concentration and lack of large market to absorb manufactured outputs, machines and automobiles produced. However, the authors marked that neither the Afghanistan war, Iraq war nor the computer and electronic machine could revive the country's economy. And the absence of epoch-making innovation which can sustain the economy holding a high growth rate also marked as one cause for the slow economic growth. The authors impressively have shown us the serious of downturns, and recessions in the economy in fact after the 1950s.

In the seventh chapter, the authors address interestingly what capitalists mean? What is their intention? And their invisible hands in politics. The way that capitalists tight-hold the politicians and how the state by the name of government safeguards the interests of the capitalist economy. The authors used an excited quote of 'the state redistributes income and wealth from the poor to the rich'. The primary weapon that the capitalists were used was ideology (neoliberalism). The authors eloquently stated the frictions between capitalist and labor unions and the way capitalists used the state as an instrument. The capitalists spent a lot of money to perish away from the counter ideas like the regulation, labor union, big government, welfare. We think those are what all workers are needed to know about what is going on in the capitalists' world under the ideology of the neoliberal agenda. How neoliberalism is advanced to exploit and squeeze the workers is also elaborated in the book. Moreover, lots of effects of neoliberalism are discussed in the book especially concerning financial institutions and the financial market. But the authors didn't acknowledge some of the important sides of neoliberalism like a free market which provides more choices to the customers, competitions which provide the customers with fallen prices, and quality production.

In chapter eight, the authors identified the financial explosion with the neoliberal ideology, which according to them it paves way for financial institutions. The financial market feeds up by the issues of deregulation propounded by the neo liberalists. The authors under this theme accuse the financial institutions like the one that makes "money out of money" without producing something tangible and valuable products to the society. Even though their existence is ancient, it gets a breakthrough in the past few decades with the revival of neoliberalism. According to the book several institutions/organizations were instituted (like WTO, WB, IMF, NAFTA, and multinational cooperation) to guard the basic intent of financial institutions and to make markets open for these institutions. The authors stated very precisely that the role of financial institutions for making job opportunities in the economy is very less as compare to its fast-growing in the economy of the country. However, the authors disregarded the role of these institutions in the economy and it would better to see their role in the least developed countries like in Africa and Asia where fewer capital avails, hence their role as a source of fund for those countries is high. Projects and programs are being made in the least developing countries by having funds, and loans from these institutions.

In chapter nine, the authors tried to discuss issues regarding financial explosions. They have started with the question of how did it (financial explosion) happen? Financial companies have been expanded dramatically in the last few decades in the world economy but the authors aspired to see it only in the lens of the US economy. The authors stated an interesting and impressive reason for this but we don't know how far the reasons are feasible in the other part of the world. Financial firms loaned a huge amount of money to the public as household indebtedness is going high because of the disgusting situations of capitalism; people are forced to borrow money from these

firms to cover their household expenses, financial firms speculated and developed and peddled increasingly complex financial gimmicks as a primary means of making money and firms have used a lot of means to weld profits. So, financial firms took on huge amounts of debt in order to make more money on their own “investment” here financial market do have experts that could anticipate about the financial market hence financial firms misled by them and indebted more, the last reason is the financial companies encouraged deregulation and often engaged in fraudulent activities or at the least lax business practices here the authors impressively asserted that the major reason for the explosion of financial institutions is absences of any regulatory mechanism to make the game in a right track, but the situation led them free by the sense of neoliberalism and any acts made are supporting them. Indeed, the authors describe things fantastically and we recommended any ones to read it and get all that is behind in financial companies. we don't have any critics with regards to it in spite of the authors had better look at the impact of financial institutions in Asia, Latin America and Africa since these institutions were responsible for recessions and economic crises in thus continents because of its floating nature.

In chapter ten, the authors associated the rising of debts with the explosion of financial institutions especially the augments of debt have been exhibited more in the household and financial business. It also includes nonfinancial and government debt. The explosion of debt in the US economy has been narrated by the authors very interestingly and the arguments are also well supported by statistical data that shows comparatively (past vs. present) how much the US economy relies on debt even the author argued that US has an economy that apparently can't live without more and more debt that is because of the sluggish economy as debt used as means to stimulate the US economy. The authors also showed us how debt is causing for slow economic growth, as the people are highly indebted they are forced to look for goods and products abroad since they ascertain a large quantity of good or products in few dollars hence this would increase imports than exporting to abroad as a result economic imbalances could certainly create slow economy. Of course, the examples and arguments forwarded by the authors are persuasive and exciting. Again under this topic the authors also analyze disparities and exchange of currency among countries as one important cause of financial explosion where financial institutions get involved to take of advantages of currency exchange especially being dollar is accepted for international transaction many foreign individuals, businesses and governments considered the US as the safest place for financial market hence enhances the stock, bond, and treasury market and again the government in the US rises interest rate than any country these would, in turn, increases household and government indebtedness. The authors finally showed us in their book the topper and lower' net worth (wealth-debt) the top 20% had a total of 85% of the net worthwhile at the bottom 80% of the people had only 15% of the net worth. This shows us how much the lower people are indebted because of the greater amount of profit geared to the few top people. As a result, the wealth and income inequality of the poor and the rich get higher and higher. But one thing needs to be raised here that the authors raise all the problems with the financial markets to cause to a massive indebt in the households and financial business but failed to come down with the possible solutions either to leave up or to make regulations for the financial institutions to play in it. Apart from this we strongly admire what the authors describe the situations and events in the indebted economy and the role of financial institutions for this problem in the US economy.

In chapter eleven the authors indicated that initially in the late 1990s the US economy was said to get rid of slowing and sustained but not long term. The authors did counter-argue the economist and experts in the way that the economy is getting back to the sort of normality and they also stated so many reasons in support of their argument but one major thing which magnetizes my mind is that the attempted remedies taken to deal with the crises again led to another crisis, for example, the US has made interest rate low and easily available money but this attempt was led another

problem of raise in the house prices and many cases and problems in relation to the housing prices have been seen by the authors. How mortgage packages that used to make ease housing-led most people indebted? How media and experts misled the people as speculations prices in houses will get up in the few years and people with bank borrowing able to buy houses for resell but the price got down and people become unable to pay back their loan? And other cases are seen interestingly by the authors. Hence the authors have shown us the crisis over the crisis in the US economy. But one thing we need to comment is that the authors acknowledged the Asian crisis as a deep freezer to the US economy in the late 1990s but this is a very weak argument that tries to take advantage of the poor nations' crises.

In chapter twelve, issues about the government, and business owners in relation to the economy were viewed interestingly. The book has traced out the governments' reaction to the economic crisis. And the authors argued that in all situations the government is trying to suit the big business owners it is what a crisis in the big businesses concerns the government but not the people who are not losing jobs, who are not afforded houses, who couldn't fulfill basic necessity and the household indebtedness. The top businessmen are in a position to influence the politicians, policymakers, and administrators, not the workers are in a position to influence them. The authors stated that there are very smart and skilled advisors and lobbyists who can well influence the policies made in the country even there are lots of acts made by the politicians and policymakers which are in favor of the top businessmen as the authors pointed out. Whenever problems are likely to happen the government will take decisions like cutting taxes, preferential access to foreign currency and the like. Hence, it is the oligarchs that got extra help at the outset of the crisis. But in my assumption, these oligarchs do have many workers in it hence if these are left out of help they may face serious downturns and even may collapse and then dispose of a mass of workers who have been working in the companies and finally the unemployment would certainly go up hence it would be better for the authors to see the problem from this dimension. The authors also pointed out some measures taken by the federal reserves' to the calm down the crisis but most but not all of the measures were favoring the top businesses even though some measures were taken to favor to the poor and working-class the measures are either not sufficient or poor in implementation since it doesn't produce any changes in the poor and working class. The authors indicated some legal bases for the worker made by the government to cure them of the crisis were deliberately undermined because of the influence of the lobbyists of the financial industry. The authors analyze the role of the government's effort to rescue the crisis by strongly attaching it with topper instead of the lower class. perhaps, we admire the authors they have tried to let the worker know what is going on in the capitalist economy, the way they started the events, situations, problems is very interesting. The one who wanted to read this book would love it deep.

### **Conclusion**

Generally, the book has shown us that the capitalist economy is in serious trouble accompanied by some serious problems like unemployment, increased housing prices, inflations, and household debt and more others. Hence, there should be a drastic action for the capitalist economy to get out of troubles. The authors argued that the capitalist economy now is not in the way to help the workers and poor but to favor the capitalists themselves. Therefore, there should be something that would support the ignored masses (the worker/poor). The authors also advised the workers not to trust the politicians and the policymakers perhaps, in reality, these politicians who are in power come to their position by the voice of the masses (the worker) but practically they are working against these masses. There is a strong connection between the capitalists and the government elites. This connection is installed because of benefits that means the politicians' trade-off their power to the capitalist in return of money. Indeed, most of the disgusting situations are happening

in the arena of the financial institutions which can be referred to as the one that makes money out of money without producing any tangible products valuable to the society.

Therefore, for the capitalist economy to revive again the following things are needed to be made, nationalizing some large banks, wipe out their shareholders, and put them on a firm footing. Second, the US auto industry must be both saved and transformed and lessening the problem of unemployment. Third, a national health care plan is mandatory especially to the lower business costs and to keep workers healthy. Forth, the homeowners must get relief and household debt must be reduced. Fifth, ideally the financial system should be strictly regulated and wages have to rise for some reason. If these are not being made the US economy will be slow and the problems will not be solved.