Facing the Economic Crisis

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The main news from September until the beginning of 2009 is the global economic crisis, an event ascribed by economists and most pundits akin to a "financial" meltdown caused by the irresponsibility of mainly, but not exclusively, US lending institutions and consumers alike in offering—and accepting—"sub-prime" mortgages, interest only loans, and a series of complex derivative financial instruments. Many of the variable mortgages, initiated during the credit driven bubble of the 1990s and welcomed by the Clinton administration but accelerated in the first six years of the new century, require home buyers to put no money down. Interest rates on these kinds of mortgages, which begin at 5%-9%, are slated to rise within a few years after which they could double, triple, or balloon even more. In September 2008 we began to hear of massive foreclosures in almost all sections of the country as the first round of ballooning rates took effect, and the projections for 2008 and 2009 were for 2 million homes, six percent of the US total to go into serious default. New home construction came to a screeching halt and commercial building suffered only slightly less pain. In a few weeks of October, bloated with bad loans they themselves had sold, several major banks had failed, prompting the Fed to inject billions ostensibly to save them from bankruptcy and liquidation; others, like Merrill Lynch merged with more stable partners. But the venerable old line investment banking house, Lehman Brothers was fated to fail when the Treasury Secretary and the Fed chair refused to extend bailout funds. Of course, goliaths like Citibank, Bear Stearns (March 2008), the insurance giant AIG and a few others were deemed by the Treasury Secretary, Hank Paulson "too big" to allow to fail. By the end of the month the banking system, which held trillions of dollars in "bad" paper—unredeemable mortgages, business and credit card loans—was teetering on disaster, and the crisis was widely described as a "financial meltdown." Many leading investment banks disappeared and those that remained were reconstituted and converted into bank holding companies.

By October, mobilized by Paulson and backed by the Fed chair, Ben Bernacke, Congress quickly passed a massive $700 billion bailout to financial institutions without scrutinizing the fine print. For different reasons, only a significant band of arch— GOP conservatives and a few liberal Democrats were prepared to let the system collapse in the hopes that either the market would self correct—the Smithians— or, in the case of the progressives, force an extensive re-regulation that had been rescinded by the Carter administration and a Democratic Congress in 1978 and followed rigorously by

Democratic and Republican administrations alike. It is both instructive and useful to remember that the Clinton administration initiated a program of corporate "self-regulation" that further weakened the system and the Bush regulators simply went on a long vacation in every field. The most dramatic was its neglect and oversight of all types of investment and commercial transactions that has led to the infamous Madoff scandal. The purpose of the bailout legislation was to permit the government to purchase vast quantities of the bad securities at, or near, nominal value; in effect, this was a major infusion of cash into the banking and insurance systems without imposing stringent conditions on how the banks and insurance companies must spend the money. However, within weeks of President Bush's signing the bill into law and in the wake of the banks refusal to loosen consumer and business credit, Paulson announced that this strategy was being replaced by a policy of purchasing bank shares, a direct infusion of cash in return for which the government would assume a measure of temporary partial ownership of banks that chose to apply for help, but would not, as the British government did, assume outright ownership and management of the system. Nor, as it turned out, did the Federal government closely supervise the use of the funds they had so generously given. Within weeks, complaints resounded throughout the economy that the banks were not loosening their lending policies but, instead, were holding the money close to their chests. Of course business loans were tightened, but many would-be buyers of homes, cars and other durable goods, let alone borrowers of much needed cash to pay their bills were turned away on one pretext or another, most notably because their credit rating was not top of the line.

Meanwhile, jobless rates began their steep ascent. The November 2008 figures showed that 513,000 jobs had been lost and applications for jobless benefits soared. In fact, for at least seven consecutive months the economy had shed jobs and the official unemployment rate crept up to more than 6.5% or 10 million. In reporting the spectacular job losses, even the *New York Times* ran a complimentary investigative story that argued the official figures were only a fraction of the extent of joblessness. According to the Times the number of discouraged job seekers who left the labor market, premature retirees who had no prospects but to accept inadequate pensions, and recent high school and college graduates who simply did not look for work, might swell the actual figure by four or five percent. At 11% actual unemployment, the number increases from 10 to about 13 million. By early December, the National Bureau of Economic Research (NBER) reported that the economy had been in recession since December 2007, a year before they declared the recession "official". This revelation, which any sensible observer knew for at least a year, led no leading politician or economist to ask why the information had taken so long to be determined and revealed. The conservative NBER explained that it often takes that long to check their calculations and come up with a definitive judgment. That they felt obliged to offer an explanation responded to the unspoken suspicion that the delay had something to do with the presidential election. Many believe that if the recession had been declared in the midst of an election season, candidate Obama could have repaired to Hawaii for much more than a few days.

The NBER admission that the economy was in recession at least ten months before the financial meltdown, poked a huge hole in the initial view that excessive and wanton lending was at the core of the troubles and that the crisis was essentially financial in nature. Since 2002 the emerging recessionary signs were assiduously ignored by all virtually mainstream quarters. Fall 2006 witnessed the beginning of sagging economic growth, by the measure of aggregate Gross Domestic Product (GDP) which includes spurious categories within the service sector, falling housing prices that prompted a severe slowing of new housing starts and sales, and gradual increases in jobless applications. Stagnation of manufacturing employment belied glowing reports of healthy increments in retail sales, on the premise that industrial production was no longer an important indicator of economic health. That throughout the first decade of the new century plants continued to close and reduce workforces, and not only in the Midwest but in the South as well, was not registered as signs of a slowdown in the midst of so-called "prosperity" were barely noticed in official circles. According to the conventional wisdom the US economy had become "post-industrial" —well on the way to realizing the prognostication that ours is a service economy, and it is better to let others such as the Chinese and Koreans produce material goods since industrial production caused pollution, and is purposefully inconsistent with our collective aspiration to become a nation of what Bill Clinton's Labor Secretary, Robert Reich termed "symbolic analysts". If the US remained a major producer of food, armaments (for national security reasons), aircraft, heavy machinery such as machine tools, trucks and specialty steels, these were necessary to maintain our trade balances, but were not otherwise fundamental for insuring economic health. Our future lay in specializing in various forms of "immaterial" production. So, we could afford to lose the remnants of the once huge garment and textile production industries and, in the future, the US might not be the center of basic steel and car production. The fact that foreign auto companies were locating production facilities in the Southeastern and Border States was a testament to the idea that union labor, not corporate malfeasance, had produced the steep decline in manufacturing. Software, research, and the growth of higher education, both as the center of innovation and, in terms of employment and capital formation, a major industry, pharmaceuticals and other activities linked to the health care industry, and entertainment would surely fill the gap left by the demise of the "rust belt", even if some regions of the South had suffered capital flight and become a major source of foreign investment, especially automobiles. And so what if the past thirty years were times of wage stagnation and decline, we had perfected a magnificent credit system (the main spur to consumption) that seemed to know no limits.

The bare truth is that what has been taken as economic expansion since the early 1970s was a **symptom** that the United States (and the UK and other European countries) have survived a genuine period of economic decline by means of a dramatic increase in the creation of huge amounts of *fictitious* capital. Fictitious capital is money that has no material basis, but is a speculation on future economic performance. Fictitious capital is an ordinary function of the credit system. Manufacturers borrow and lend money from each other and from banks to finance purchases of raw materials and labor on the promise of a near-term repayment when the value of their respective products were realized through sales, either within the production sector or through wholesale and retail purchases. But when these loans are exchanged by banks to businesses and non-commercial consumers on a long-term basis at exorbitant interest rates, and these loans become the basis of at least 2/3 of economic activity; when consumers or business owners, some of which are banks themselves, default on a large scale on payments, and the bubble bursts the whole system reverberates collapse.

Which is exactly what happened in fall 2008: Small producers, retailers and building contractors routinely borrowed money from banks or other lending institutions with which to purchase raw materials, rent stores or industrial facilities and hire labor on the premise that consumers who purchased their goods, and not only homes would, in turn, receive loans from lending institutions and have income sufficient to pay their credit debt on time. For nearly two decades real estate boomed, prices of all commodities—food, clothing, homes and other durables—climbed. The accumulation of debt, which underlays the fictitious accumulation of capital on a wide scale, finally collapsed like a house of cards. As Rick Wolff has argued the discrepancy between high levels of labor productivity—abetted not only by falling wages but also by labor-saving technological changes— has led to overaccumulation. We have entered what Marx has termed a "realization" crisis—commodities cannot be sold at profit rates that are sufficient to stimulate further investment in plant, equipment, construction and the labor that underlies them and other affected industries. In order to alleviate their inventory glut business is obliged to reduce prices, but this tactic may take years before capital investment on a grand scale resumes. However, as long as deflation lingers new investment is bound to remain tepid. What follows is a period of layoffs, downsizing, and falling prices to the extent that in many cases the American dream of homeownership becomes a nightmare in that the amount of the mortgage loan exceeds the exchange value of the home. Wallowing deep underwater this leads to foreclosures and a precipitous decline of housing starts and sales of used homes.

There is another hidden fact: for thirty five years, the private sector has not produced a net increase in jobs. The growth of jobs in computer-mediated services and software production was counterbalanced by losses in manufacturing; mergers and acquisitions in the retail industry were barely matched by growth in fast food employment. In the past decade as the private sector failed to create new jobs but relied increasingly on contingent and temporary labor to meet their short-term labor requirements, the public sector— especially education and health care-, became the main source of new, decent paying jobs. As the Federal government abdicated responsibility for a variety of services, state and local bureaucracies added jobs. Of course, besotted by the conventional neo-liberal ideology that only the private sector is a job creator, economists and politicians conveniently ignored this fact and continued to insist that whatever the service, the private sector can do it better, and more efficiently. What net increases in private sector employment occurred were largely, if not exclusively, the result of contracts awarded by federal, state and local governments who adopted both the mantra and practice of privatizing public goods. Although industrial production held steady, factory jobs stagnated during the boom because computer-mediated production began to dominate key industries and, contrary to the hype that computer-based manufacturing creates more jobs than it destroys, the reverse is actually the case. And, eventually the technology sector, of which the bubble in software and communications (dot.com) companies were the leading edge, burst; as early as 2000, this sector began to experience mass layoffs, the effects of which were notices for about fifteen nano-seconds but quickly relegated to the back burner.

A NEW FISCAL STIMULUS?

Five prior administrations beginning with Carter relied on monetary policy to address economic problems (reductions of interest rates were their major tool) and had strenuously avoided using the tool of fiscal stimulus to address economic grief. There now appears to be a minor policy shift in the wings. Repeating his campaign promise, President-Elect Obama said his administration would create (or save) 2.5 million jobs in his first term. Immediately, he pledged to find huge funds, presumably by issuing tens of billions in treasury bills—previously known as deficit financing— that the Chinese and some American investors would buy, to address the serious deterioration of America's infrastructure—roads, bridges, urban streets, schools, public facilities, and the like. In a flash, state after state reported they had billions of dollars worth of projects "ready to go". Given the depth of the crisis, we can expect an Obama administration to propose a fiscal stimulus plan of nearly $750 billion, exponentially greater than the miniscule $25 billion it originally pledged. Some jobs will be created, to be sure, but we should not expect miracles.

To begin with, Obama has warned that the 2.5 million job figure is a long term projection. How much money would it take to create 1 million jobs, about 7% of current unemployment? This is a tricky calculation. Would the program(s) be contracted out to private employers or would the government be the direct employer? If contracts are let at 30% gross profits, fewer jobs would be created. And what average wage would be offered? Would the government insist on "prevailing wages" as in the current construction industry? If the new jobs paid 50% above the poverty level, for example, they would match the current national average of about $15 an hour. The sum required to create a million jobs at prevailing wages, would range from $50-$75 billion depending on whether the Obama administration replicated the New Deal practice of government as direct employer or continued the extant policy of privatization.

We have seen almost no discussion of the real problem of job composition, particularly the relation of skilled to unskilled labor in the stimulus package, issues of training and education and the role of unions in these programs. And, of course official policy remains tied to the illusion that technology is a net job creator. For example, lost in the rush to stimulate the economy by infrastructure development is a little known fact: unlike the Great Depression era when the federal government undertook road building as a major employment program on the basis largely, of manual labor, today's road construction industry is highly mechanized. The main "force" of construction is earth-moving machines, machine spreaders to lay down asphalt and concrete, (which are produced, automatically, on trucks). Manual labor is still employed, but not nearly to the extent as the older production regime. On the other hand, school, hospital, recreation facilities and other public buildings employ a variety of mostly craft labor: electricians, plumbers, carpenters, among other crafts and a fairly substantial corps of laborers to haul materials and perform finishing work. Facilities construction would do more for alleviating unemployment for the skilled, less for the semi- and unskilled. Then there is the question of costs: capital intensive activities are expensive, but not nearly as costly as human labor. So, unless the administration intends to build facilities as well as improve roads and such infrastructure as water treatment and waste disposal plants, the job payoff might not be as substantial as Obama believes.

There is also the problem of contracting out these activities. During the Great Depression, the Works Projects Administration, a government agency, was the direct employer; today, in the era of privatization federal and state governments often contract to private companies to perform these tasks. This means that profits must be factored into all expenditures; like the privatized US health care system, it is more expensive than socialized production and the job payoff is less. Moreover, under this contracting regime there are fewer controls over hiring practices; people of color tend to be shortchanged. In which case the level of oversight would need to be much more stringent than any administration has been willing to implement. What is the warrant for believing that Clinton era appointees will be willing to reverse past practices, especially if the Obama administration wishes to reassure the private sector?

Obama promises to create millions of "green" jobs. Some of these might be included in infrastructure plans, if windmills, geothermal, solar and other alternative forms of energy are substituted for existing power stations that run on oil and coal. Capital could be raised to build or reconvert metalworking factories to produce these products; water treatment and waste disposal plants might be constructed and put on line to fulfill the "green" objective. But there will be the problem of the administration's apparent fondness for nuclear energy as a "clean" source or its flirtation with chimerical "clean" coal projects. In our haste to applaud an apparent jobs program, we need to examine what kind and how many jobs green and infrastructural activities will produce.

The most promising sources for job creation on a large scale are in services, environmental maintenance, and the arts. One of the least understood aspects of the New Deal's WPA was its many cultural, service and clean-up activities, all of which were labor-intensive. Youth were sent into the forests and fields to clean them up; rivers and streams were cleaned by manual labor. The federal government created a system of national parks and allocated funds for cities and towns to build playgrounds, swimming pools and sponsored a program of public housing construction. Artists, writers, theatre people, social service workers, health care workers and many other groups were put to work in local communities, some directly employed by the Feds and some employed by local governments and non-profit organizations using federal funds. Writers, musicians and artists were sent into schools to teach and to paint murals. There has been little or no discussion of this aspect of job-creation in recent times, although the Johnson and Nixon administrations did create and finance "public service" programs, some of which had training and education aspects.

THE HONEYMOON IS OVER

In his announcement of appointees to cabinet and key administrative posts dealing with the economy and with business regulation Obama revealed that, contrary to his campaign mantra of "change", nearly all of these crucial appointees were recruited from the alumni of the Clinton administration. From National Economic Council chair, Lawrence Summers, to his appointee to chair the Securities and Exchange Commission, Mary Shapiro, and Obama has signaled to the financial sector that, despite brave talk about rigorous business regulation, they have little to worry about. None of his key appointees has a reputation that might inspire fear among those who have benefitted from the long wave of business deregulation and bailout that began in 1976.

In mid-December, after a virtual unconditional giveaway to banks and insurance companies of $350 billion by the Bush administration, half of the $700 billion bail-out package remained to be disbursed. On December 19, President Bush announced a $17 billion bridge loan to the major auto corporations. The remaining $333 billion could be spent on assisting homeowners suffering foreclosure or its imminent threat and putting a substantial down payment on the job creation part of the stimulus program. But there is little hope that this scenario will come about unless Organized Labor and social movements insist on such emphasis. For this to happen, some of Obama's most fervent supporters on the Left would have to cut the assumed six months honeymoon short. They would be required to actively intervene on a number of fronts:

1. a set of proposals for a labor-intensive jobs program to accompany infrastructure development;

2. Demand the governments be the direct employer, and only absolutely necessary private contracts be let for specialized services;

3. Demand that the new jobs pay a living wage at least equal to the national average adjusted for regional cost of living;

4. Demand creation of labor-intensive jobs in public services and the arts;

5. Demand enactment of the Conyers Bill HR 676 providing Medicare for all. Universalizing health care would create hundreds of thousands of new jobs;

6. Implement the Green Jobs program by re-opening and retooling abandoned auto and parts plants as well as building new plants to produce solar panels, windmills, geo-thermal machinery, and water treatment technology and waste disposal products. These should be owned and operated by workers' cooperatives as well as letting contracts to existing manufacturers of these goods;

7. Demand rigorous oversight of employment programs to insure employment opportunities for blacks, Latinos women and the disabled.

Progressives have advanced hope that Obama will usher in a "new" New Deal. But the New Deal of yesteryear was never intended to pull the United States out of the depression. Even though it employed more than a million workers in government projects, and even considering that these projects might have produced three times or 3 million jobs; as late as 1940 , the fact remained that unemployment hovered around 20% of the labor force. What the New Deal accomplished went well beyond its relatively modest economic impact; more important was its ideological and political force. In contrast to Herbert Hoover and the first New Deal's focus on stimulating economic activity by pouring capital into business corporations, controlling prices and wages in order to foster profits and limiting its direct aid to the unemployed to feeding the hungry, the so-called "second" New Deal put money in the pockets for the jobless through public works and service programs, promised to save small farms from foreclosure through government purchases of crops and paying farmers to retire part of their growing capacity in a land bank. But it was the farmers themselves who, through direct action and mass organizing, sometimes prevented evictions, created cooperative enterprises to oppose the big processing corporations and, even before the depression became official, created their own political vehicles. And, after the mass strikes of 1933 and 1934 conducted without a legal framework for union recognition, in 1935 the National Labor Relations Act guaranteed workers the right to organize unions of their own choosing, established a procedure for official union recognition and collective bargaining, and outlawed company unions and competitive unionism within the same bargaining unit. In short, the second New Deal was a consequence of a popular upsurge, not only the brainchild of FDR and his advisors. It remains an open question as to whether the organizations at the base of the Obama administration will match, let alone exceed, the achievements of the New Deal. There is little or no prospect that, within the current framework of neo-liberal, market capitalism, the deepening economic crisis can be significantly reversed. Will the Left urge direct action to address the crisis, open a dialogue about its capitalist roots and propose possible radical solutions?

AFTERWORD

It is now an entire century since Rudolph Hilferding's *Finance Capital* was published. Appearing in 1909 it quickly became one of the most influential theoretical interventions in 20th Century Marxism. Its central thesis is that the fabled "anarchy of production" combined with the fundamental inequality intrinsic to the system of capital accumulation named by Marx as the ultimate impetuses behind capitalist crisis had been overcome by the concentration and centralization of capital. What is popularly termed "monopoly capital" whose cutting edge, according to Hilferding and his followers, became finance capital amounted to a new epoch of "organized" capitalism. In this epoch capital had resolved its crisis tendencies. Of course, Hilferding credited the workers movement of which the social democratic parties were leading institutions with helping to "rationalize" the once chaotic capitalist market. Social Democratic reforms, especially in Germany and Austria, had made revolution largely unnecessary as workers and their organizations gained more power at the workplace and over the state. Like Eduard Bernstein whose book *Evolutionary Socialism* a decade earlier had scandalized the Marxist left by declaring that the movement was "everything, the goal nothing" Hilferding, in more rigorous Marxist terms heralded a new phase of World History.

Of course, Bukharin, Lenin and Rosa Luxemburg rejected the political consequences of Hilferding's argument, but, at least in the case of the Russian revolutionists, adapted it to a new theory of crisis. Now the inevitable crisis resulting from the falling rate of profit and over accumulation was displaced to the form of "inter-imperialist rivalry" between nation-states in which monopoly capital had matured: Germany, the United Kingdom, France and the United States and, because of their power, dragged developing capitalist states such as Italy and Russia into World War, largely because these states had become repositories of capital export by capital of the more developed societies. For Lenin, global politics takes command. The betrayal of its traditional anti-war stance by most of the leading the Social Democratic parties and the parallel complicity of the labor movements in their "own" capitalists' war aims, led much of the socialist left to, in effect, adopt an institutional perspective on global capitalism. The largest corporations in the financial sector constituted a "fraction" that effectively propelled their respective capitalist states. And rather than attempt to crush the workers movement, imperialism offered the workers in the most industrially developed countries a piece of an expanding pie, at the expense of the colonial and semi-colonial countries.

In the interwar period only those writing from the standpoint of independent, critical Marxism retained fealty to Marx's own analysis that the system's contradictions were to be found, primarily, in the contradictions between labor and capital—within the labor process—the source of capital accumulation. Even as a new Orthodoxy arose building upon Hilferding's theses, which claimed that underlying relations of production no longer constituted the sufficient dynamic of crisis, that is the inequalities that manifest from conditions of the exploitation and alienation of labor—we, on the contrary see finance capital and its corollaries such as financialization as symptomatic of a realization process. In this context, we affirm the program of "back to Marx" especially his discussion in *Volume 3 of Capital* of fictitious capital, and as importantly, his discussions in *The Grundrisse* of the significance of technological transformation in reducing the part played by labor in capital formation and its implications for the rate of profit and for accelerating the tendency toward what is now termed "financialization" both of investment and of everyday life.

Not only are financialization and its concomitants, particularly the credit crisis, symptoms, but the same must be said of outsourcing of large chunks of domestic production which, in the last instance, is capital's response to the sharpening of global competition and the militancy of the labor movement in the late 1960s and early 1970s. After the demise of Bretton Woods Agreement which stabilized world currencies around the US dollar, by Richard Nixon in 1971 and the more or less rapid deregulation of banks, transportation and other industries following the emergence of Europe and Japan as autonomous economic actors, we entered an era where fictitious capital became the engine of spurious economic growth, spurious because, together with the permanent war economy, it was based on speculation and waste. The current crisis is a partial repudiation of the argument that world capitalism is still a regulated system; the World Bank, and other US controlled disciplinary institutions have lost much of their ability to contain developing countries. In this era, leading branches of capital and the state allies, may choose to undertake measures that amount to state capitalism, where private investment no longer reigns. Whether that attempt can succeed is still an open question. For now, the state has been corralled by finance capital with a few crumbs to the seriously disabled production sector.