America's Economic and Social Crisis: Profits or Prosperity?

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Data on US profits for the second quarter of this year are well worth studying, not only for what they say about the health of the corporate sector, but also for what they reveal about the structure of our economic system and the priorities of our policy makers.

Commerce Department figures show that after-tax profits rose 3.9% from the first quarter and a staggering 26.5% from the same quarter in 2009. This year-to-year percentage growth is the highest ever recorded by the Commerce Department without factoring for inflation. (The figure is even more impressive given that virtually none of the growth is due to inflation over the last year!)

Perhaps even more telling is the percentage of national income accounted for by profits. Well over 9% of national income in the second quarter of 2010 counted as profits, the 3rd highest portion since 1947. Interestingly, the percentage of national income was only marginally higher in two quarters of 2006 when the unemployment rate was 4.6% at the peak of the last economic expansion.

Analyzing the data, **The Wall Street Journal** (10-4-10) concluded that those corporations making up the Standard and Poor's top 500 corporations – the core of monopoly capital – actually grew by 38%, returning $189 billion or 15.6% of all after-tax profit.

WSJ analysts underline the profit trends by noting that profits are up 10% over 2008 though revenues are down 6%. Monopoly corporations now make 8.4 cents on every dollar of revenue, when they made only 7 cents on every dollar in 2008.

The Winners' Circle

For corporations, the numbers are spectacular. They indicate a complete recovery of the profit momentum lost in 2008 and 2009. Since the early 1980's, after-tax profits – as a percentage of total national income – have marched upward and onward, indicating that more of the wealth created in the US has been distributed to the corporate sector. At the beginning of the 1980's, less than 5% of national income found its way to corporations as profits. Today, that percentage appropriated by corporations, especially monopoly corporations, has increased to nearly 10%.

Several interrelated factors have contributed to this shift of wealth to corporations from the rest of us.

First, the rate of exploitation – the relation between the share of wealth appropriated by the ownership class and the share left to the workers – has increased dramatically. Labor's bargaining power has diminished with the decline of both union density and militancy. Hourly wages in the US have been stagnant or declining throughout most of the last thirty years while productivity has increased consistently. The average hourly wage (adjusted for inflation) for production and non-supervisory employees has hardly budged since 1978. Indeed, nearly two-thirds of ALL workers average hourly wages have stagnated since 1978. At the same time, benefits have been cut, shifted or eliminated for most workers. Given the growth of the national income in this period, it follows that more of society's wealth is available to the corporate sector, its managers, investors, and parasitic minions.

Secondly, the growing significance of financial instruments and the financial sector has prodded corporate profits to new heights. With the stagnation of mass purchasing power brought on by rapacious exploitation, the financial sector has established borrowed money as the vehicle for improved living standards for most US citizens, given that capitalists have the money and the rest of us do not. Consumer debt – mortgages, credit cards, student loans, home equity loans, etc. – has replaced wages as the means to a better life for the vast majority of those outside of the ownership class. Consequently, more and more of corporate profits were represented by deferred, projected, or even hypothetical wealth – the wealth that would be accumulated when all debt is eventually cleared. The financial sector went even further and through the creation of financial exotica (instruments derived from the real-world contracting of debt) claimed further profits from the buying and selling of these artificial creatures. Of course it was the collapse of this debt house-of-cards that brought the world economy to its knees in 2008 and 2009. And yet the share of total corporate profit attributable to the financial sector remains over 40% despite this destruction of deferred, projected, and hypothetical profit.

Thirdly, the actions of policymakers – lawmakers of both parties and their technocratic vassals – have aided and abetted the corporate drive for profits. By privatizing and commodifying many public assets, they have widened the arena of profit taking. By turning a blind eye to corporate migration to low-wage labor markets, they have pressured wages to the level of the lowest competitive nation. And through removing socially responsible restrictions on corporate activity, they have allowed corporations to escape the costs of compliance, even at enormous social costs born by the majority.

The creation of public-private partnerships by lawmakers and enthusiastic administrators has transferred enterprise risks to the public while subsidizing private profit taking. Likewise, tax policies have shifted to remove nearly all burdens from corporations. Conversely, policymakers have weakly submitted to an extortionate con game of credits and infrastructure subsidies to keep old businesses or attract new plants, warehouses, or other private investors. Local, state and regional authorities are caught in a vicious competitive spiral of ever more generous bids to retain or attain a business. The game ends when the last competitor falls exhausted. And often the winner lives to regret the enormous costs of success.

And, of course, the government has embarked on a massive and unprecedented bailout of financial institutions and other major industries over the last two years, a bailout that brought these corporations from their knees to new heights of profitability. Likewise, the widely heralded stimulus program channeled vast sums to private firms – unlike the public works programs of the New Deal – further propping up profits with little impact upon employment.

These three processes – intense exploitation of labor, the dominant role of the financial sector and the subservience of policy to the interests of capital – combine to explain the explosive growth of that share of US national income flowing to corporate coffers. They also explain the cracking of the foundations of our economy over the last few years.

Conjuring Consensus

The explosive growth of after-tax profits as a share of national income over the last three decades was hardly a secret; it was not a closely held conspiratorial plot; nor were the events and policies that enabled this development out of sight of the public. Nonetheless, the corporate onslaught met feeble resistance.

Thanks to a corporate-friendly media, a compliant punditry, and a public diverted by entertainments besting the most elaborate Roman circus, the profit gouging agenda became the widely accepted road to general prosperity.

Sure, the early Reaganite slogan of "trickle down" growth – the notion that the success of the wealthy would seep down into the lower classes – was met with significant skepticism, even derision. But by the time of the Clinton administration, this idea was deeply embedded in mass consciousness. Captured by the more colorful metaphor that "a rising tide lifts all boats," the idea that the success of the most favored, the most advantaged, would bring a general rise of social good planted deep roots in the public psyche. For most US citizens, it became an obvious truth that corporate success – growth, increasing profits, and stock appreciation – led to employment and rising living standards. We might express this "truth" with the simple formula: corporate profits→growth→jobs→general welfare.

It was this thinking that bolstered the notion in the labor movement that workers should support "their" corporations – US-based corporations – against "foreign" corporations, despite the fact that the modern monopoly corporation knows no borders. Similarly, people came to believe that government should guarantee the health and profitability of their employers in order to secure and create jobs and, in due course, generate a rising standard of living for employees. In turn, if profitability is accepted as the sole, decisive factor in social progress, then employee concessions often become a necessary evil that smooths the road to further progress.

The triumph of the sovereignty of profits left little room for alternative thinking that might cast corporate profits in a different light. This identification of profits and general prosperity smothered considerations of public ownership and the operation of socially beneficial enterprises, redistributive policies, democratic governance of corporate activity, or even an open discussion of the biblical notion of a "fair profit."

The Chain is Broken

Despite the brutal economic facts of the last decade, few have shown the vision or courage to admit that the key links between profits and prosperity have been shattered. Economists acknowledge that the upturn after the recession of 2001 was decidedly a "jobless recovery," a recovery with little to offer the majority of working people other than more debt. Moreover, the profit recovery since the 2009 economic nadir has accompanied a stubborn, unmoving near-depression level of unemployment. The volcanic rise in profits (206% for the S&P 500 in the last quarter of 2009 against the same quarter in 2008) stands in sharp contrast to an equally dramatic change in the misery indices: declining incomes, greater inequality, rising poverty rates.

Even those deafened by the constant media babble or blinded by political flimflam should now see through the humbuggery of placing human advancement in the hands of profiteers. The old argument that corporate avarice, through the unbiased operation of the market, will benefit us all must surely be retired.

Economists concede that the next decade – called by some, a "lost decade" – promises, at best, a feeble recovery with likely persistent unemployment, greater impoverishment, a retreat of social securities, and ominous uncertainties for most outside of the ownership class. Thus, the first two decades of the twenty-first century will have featured a decided retreat from the prosperity promised by a profit-driven market economy. Many, if not most of the people will have experienced the better part of their adult life in the shadow of these tribulations. The hopeful notion that the next generation will do better is severely threatened, maybe shattered. Indeed, it is now apparent that few boats are lifted with a rising tide driven by profits.

The responsibility for exposing the failure of profit-centric economic policy falls squarely on the US left. While the US left is small and with a narrow circle of influence, it alone can begin to project and popularize an alternative economy that reduces or eliminates the decisive role of profits. It alone can offer a road apart from the path paved by corporate self-interest.

Some falsely counter pose organizing and agitating for a just, democratic alternative economy – to my mind, socialism – with political work on the margins of mainstream politics. For decades, this argument has surfaced time and again with every election cycle or legislative session. The struggle for socialism, the argument goes, is distant and difficult, while we – the left – might have an impact on the immediate issues and options at play in the two-party charade. This is, I believe, a dangerous brew of egomania and complacency. The reality is that the left has neither the bucks nor the bodies to shift the balance in the big show (nor is engagement welcome, except at the price of any left identity). And when left engagement does threaten to upset the political trajectory (for example, the Nader campaigns), these same "soft" left advocates roundly condemn the effort.

But in the end, it is possible to do both: one can, if one likes, participate energetically in the big game – primaries, legislative lobbies, etc. – with the hope of moving the ball incrementally forward. And one must fervently engage our foes on every level, whether it be in the neighborhood or around individual issues. At the same time, one can and must organize and agitate for an alternative to the profit-centric dogma. Without a determined effort to spark and fan the embers of extraordinary, fundamental change, we are doomed to see our future sink in the face of corporate power and greed.

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