Crisis of US Capitalism or the Crisis of the US Wage and Salaried Worker?

Myths About the 'End of US Capitalism'

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Progressive, leftist, radical and even a few 'Bearish' Wall Street pundits have been arguing for years about the coming collapse, decline or demise of US capitalism. No amount of continued growth of billionaires, millionaires and multimillionaires, record earnings by investment houses and double digit profit growth of major corporations can convince our doomsayers to re-think their prophecies. Nothing has discredited the US left more than its apocalyptic visions of the Big Fall, in the face of robust growth. Given the 'long term' or imprecise time frame and a ritualistic litany of profound structural weaknesses, their predictions are swallowed and regurgitated in the progressive media, websites and blogs where they are spread to a dubious public.

While the Left preaches 'the crisis and end' of US capitalism, most workers are complaining about the bigger take of their bosses, their intensified exploitation leading to rising productivity, their extended work day and work year because of cuts in vacation, sick time and holidays.

For too many years, the Left has premised an 'awakening' and presumable shift to the left by the working and middle classes on the '*Collapse of Capitalism*' (COC). In fact this argument has ignored several crucial issues, which I will discuss.

The COC has not taken place because business, banking and the government have shifted the entire burden of adapting US capitalism to the demands of the market onto the back of the wage and salaried workers. What is called the 'Crisis of Capitalism' is in reality the 'Crisis of Labor', by which I mean several things: 1) the relative and absolute decline in living standards — evident in the elimination of a) corporate-funded pension plans and the increase in worker payments to pension plans; b) the elimination or reduction in payments to health plans and the increased deductions from workers wages to pay for health, or the loss of any health coverage; c) the double-digit growth in the costs for energy, health, education and medicines which are not calculated in the consumer price index, used as a marker to estimate wage, social security and pension payments and d) the rising tide of *'give backs'* by sclerotic, over-paid (six-digit) trade union executives, which decrease living standards and increase profits for the corporations.

The deregulation of environmental, workplace and consumer protection agencies has led to health problems and loss of income for wageworkers but greater profits for the corporate beneficiaries.

The central thesis of this paper is that the correct focus for a radical revival is in the *intensification and extension of exploitation* of labor, the environment and consumers by corporate capital, which enables the US corporate economy to continue growing and overcoming any momentary down-turn. Predictions of US capital collapse are built on a specious set of arguments, which are easily turned on their head and which misdirect our attention from the real tasks of joining the struggle at the workplace, the environment and in the sites of consumption.

Myths About the 'End of US Capitalism'

Several arguments have been circulating for over a decade predicting the coming collapse of US capitalism. They include the following:

1. The US Budget Deficit — annual and cumulative
2. The US Balance of Trade Deficit
3. The speculative nature of the US economy
4. The weakness of the US dollar
5. The energy crisis — the high price of energy resources ('Big Oil')
6. The 'unsustainability' of the US model
7. The 'export' of skilled jobs overseas

Combined and separately, the proponents of the coming collapse have cited one or more of these arguments. While not dismissing these problems out of hand, they are not as serious as their proponents argue for a number of reasons.

While the prophets of the COC were breathlessly pointing to the 'ballooning budget deficits' leading to an economic implosion, the data for 2006 indicate a declining deficit from 3.2% of GDP predicted in February to 2.3% in July of this year, according to the US Office of Management and Budget. The reason is that tax revenues are projected to rise by 11% over the year — largely from owners of capital and high earners whose profits, salaries, rents and royalty payments extracted from labor are at record levels. In other words, the budget deficit is declining because the exploitation of labor is intensifying — earning greater wealth for the rich and, even with the big tax cuts, has led to increased tax revenues by 19%. (*Financial Times*, July 12, 2006 p.4) Individual income tax revenue has increased by 15% largely due to the profits accruing to small business owners who file tax in profits under the individual code.

While the deficit may increase after 2006, the point is that its financing via intensifying labor exploitation is the key issue, not some self-induced collapse.

In the meantime, the concentration and centralization of capital and the robust fees of investment banks proceed on their merry way: mergers and acquisitions of the first half of 2006 hit $1,930 billion dollars, a record number of billion-dollar deals. The driving force is the capacity of capitalists to cut labor costs, relocate to low wage areas, the high liquidity and low interest rates. The mergers and acquisitions all take place because there is no resistance by the 'trade unions' to any of management's plant closures and demands for increased productivity and higher profits. Buyouts are hardly likely to take place where workers have a role in plant decisions, resist intensified speed-ups and cutbacks in wages and benefits.

No doubt in the next year or two there will be a sharp rise of bankruptcies resulting from over-indebted firms engaged in speculative acquisitions which fail to turn sufficient returns to pay the corporate debt contracted in the buy-outs. This is likely to lead to another chorus of the imminent 'Collapse of Capitalism'… when in fact it will merely serve to enrich the bankruptcy billionaires who look to the process as an opportunity to invest in undervalued assets.

Budget deficits have traditionally been an argument raised by conservatives, especially bankers and the IMF because of their alleged tendency to stimulate inflation, and devaluate the currency, resulting in paying down debts with devalued currency. Keynesians and leftists on the other hand nave not opposed deficits, particularly if they finance employment and increase mass consumption. The joining of the Left with the conservatives in focusing on the deficit as a catastrophic event, is thus anomalous and out of keeping with the Left's concern with demand side economics. The real issue is not the deficit but the way the deficit is *structured* — based on tax cuts for the rich and spending on low employment, high tech military programs.

The use of deficit spending to stimulate growth has its limits, as the late 1930's (1936-1940 or prior to wartime deficit spending) demonstrated. However to think that reducing a deficit that has sustained US growth will benefit the Left or avoid an economic downturn (recession/depression) is simply *Voodoo Economics*. The question of the deficit is a political question in the first instance — what classes will finance the budget and what classes will benefit from state expenditures — more generally, what social configuration will exercise control over the budgetary process, taxes and expenditures.

Finally as long as the working and salaried classes are willing to suffer cuts in state social expenditures, the privatization of pension and health plans and the extra expenditures of energy and time to increase capitalist productivity, profit and growth, the deficit is manageable. The deficit will become a problem when the class struggle from below reverses the distribution of taxes and distribution of expenditures and lowers the rate of exploitation (‘productivity’).

Another of the discoveries of the Left — preceded by the monetarist pundits of the extreme right — is the balance of trade deficit.

For over a decade the US has had a ‘balance of trade’ deficit with no visible ill-effects despite yearly predictions from the apocalyptic left that ‘its coming’. There are many reasons for the failure of the prophecies. For one, the US dollar remains the principal currency of reserve, despite constant warnings of abandonment. As long as the US remains and is seen by governments and overseas investors as the safest and most stable bastion of capitalist security, the dollar and US Treasury Bonds will remain the currency of last resort. Secondly, the Asian countries with whom the US has the greatest trade deficit are highly dependent on sales to the US market and have demonstrated for over 15 years a willingness to buy and hold dollars in order to continue their dynamic export-based growth model. Despite the decline in the relative value of the US Dollar to the Euro, none of the Asian countries, least of all China, have dumped their dollars. On the contrary, they increased their holdings by over $300 billion US dollars net over the period of the three-year slide (2004-2006).

The rationale for this behavior can be understood if we look at the class dynamics of the Chinese growth model (CGM). The CGM is based on highly unequal control of the principal export sectors. Between local Chinese billionaires, Western and Japanese multi-nationals and overseas Chinese conglomerates, the export industries concentrate the vast proportion of wealth, capital and profits, resulting from the most savage exploitation and inequalities in the modern world. The result is that China’s growth and the perpetuation and expansion of the ruling classes depends first and foremost on securing *export* markets, since the domestic purchasing power of 800 million Chinese peasants, workers and unemployed is desperately weak. To change the CGM would require a social revolution, which focuses on vast shifts in political and social power necessary to collect progressive taxation from the non-paying billionaires and millionaires, the wholesale arrest of most of the corrupt leading public and private officials for extortion and pillage of public property and a redistribution of wealth, budget expenditures and property. The Chinese elite naturally prefers to stay with the export model and sit comfortable on an increasing pile of US dollars.

The US economy obviously has a strong and growing speculative sector that has produced substantial commodity and stock market volatility which could have and has had a negative — but not catastrophic — effect on US workers, retail investors and would-be pensioners. Speculation has spawned an entire class of high-end corporate kleptocrats from World Com and ENRON and beyond. However there are several problems with the ‘speculative roads to doomsday’ theorists. First of all the US economy is not all speculative. The US is still a major manufacturer and exporter of high tech products. It still leads in productivity gains for the last six years among the advanced capitalist countries. It still leads in innovations measured by the number of patents incorporated each year. Moreover there is not a hard and fast distinction between speculative and productive capital — they are intertwined, with capital moving between each sector depending on where the risk is lower and profits higher.

The real ‘crisis’ is not ‘speculator’ capital per se but how the movements of capital affect the working class or more precisely the workers’ social power and capacity to influence or control investments in order to lower the rates of exploitation and to secure job stability and security. Speculative activity has led to temporary ‘crises’ in a number of instances over the past 20 years without causing the ‘collapse of capitalism,’ in large part mainly prejudicing workers’ pension funds, retail investors and leading to bankruptcies and to layoffs. But labor has played no role as the millionaire trade union CEOs (almost all top trade union officials receive over $200,000 salaries plus perks and other ‘benefits’) have played no or minimal role in cushioning the effects on the workers.

Another variant of the COC theorizing focuses on the ‘weakness of the dollar’ usually thrown in with the ‘balance of trade deficit’. The dollar, over the past 20 years, has weakened and strengthened in accordance with the ups and downs of US interest rates, political events and the strengths and weaknesses of the US economy. The weak dollar has traditionally favored US exporters and produced trade surpluses or held down deficits. To call for a stronger dollar while criticizing the trade deficit is more voodoo economics, promoted by pot-shot critics. The weak dollar allows the US to penetrate export markets without affecting its capacity to import a whole host of low-priced consumer imports (clothes, shoes and electronics) from countries where US multinationals super-exploit local labor. The ‘weak dollar’ is a result of interest rates far below the historic levels, allowing US consumers to purchase homes, furnishings and other essential and non-essential goods on credit, which they otherwise could not afford. The ‘weak dollar’ forces US tourists overseas to pay more, it increases the cost of imports but it also makes US made goods more competitive in the domestic market, especially industries that do not depend on imported inputs. The real problem with the ‘weak dollar’ is that local capitalists have not invested in large-scale, long-term export industries or upgraded local plants to increase the US share of word markets: they have transferred capital returns to overseas investments in cheap low and high skill plants overseas to realize even higher profits, while lowering labor costs at home. In other words, the question is not the ‘weak dollar’ per se, but how the virtues of a weak dollar are not taken advantage by the capitalist class and the absence of any leftist or progressive strategy, which could envision an alternative.

The ‘energy crisis’ is generally seen in partial terms: the high prices charged by ‘Big Oil’, the lack of government investment in public transport and alternative non-fossil fuels, the influence of the automobile industry, the greed of the Arab sheiks, and so on. The balance of trade deficit is in part attributed to energy imports when the finger is not pointed at the exploitation of cheap labor in Asia.

Obviously energy prices have adversely affected household budgets and the depletion of fossil fuel reserves in the coming decades is quite likely. But to predict the 'collapse of capitalism' from energy cost increases is a real stretch of unimaginative minds. First, over half of petrol earning in the Middle East, Africa and most of Latin America are recycled to US or European banks, leading to greater liquidity (for local lending) and greater profits. Secondly, most petrol and gas foreign exchange reserves are held in US Dollars or Euros in US or European banks. Most of the marketing and retail sales of the oil (which is the most lucrative part of the oil industry) is through European or US companies. In other words, the 'balance of trade deficit' is countered by the positive balances (or inflows) of recycled profits to the US and EU. The real problem is the class problem: How are the prices determined and profits from oil production distributed? Supply and demand is only part of the story — as is the potential of administered prices based on government priorities, oil company investment policies and oil–producing state power configurations. In Venezuela, oil prices are a fraction of world market prices; profits of overseas sales are re-invested in social programs for the poor, and prices of overseas sales are adjusted to buyer country and poor peoples' needs. In Iran, the government is investing in alternative sources of energy (nuclear). In other words if we see the oil crisis as a political/class issue instead of a precipitant to a 'collapse of capitalism' we can begin to pursue strategies to lower the costs of energy to consumers and to invest in alternative sources of energy.

The 'un-sustainability of US capitalism' adds up all of the above arguments in favor of the 'collapsist' theorizing. Apart from underplaying the potentialities of new technologies and the possibility of social-political action, in sustaining capitalism for the near to middle future, it ignores the key political factor: All the factors cited as undermining 'sustainability' are premised on one factor — that the current configuration of socio-political power is forever sustainable. In other words the current capitalist ruling class can sustain and/or expand the current budgetary injustices, that US capital can successfully count on the Asian export elites (who recycle US dollars) to rule unhindered by super-exploitation, that the Middle East ruling rentiers will not be affected by the popular resistance to Western wars and Israeli ethnocide.

In other words the prophets of the 'collapse of capitalism' assume the 'self-destruction' of capitalism by over-estimating the economic weakness of the system and by under-estimating the degree to which the system depends on the subordination and exploitation of the US (and EU) working classes and the billions of super-exploited workers and peasants in Asia, Latin America and Africa.

US Capitalism in Crisis?

Capitalism, especially US capitalism, will not collapse because it causes harm to the majority of Americans — in fact the stock valuations rise with massive lay-offs and salary and benefit reductions. Nor will it decline by academic fiat deduced from general theory; nor will it inevitably decline because knowledgeable historians point to previous 'empires'. Capitalism or any other mode of production can survive numerous 'crises' unless a new class is able to overthrow it and replace it with another, presumably socialist system. In the meantime, in the present period neither the internal mechanisms of capitalism are in disrepair nor are the supporting cast of workers, consumers, taxpayers showing any signs of rebellion, let along organization.

The Facts Against the COC Theory

"Currently (July 2006) US companies remain on track to achieve the longest ever stretch of double digit profit growth" reads the *Financial Times*. (July 5, 2006) For 12 consecutive quarters profits at US companies have grown by at least 10%. The projection is for this profit rate to continue through 2007. Profits are what sustain, not collapse, capital. Double-digit profits over several years are not indicators of declining capitalism. What it does strongly suggest is that the corporate 'slash and burn' policies toward worker pay and benefits turns up record profit runs. It means that impotent and ineffectual trade union bureaucrats by facilitating 'give backs' have established a pattern of exploitation, which consolidates high returns for capital.

Far from a world of collapsing capitalism, recent history has witnessed a virulent growth of capitalist billionaires and millionaires particularly in the regions of commodity booms and high growth rates. Between 2004 and 2005, the number of millionaires (including billionaires) in Africa increased by nearly 12%, in the Middle East and Latin America by nearly 10% and Asia-Pacific by 7%. (*FT*, June 21, 2006) There are now 8.7 million millionaires in the capitalist system, an increase of 6.5% since 2004. The super rich are becoming richer with their total assets rising 8.5% in 2005 to an estimated $33 Trillion USD. (*FT*, June 21, 2006) Over 80% of these million-billionaires are from North America, Europe and Asia. Their rising wealth is the result of capitalist growth — based on rising rates of exploitation of labor, raw materials and the environment.

The inequalities in pay between the US capitalist ruling class and workers increased 4 fold between 1990 and 2004. In 1990 the average CEO pay at 367 big corporations was 100 times that of a worker; by 2004 the ratio was approximately 430 times. It is abundantly clear that key problem of capitalism is its increasing inequality resulting from heightened exploitation — not its 'imminent collapse' or 'decline'.

If speculation is leading to the eventual collapse of the US economy, it is difficult to understand the enormous and sustained number of record-setting transactions mainly consummated and funded by US investment banks (IB). Between May 2005 to May 2006, all five of the top five financial advisers engaged in mergers and acquisitions were US-based (Goldman Sachs, JP Morgan, Citigoup, Morgan Stanley and Merrill Lynch), the same IB that predominated in 2004-2005. A similar pattern of increasing US financial dominance is evident from examining the top ten investment banks in relations to global debt capital markets and global equity markets. While some refer to this type of economic activity as 'casino capitalism' they forget that the House never or rarely loses, it's the players, not the banks that lose. What this means is that as the world's banker, US finance capital is in a position to skim off lucrative fees throughout the world, highly parasitical in one sense, but hardly indicative of a coming collapse.

The point that needs emphasizing is that the dynamic expansion of the US financial sector is not a sign of decline but of a highly effective form of direct and indirect exploitation. For example, multi-national corporations frequently consult the banks on strategies for acquisitions, mergers and sell-offs. The banks advise cuts in labor costs to make the firm more profitable and raise stock valuations; then the banks arrange loans for finance the transaction, leading to indebtedness and subsequent cuts in wages and benefits. The banks up front collect hundreds of millions of dollars in fees for their advice and 'deal making' — putting pressure on the corporations to squeeze labor to pay the dealmakers. The *key issue* is not whether financial capital is 'viable' or 'sustainable' but what are the capital labor relations or more precisely the increased rates of exploitation, which allow the transaction to take place.

Luxury goods industries are booming as profits of the ruling classes of the five continents are expanding. In the US alone, sales of luxury goods enjoy a compound annual growth of 12%. (*FT* June 5, 2006 p.3) In contrast, the numbers of workers covered by company-financed health plans and pensions declined by the same percentage or greater every year. Inequality is the great motor force of capitalist accumulation — a clear consequence of rising profits based on greater exploitation.

Rising profits are clearly a sign that capitalism is expanding, not declining and that consolidation and not collapse is the defining reality. The conservative financial press has it right — not the Leftist doomsday pundits. "The rise and rise of US corporate profits" reads the *FT* editorial (June 10, 2006 p.6). US capitalism is experiencing a "historically unprecedented share of profits as a proportion of US gross domestic product . . .from 7% of GDP . . . in mid 2001 to 12.2% at the start of this year (Jan 2006)." (*FT* June 10, 2006) In direct contrast and a direct cause of rising profits, "the median US household income is 3 percent lower in 2006 than in 2000, according to the US census bureau." (ibid)

Profits have climbed by 123% over the past 5 years, jumping from $714.5 billion to $1.6 trillion… Moreover official data show that manufacturing profits have outstripped the rest of the economy — calling into question the notion that US industry is being 'hollowed out' or disappearing. Despite rising costs of raw materials — petroleum, copper, zinc, nickel and iron — profits rose because labor costs which represent 70% of corporate expenses is declining due to greater exploitation of male and female workers, legal and illegal immigrants and declining total wage and benefit packets.

Wall Street reports that Goldman, Sachs doubled its earnings in the second quarter of 2006 and forecasts for 2006 predict that new revenue for Wall Street banks will rise to $25 billion

— double that of 2002. (*FT*, June 5, 2006 p. 17) It is time to get off our hands waiting for the 'coming collapse (or decline) of capitalism.' The real issue is the declining living standards of US wage and salaried workers, the collapse of the welfare state, the extended work life and working hours, the job speed ups, the frequent firing and hiring of workers, the tension and insecurity of working families which accompany the unprecedented rates of revenue growth.

Conclusion

While ninety one percent of US private sector workers are unorganized and total subjects to the commands of their employers, while the nine percent of US private sector workers organized into trade unions are led by six-digit salaried bureaucrats who specialize in 'giving back' to employers workers rights and remain as captives of the pro-business Democratic Party, there is no reason to expect any serious challenge to the status quo. As is likely to happen with a turn in the business cycle, the economy slows or even goes into recession and profit margins decrease, capitalism will simply turn the screw even tighter on working class and salaried workers' wages, impose more of the costs of recovery on their backs, pressure the Democrats and Republicans for greater Federal handouts, tax rebates and cuts in pursuit of recovery. Only if new social and political movements, leaders and activists stop pandering to the soothsayers of a coming 'Collapse of Capitalism' and a future 'systemic decline' and start engaging in a deeper and more profound analysis of the 'Dirty Secret' (Marx) and the source of 'Wealth of All Nations' (Adam Smith), in the *exploitation of labor* and the class struggle can a beginning be made toward denotating the foundations of capitalism and bringing about its collapse and replacement.

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