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# 21st Century Economic Depression?

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fighting the employers at present because a belief in the righteousness of their fight sustains the struggle.

But a growing belief in a libertarian socialist alternative to capitalism isn't going to happen as an automatic result of either worsening life circumstances or a higher level of struggle and resistance.

Despite the mass working class rebellion of the '30s/'40s era, the growth of support for some form of socialism was probably less than in the earlier era between 1900 and 1920 when many militant workers were won to the syndicalist vision of "workers managing the industries." The shift of the Communist Party to a "Popular Front" stance in 1935, for example, represented essentially a capitulation to liberalism and the Democratic Party.

Thus there is a role for an organized, visible libertarian socialist movement that can provide plausible answers and a plausible vision of a libertarian socialist alternative to capitalism and a path forward. Moreover, this movement has to figure out how to be an active part of the mass organizations and struggles that do develop.<sup>6</sup>

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<sup>6</sup> Charlie Post provides a useful overview of the various radical theories of crisis: <http://www.marxsite.com/Charles%20PostA%20crisis%20theory.html>.

American capitalism faces multiple worsening crises. Vast unemployment, huge numbers of home foreclosures, and cuts to public services are symptomatic of an economic system in crisis. The role of the USA as global cop to protect corporate exploitation of labor and resources throughout the world creates human casualties — as in the endless war in Afghanistan — and also shifts resources away from social services that would benefit the working class population. Capitalism profits off the domination and exploitation of labor, but also from plunder of the earth's resources and shifting costs onto others through pollution. The threat posed by climate change is a clear and present danger and evidence that capitalism is not ecologically sustainable.

The present economic crisis does not give any sign of ending any time soon. Huge numbers of people have been out of work now for record lengths of time. There are six unemployed for every job opening. The real unemployment rate is about 17 percent and 25 percent in African-American communities. More houses continue to fall into foreclosure. 140 banks collapsed last year and 110 so far this year. The FDIC has another 775 banks on its endangered list. Although the big banks sit on a cash hoard of \$1 trillion, the IMF estimates their bad assets at \$2 trillion.<sup>1</sup> Lending to small to medium-sized businesses has dried up.

Radical economists usually distinguish two kinds of economic downturns. First, there are the recessions that are part of the normal business cycle. And then there are less frequent "structural" crises that reflect more deep-seated problems. The present epic recession seems to be a severe structural crisis.

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<sup>1</sup> Jack Rasmus, "An Economic Crisis Balance Sheet", Z, July 2010 (<http://www.zcommunications.org/contents/170703>)

## 1. The Post-World War 2 Boom and the Crisis of the '70s

To understand the reasons for the present economic crisis, it's helpful to examine the previous "structural" crisis in the '70s.

During the long economic boom after World War 2, there existed a set of accommodations between labor and capital that tended to bolster the bargaining power of workers. This included widespread collective bargaining (outside the South), "pattern" bargaining throughout industries, and various government programs and policies that go back to the '30s/'40s era — legal minimum wages, time and a half for overtime, Social Security, Aid to Families with Dependent Children, unemployment insurance, and other programs.

These accommodations only came to exist because of a massive working class rebellion in the '30s and '40s, from the first sit-down strike at Hormel in 1933, to city-wide general strikes in 1934, to the more than 500 occupations of workplaces after the successful sitdown strike at General Motors in Flint, Michigan in 1936, and continuing during World War 2 with participation of millions of workers in wildcat strikes...in defiance of the war-time "no strike" pledge of union leaders. This mass rebellion greatly increased working class social power and shifted the balance of power in society. The capitalist elite were forced to make major accommodations, through concessions to unions on the job and through various changes to laws and new state programs.

Capitalists were under pressure during the '30s/'40s era in other ways. Anti-capitalist revolutions in Russia and China and the creation of the world Communist movement posed a challenge to the very existence of the system. The era from World War 1 to the 1940s was an era of revolution, war and social upheaval which posed a serious threat to capitalism itself. The

high-end professionals steer the ship, tends to reinforce a feeling of powerlessness and encourages a fatalistic acceptance of what is. When people do not see much real solidarity in practice by working class people, they will tend to believe "You're on your own" — a lesson that the system tends to drum into us every day.

On the other hand, in periods when strikes and mass protest become more common, this heightened resistance can also lead to more social power to bend the will of employers and the government. This is especially true when workers develop forms of organization and struggle that they control. As working class social power increases through higher levels of solidarity and participation in struggle, this will tend to change the prevailing mindset among many working people because people will learn from their experiences and be more open to the idea they can change things. This is especially so if they work out forms of organization and struggle where the rank and file are in control. Controlling your own organizations can encourage people in the belief that maybe working people can control the society.

Mass organizations also provide a venue where revolutionaries who have a more ambitious vision of social change can connect to the discontent and aspirations of ordinary people. Thus a strategy of developing mass organizations and struggles "self-managed" by working people is a "bridge" towards a libertarian socialist transformation of society.

To be able to mount an effective counter-attack against the employers in the current crisis and fight the elite's drive for greater austerity, large scale mass participation and mass struggles are necessary.

An important part of greater working class social power is a growing critique of capitalism and belief in a viable alternative. To the extent there is a growing belief in a self-managed socialism that working people can build to replace capitalism, this will tend to bolster the confidence of working people in

to the favor of the working class through a massive level of direct struggle and large-scale participation.

#### 4. The Crisis of the Working Class

Working people face the dire circumstances of high unemployment, precarious income, and attacks on social services at a time when the level of collective self-organization and collective struggle by the working class is at low ebb. Many of the organizations that do exist — trade unions and non-profit community organizations — tend to act as “service agencies” with decision-making authority concentrated into hierarchies of paid leaders, executives and professional staff. Even when their members or constituents are mobilized, decisions are often controlled by the staff bureaucracy, not the rank and file. No matter how often members are encouraged to chant “The workers are the union,” it will ring hollow if workers don’t make the decisions.

The virtual disappearance of strikes since the ‘70s is a symptom of the problem. The strike is a fundamental way in which workers exercise some social power by bringing production to a halt.

The present crisis in the working class is itself the result of a protracted process that goes back decades, to events in the ‘30s and ‘40s that led to the consolidation of the conservative business union bureaucracy, for example. And this crisis is not likely to be overcome except through a protracted process of struggles, organizing, popular education and change in the mindset of increasing numbers of people.

When there is a low level of resistance, strikes, mass protest and only sporadic mass participation here and there, this will tend to reinforce the sense among working class people that “You can’t fight city hall”. The role of workers in the economy, where we are subject to a regime at work where bosses and

’30s had discredited the *laissez faire* brand of capitalism in the USA and growth of socialist ideas within the working classes (especially in Europe) all tended to put the capitalist elite on the defensive.

Throughout the post-World War 2 boom capitalists were making high profits and re-invested in new equipment and work organization which increased labor productivity. But throughout that era workers had sufficient bargaining power to ensure that their wages rose with productivity.

The bargaining position of the working class in the post-World War 2 years was based on a set of institutionalized arrangements — collective bargaining, various laws and government programs, and so. At the same time, however, another process was going on in the years after World War 2 that would ultimately make the working class vulnerable to an employer counter-attack.

The real social power of the working class derives from the willingness of people to take action and support each other. The ability to shut down the economy is where the ultimate power of workers lies. The large-scale strikes and workplace occupations of the ‘30s, and the growing sense of confidence of working people in taking these kinds of action, created the working class social power of that era.

But in the post-World War 2 years the labor movement became politically more conservative. The labor officials sought “partnerships” with the corporate elite and accepted the imperialist role of the American federal state in the world. The union bureaucracy had solidified its hold, and the unions worked as “service agencies” that tended to demobilize the membership. Levels of strikes and other struggles were higher than now but much lower than in the ‘30s.

The relatively low level of struggle and participation in struggle, and the timid, bureaucratic character of the labor organizations, in fact reflected growing weakness...what I call the crisis of the working class (more on this below). The

capitalists began their new offensive in the '70s precisely because this weakness made the working class vulnerable to a capitalist class offensive that would shift the balance of forces in society to their favor.

In the '60s, pressure on capitalist profits came from three sources: 1. The institutionalized accommodations to the working class in the post-World War 2 era, 2. Increasing levels of competition between capitalists in North America, Europe, Japan and newly industrializing countries like Taiwan and South Korea, and 3. Further accommodations to popular pressure from the upturn in struggles in the '60s.

Once the American capitalists began to encounter increasing competition on the world market in the '70s, the result was a decline in capitalist profits.

Some Marxists have argued that a “profits squeeze” can't explain the profits crisis of the '70s because bargaining power tends to concentrate in particular sectors where there are strong unions, pockets of militancy, or strong growth of employment.<sup>2</sup> There is an element of truth to this. Working class militancy in the '60s and early '70s can't explain the overall drop in profits in the '70s because it was too episodic and limited, far below the level of the '30s/'40s working class rebellion.

Why did the “War on Poverty” happen? Why was there an increase in social welfare spending in the early '70s for Medicaid and AFDC? Why were OSHA and the Mine Safety and Health Act and the Clean Water Act passed?

We can't explain these things without looking at the upsurge in social movements in the '60s...the black freedom struggle, ghetto rebellions, the emergence of the women's, gay, and environmental movements, and also some significant areas of worker militancy...such as the national wildcat strikes in the early '70s in trucking, railways and the post office.

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<sup>2</sup> See <http://www.marxsite.com/Charles%20PostA%20crisis%20theory.html>

class bargaining power.<sup>5</sup>) Thus the present severe recession is a crisis that emerges out of the features of the “neo-liberal” or “new laissez faire” era in capitalism since the '70s.

### 3. Libertarian Socialists and the Crisis

As happened in the '30s depression, the economic crisis will tend to discredit capitalism — especially the “free market” neo-liberal variety — in the eyes of many people. Pundits have long heralded American capitalism as the system that provides “prosperity.” Now it can't deliver. Now we face severe austerity: disappearing jobs, worsening working conditions, and sharp cuts to government supports. These changes are going to discredit the system and provide a motivation to increased struggle by working people.

This situation will provide us an opportunity for anti-capitalist popular education. People will be more open to hearing about a libertarian socialist alternative to the present system.

Shrinking state budgets can also generate internal conflict in the working class as people fight over scraps. “Immigrants take our jobs” is a complaint that leads to further division, as immigrants are scapegoated for problems not of their making. These kinds of internal divisions are a danger in the present period.

There are those on the Left now who talk about a “new New Deal”, which they envision will come about through coalitions of bureaucratic business unions, the bureaucratic 501-c-3 non-profits and liberal Democratic party politicians. This is unrealistic because the balance of forces in society can only be shifted

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<sup>5</sup> My “class power” analysis here owes a lot to David Kotz, “Marxist Crisis Theory and the Severity of the Current Economic Crisis”, December 2009 ([http://people.umass.edu/dmkotz/Marxist\\_Cr\\_Th\\_09\\_12.pdf](http://people.umass.edu/dmkotz/Marxist_Cr_Th_09_12.pdf))



But the attack on working class income of the past 30 years does pose a danger for the system. If the aggressive class war of the plutocracy lowers purchasing power in the hands of the mass of the population, then they may face an over-capacity crisis, that is, a situation where they find themselves with capacity to produce far more than people have the ability to buy.

Until the 2007-2009 crash, an over-capacity or over-investment crisis was prevented during the neo-liberal era mainly due to two tendencies: asset bubbles and household debt. An asset bubble is an unsustainable increase in the paper value of an asset – such as stocks or houses – due to market speculation.

First, there was the dotcom stock bubble of the late '90s, with major speculative capital flows to companies with barely plausible business plans. This had a tendency to pump up employment in the late '90s, which led to rising wages for a few years. And then there was the housing bubble of 1997 to 2007. As the paper value of people's houses increased, people re-financed or took out home equity loans to help to sustain their consumer spending or pay necessary bills. About a third of the increase in consumer spending in the early 2000s was due to mortgage equity borrowing.<sup>4</sup>) Right-wing pundits like to talk about how people were “irresponsible” in their borrowing without looking at things like stagnant or declining wages and rising health care costs and rising personal bankruptcies due to medical bills.

The analysis that I've presented here proposes to explain structural economic crises by looking at moments where there is a shift in the balance of power between labor and capital, resulting in new institutions and policies and changes in working

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<sup>4</sup> “Austerity in the Face of Weakness”, interview with Doug Henwood (<http://www.zcommunications.org/austerity-in-the-face-of-weakness-by-doug-henwood>)

The wildcat strike in the post office won a 14 percent wage increase for postal workers...a concession extracted from the Nixon administration.

Moreover, the various accommodations to labor that came out of the '30s/'40s era did entail significant costs for the capitalists. In the post-World War 2 years taxes on business profits and on high incomes were at far higher rates than they are today. The legal minimum wage reached its all-time high in the late '60s. This helped bolster wages not only among the lowest paid workers but also among workers who make above minimum. Many employers want to keep a significant differential between their wage offering and the legal minimum. As the minimum wage increases, they are under pressure to also raise their wage.

## 2. The Plutocracy's Offensive

In the '70s the capitalist elite responded to their declining profits by funding think-tanks and elite commissions, hiring lobbyists, and buying politicians. A new program emerged whose purpose was to solve the bosses' profits crisis. The new program was justified by a return to “free market” capitalist ideology. An aggressive capitalist offensive sought to solve their problem in various ways:

- **Shift the tax burden.** From Reagan to G. W. Bush at the federal level, and at the state level as well, the capitalist elite have been able to reduce the taxes on their personal income, business income and on capitalist property.
- **Avoid and eliminate unions.** A billion dollar industry of anti-union consultants has come into existence to help companies avoid unionization. Aggressive action by managers has spawned a surge of Unfair Labor Practice complaints to the NLRB for people victimized for union

activity. Union density has shrunk from about 35 percent in the early '50s to only about 7 percent in the private sector. A feature of the '60s was a big increase in public sector unionism. Attacks on teachers unions right now are an example of how the anti-union offensive has moved into the public sector.

- **More employment insecurity.** The “lean production” regime that has emerged as the new form of Taylorism since the '80s includes a much higher use of contracting out, temps, part-timers and multi-tiered wage schemes, which all tend to reduce the leverage of workers.
- **Undermine the legal minimum wage.** Through their more active intervention in politics, the capitalist elite have been able to keep the legal minimum wage from rising with inflation. As a result the value of the minimum wage fell by 35 percent from 1969 to 1998. During this same period, the profits of the restaurant industry increased by 25 percent.
- **Move manufacturing to low-wage havens.** Since the late '80s, the capitalists have increasingly invested in new manufacturing capacity in a handful of third world countries, especially China but also including Mexico, Brazil, Malaysia, and the Indian subcontinent. The “free trade” pacts of the '90s were designed to create a pro-corporate regulatory regime to protect this vast investment. This also required a vast investment in information technology to manage the new global production chains.

What explains the onset of the employers' offensive in the '70s/'80s period? The drop in profits isn't the only explanation. If there were a massive working class movement of the sort that existed in the '30s, and major organizations working on

the basis of participation and member control, this would have given the working class a higher level of social power.

The failure of state socialism also contributed to the crisis in the working class. By the late '30s Leninism had become the dominant form of radical politics. From the '30s on many radicals had become apologists for Communist regimes where a bureaucratic class had replaced the capitalists as exploiters of labor. The more liberatory vision of revolutionary syndicalism, of “workers managing the industries,” had lost ground and become nearly invisible. Because of the continued existence of civil liberties and elections — so-called “democracy” in the industrialized capitalist countries, the capitalists used this as an argument for the superiority of their system over socialism, which they identified with the Communist regimes.

The bosses' offensive of the past 30 years has tended to undermine worker bargaining power, increase profits and shift more of the national income to the capitalists. Some Marxists argue that the present crisis is just an extension of the '70s crisis because the rate of growth of GDP in the neo-liberal era is no greater than in the '70s...about 3 percent per year.<sup>3</sup> However, according to David Harvey in *Enigma of Capital*, this has been the normal rate of growth of industrial capitalism since the Industrial Revolution. The higher growth rate of the post-World War 2 boom stands out as exceptional in the history of capitalism.

And why should a capitalist care about the system's overall growth rate? What the capitalist is interested in is his profit rate and his income. And the neo-liberal era did see a huge revival in corporate profits and a big shift of national income to the capitalist elite. From their point of view, it seemed to be a success. And elite circles do not show any inclination to change course.

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<sup>3</sup> For example, this piece by Loren Goldner: <http://home.earthlink.net/~lrgoldner/fitch.html>.