A note on the current capitalist crisis and low wages

Most of this book was written prior to the development of the economic downturn in the United States. It is going to press as layoffs, short hours, foreclosures, and a decline in production and services are escalating. The thesis put forward about technology and global capitalist restructuring, worldwide wage competition, and the prospects for class struggle is not dependent on any particular crisis or event. Nevertheless, it is important to discuss the relationship of the new phase of low-wage capitalism to an economic crisis of the system.

Low wages, while they are a crisis for the working class in its day-to-day existence, are not the cause of the crisis of the capitalist system. This crisis, which has been repeated over and over throughout the history of capitalism, is characterized by rising inventories of unsold goods, a collapse of production, a sharp rise in bankruptcies, mass layoffs, closing down of workplaces, and the calamitous growth of unemployment.

Crises are caused by the inherent laws of capitalism. As we explain in the book, capitalist production is also the process of capitalist exploitation of labor, whose purpose is to increase profits. Each capitalist grouping struggles to increase its profits in order to keep from being vanquished by its rivals and to expand its own corporate or financial domain. Capital can never operate outside the framework of competition, whether it is a small garment shop or a transnational microchip giant like Intel. This competition drives each capitalist to increase profits by increasing the productivity of labor—i.e., increasing the exploitation of the workers.

This cycle dictates that, during periods of capitalist expansion, the powers of production increase ever more rapidly while the powers of consumption of society expand only gradually. Sooner or later production outstrips consumption. Profit does not arrive in corporate bank accounts until sales take place. If commodities cannot be sold at a profit, inventories pile up, production stops, workers are laid off, and a crisis ensues. That is the crude dynamic of the capitalist crisis of overproduction.

It is not that there is too much production over and above the needs of the people. On the contrary, the unmet needs are monumental. The rise in poverty and near poverty, homelessness, and hunger worldwide is dramatic testimony to this. But distribution under capitalism does not take place on the basis of human need. It takes place on the basis of selling for a profit. Thus capitalism is unique in history in having growing poverty and want at the same time as growing unsold inventories of everything from food to housing.

What is the place of low-wage capitalism in this picture? High wages alone cannot abolish the crisis of capitalism. And low wages alone do not, by themselves, cause the crisis. No matter what, production under capitalism eventually outstrips consumption, causing an economic downturn and a crisis for the working class and the oppressed.

But the present phase of globalization and the worldwide wage competition engineered by the giant transnational corporations, together with the scientific-technological revolution, has severely aggravated the chronic crisis of capitalism and is making the downturn more acute and damaging. This is conditioned by the vast expansion of the low-wage reserve labor force available to capital in the wake of the collapse of the USSR and Eastern Europe and the opening of China to foreign investment.

The impact of these developments has been to drive down the wages of the working class. Whether it is offshoring jobs to Mexico, Thailand, or Romania, or the bosses just shifting labor from the Midwest to the "right-to-work" South, or the presence of millions of documented and undocumented immigrant workers subjected to extreme exploitation and low wages, capitalism has entered an era of worldwide wage competition.

During the earlier history of capitalism, workers had gained ground during capitalist expansions for the simple reason that the bosses were in great need of exploitable labor-power to fuel the expansion of production and profits. Jobs were easier to find in a boom because of what capitalist economists call a "tight labor market." Competition among workers diminished and wages rose as the bosses had to fill orders.

However, in the last period of economic recovery, from 2000 to 2004, which was also the beginning of a renewed expansion of globalized restructuring, jobs were still hard to find in the United States and wages declined. It was dubbed the "jobless recovery." This was not just rhetorical exaggeration. The economy actually lost jobs during the first four years of economic expansion—an unprecedented development in U.S. capitalist history.

Of course, an underlying factor was the increasing productivity of labor. Workers produced more in less time. Job creation thus went slowly. Manufacturing went up but manufacturing employment went down.

But the other side of this is the worldwide wage competition that was promoted without pause by the transnational corporations during the recovery. The workers were under siege, threatened by offshoring, outsourcing, and a general increase in the reserve army of labor despite the expansion. To a large number of workers the "boom" felt more like a bust.

Even during the capitalist recovery, wages continued to decline. Depressed wages accentuated the gap between production and consumption and intensified the fundamental contradiction of capitalism.

How did the U.S. financial managers deal with this situation? Alan Greenspan, head of the Federal Reserve System, and the moneyed lords of Wall Street dealt with it by pouring money into the economy in the form of credit. Much of that money wound up in the housing boom, which was stimulated by a wave of fraudulent lending practices. Another large portion was directed at pushing consumer credit on the workers and the middle class in order to sustain consumption and keep production going. Finally, a large portion of the available capital went straight to pure, parasitic financial speculation schemes.

The doctrine of the capitalist economists is that consumers were carrying the economy. In fact, it was hundreds of billions of dollars of working-class and middle-class debt that kept the economy afloat and production and services going. One would have to live in Never-Never-Land not to notice that while the corporations were ramping up production, pushing the sales of everything from homes to iPods, they were simultaneously destroying the wages of the workers. What temporarily bridged the gap between declining wages and expanding production were credit card debt, mortgage debt, auto loan debt, and general personal borrowing in the hundreds of billions of dollars by workers trying to get by. This gap can no longer be bridged and the mechanism of capitalist crisis has taken over the economy.

The new international division of labor pits workers all around the world against each other in a race to the bottom. It depresses the wages of the working class in imperialist countries and expands the sweatshop, superexploitation of the workers in low-wage countries. It makes each capitalist recovery more difficult and undermines the historic advantages accruing to the workers in a capitalist upturn. All this is aggravating the general crisis of capitalism. High technology and low-wage capitalism on a world scale are accelerating the crisis of overproduction and laying the basis for a massive counter-attack by the working class.