Postscript: the crisis within the crisis

As this book goes to press (October 2008), the Congress, at the behest of Secretary of the Treasury Henry Paulson and Federal Reserve System Chair Ben Bernanke, has voted to give the banks more than $1 trillion in bailout money. The goal is to reimburse the bankers with social funds to make up for the bad debts they have on their books. These bad debts arise out of their attempt to swindle the workers through high-pressure, deceptive mortgage lending, usurious credit card loans, student loans, auto loans, and other loans that were bound to become unpayable.

The interest, fees, and principal on these loans constitute claims on the future wages of the workers and on the incomes of the middle class. These claims on future wages really amount to a raid on the shrinking consumption funds of the increasingly hard-pressed multinational working class. Most affected are women, African-American, Latina/o, and other oppressed workers and their families. The people are now being told they must pay the bill for the capitalists' orgy of speculation on mortgage-backed securities, other packaged loans, and so-called "exotic" financial instruments.

In addition to being exploited on the job and working for low wages, the workers are besieged in their personal lives on all sides by mortgage bankers, credit card companies, and other financial loan sharks. Millions have been sinking deeper into debt. Struggling to pay bills to keep from going under has become a way of life.

In the age of low-wage capitalism, this bloated financial edifice, built largely upon working-class debt, was bound to come crashing down.

The pretext behind the government bailout of the banks—really a handout—is that it was necessary to keep the U.S. economy from plunging into deep recession. But while the whole world is in the grip of a capitalist economic contraction, one that has been aggravated by the financial crisis, it arose independently of the turmoil in the financial markets.

Joblessness is rising and production is declining. The automatic capitalist process of downturn due to overproduction is in progress. In this latest crisis, overproduction reached its high point in the housing boom. Real estate developers, financed by the banks, sought to cash in on the speculative rise in housing prices. This led to a glut of housing on the market and a price collapse. Now homeowners are defaulting and an epidemic of foreclosures is sweeping the country. Tent cities are rising, from Seattle to San Diego; from Columbus, Ohio, to Athens, Georgia.

But it is not just housing that is in a state of overproduction. The auto industry is incurring record drops in sales, including the Big Three U.S. auto companies and such Japanese "powerhouses" as Toyota. Technology and other industries are also affected.

The corporate race for market share was fueled by the flow of cheap credit pumped into the economy by the Federal Reserve to keep consumption and production going. Now it has reached its limits and the government is trying to feed the banks in a futile attempt to ease the crisis.

No one knows where this contraction will end. The financial and economic crises are coming together as the ruling class tries to transfer the enormous cost onto the backs of the people.

As the crisis mounts there will be finger pointing by politicians and pundits alike, meant to assuage the anger of the masses. Official opinion is blaming the situation on greed and on a failure of regulation. To be sure, the bankers on Wall Street are voracious and greedy. And it is obvious that the destruction of regulatory restraint on finance capital opened the door wide to an escalation of gambling and speculation—to the "casino" economy.

This deregulation began with the Reagan administration, passed a milestone in the Clinton administration with the repeal of the Depression-era Glass-Steagall Act, and continued in the current Bush administration. Alan Greenspan, former head of the Federal Reserve System, presided over much of this deregulation during his reign of 19 years, from 1987 to 2006.

But to say that deregulation is the cause of capitalist excesses is to put the cart before the horse. It is the irrepressible capitalist lust for profit itself that leads to excesses. These excesses, such as the wild speculation in stocks and land deals that led up to the market crash of 1929, led to New Deal-era regulations restricting the financiers—but only after the speculative horse was out of the barn and millions had been ruined.

The gradually accumulating need of capital to engage in speculation inevitably results in the destruction of regulatory restraint. The system itself creates excess money capital and drives it more and more toward financial speculation and investment in paper wealth that has no relationship to underlying value.

The fact is that the bankers and the rich in general have vastly increased their fortunes in the last three decades. Income inequality in the U.S. has become notorious around the world. For example, in 1976 the top 1 percent of households received 8.9 percent of total income. In 2005 the top 1 percent received 21.8 percent—the highest percentage of total household income since 1928, the year before the stock market crashed. (Inequality.org)

From 2000 to 2007 the wealthiest 400 individuals in the U.S. got a $670-billion increase in their wealth and owned $1.5 trillion. While the top 1 percent of households earn more than the bottom 50 percent, they **own** more than 90 percent of the wealth. (Figures from Sen. Bernie Sanders' speech against the bailout.) These are truly staggering numbers and have profound implications for the profit system.

The working class produces all wealth, all value in society. The class struggle is really a struggle over which class will get a larger or smaller share in the social surplus created by labor. If the bosses get more, the workers get less, and vice versa. This is what makes class antagonisms irreconcilable.

Saying that there is growing income inequality in the U.S. is really a masked way of saying that there has been a broad redivision of the social surplus in favor of the capitalist class and to the detriment of the working class. The bosses and bankers have taken a larger and larger relative share and the working class has received a correspondingly smaller share.

However, the rate at which the owners of capital have accumulated this wealth exceeds the rate at which it can be reinvested profitably in productive capital. The scientific-technological revolution has made business more and more productive. The workers turn out more goods and services in less time with each new advance in technology.

Furthermore, the anarchy of production—that is, the unplanned and competitive nature of capitalist production—sends each capitalist grouping in search of greater and greater market share in pursuit of profit, to the point that they collectively produce a glut of commodities on the market and can no longer sell at a profit. This is a fundamental feature of capitalism and cannot be eliminated.

And after the rich spend billions on yachts, jets, mansions, servants, and every form of obscene luxury, they still have hundreds of billions in money capital left over. And, as Karl Marx showed, capital cannot rest, cannot remain idle. It seeks profit, and it seeks to maximize profit.

For example, the two largest industrial corporations in the United States—General Electric and General Motors—both have huge financial subdivisions. GE plows billions in profits into GE Capital, which invests tens of billions in loans all over the globe. GM's financial arm is GMAC. (In 2008, to raise capital, it sold 51 percent of GMAC to Cerberus, a private equity firm.) While GM has downsized its production and forced a large part of its workforce to take buyouts, the company has expanded its lending. The same goes for Ford, Chrysler, and other industrial giants. Instead of investing surplus capital in their own companies, they use it to make loans.

The collapse of the housing boom in August 2007, followed by turmoil in the capital markets, was only the latest in a series of capitalist crises.

During the Reagan administration, a severe recession in 1982 and 1983 sent unemployment above 11 percent. The capitalist class used the opportunity to begin the technological restructuring of industry, leading to millions of workers losing high-paying jobs. Reagan then stimulated the economy with $2 trillion in military spending, using Cold War propaganda to justify this huge handout to the military-industrial complex.

The economy expanded and the stock market boomed again—until it collapsed in October 1987 with record losses. Several trillion dollars of paper wealth were wiped out. An economic collapse was prevented only when Alan Greenspan, who was appointed head of the Federal Reserve in August 1987, poured tens of billions of dollars into the financial system to support the banks and the stock market on an emergency basis. This emergency rescue of the economy lasted only until 1991, when there was another recession.

However, the collapse of the USSR, also in 1991, stimulated a decade of capitalist expansion. Capital flooded into the former Soviet Union, Eastern Europe, India, and other places. The upturn in economic output accelerated in the mid 1990s with the development of the Internet and related technologies. From 1995 to 2000, venture capitalists, who are really fronts for the big banks, poured billions of dollars in speculative capital into technology companies. New companies were being created on a daily basis. The stock market boomed, creating the so-called "dot-com" bubble—until the overproduction of technology led to another collapse, beginning in March 2000. From that time until October 2002, $5 trillion in paper wealth was wiped out and an economic downturn developed simultaneously.

In the 110 years since the Spanish-American war of conquest, imperialist capitalism has brought an endless cycle of wars, recessions, depressions, and more wars. After each economic downturn, the system has had to resort to military expansion and financial manipulation to revive itself.

During the depression of the 1930s, Franklin D. Roosevelt tried to get the economy going with the Works Project Administration and by allowing workers' wages to rise. But by 1937-1938, after a brief uptick, there was a second depression. Only preparations for World War II and conquest in the Pacific and Europe revived the U.S. economy.

Throughout the entire Cold War period, U.S. capitalism was dependent on military spending to keep its economy going. The growth of the military-industrial complex, with its web of prime contractors and tens of thousands of subcontractors thriving on Pentagon appropriations for war and for arms exports, was the principal means of keeping the capitalist economy from sinking into stagnation and depression.

This history illustrates that since the turn of the twentieth century, capitalism, in order to sustain itself, has had to resort to artificial measures that bring disaster in their wake, in the form of war, depression or both.

The present economic crisis is descending upon the workers and the oppressed after they have already endured three decades of getting poorer; after they have been pushed to the wall by worldwide wage competition and technological attacks by the bosses.

What was a chronic erosion of the standard of living of the workers has taken a leap to become an acute crisis of unemployment, foreclosures, and national oppression. Thirty-five percent of the subprime mortgage loans were made to African Americans. Official Black unemployment has risen to more than 10 percent, as compared to 6 percent overall. The rise in Black unemployment is largely among women. Immigrant workers, especially Latina/os whose low-paid labor was the foundation of the construction boom, are now being rounded up, jailed, and deported—or they are leaving the country to escape persecution, because they cannot find jobs, or both.

There are two important points about the present economic crisis. First, it is not an aberration attributable to George W. Bush and his administration. This crisis is not simply the result of greed and deregulation. It is a dramatic and dangerous episode in the general crisis of capitalism, which is a century old. The capitalist system cannot function except by growing parasitism, militarism and oppression.

Wild speculation in pursuit of easy, rapid profits; war for oil profits in the Middle East; destruction of the environment in the interest of profit, and much more are all a natural outgrowth of capitalism.

The second and most important point to grasp in the present crisis is that the automatic processes of capitalism—that is, economic contraction, layoffs, unemployment, and war—remain on auto-pilot only so long as the multinational working class allows them to proceed without fighting back.

The politicians of both big-business parties, along with the media, are trying mightily to indoctrinate the workers in the way that credit works, in the way that capitalism works, both in order to exonerate the system of exploitation and so that the workers will feel overpowered by an impersonal machine that cannot be resisted—a machine that eats their jobs, their homes, and their very lives.

They are trying to shift the burden of the crisis onto the multinational working class, especially the African-American, Latina/o, Asian, and Native communities, the undocumented, the youth, the elderly, the disabled, and all who suffer from exploitation and oppression. The bosses do this on the assumption that the workers and the oppressed are the mere objects of history to be manipulated and, in the last resort, to be held in check by the power of the state.

But history, including U.S. history, is filled with examples of how the masses of people took destiny into their own hands, got organized, and became the subjects of history.

The object of this book is to make a contribution to this latter process.

–*October 3, 2008*