Facing the Economic Crisis

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The main news these days is the global economic crisis, an event ascribed by economists and most pundits alike to a "financial" meltdown caused by the irresponsibility of mainly, but not exclusively, U.S. lending institutions and consumers in offering — and accepting — "sub-prime" mortgages. The variable mortgages, initiated during the credit driven bubble of the 1990s, and welcomed by the Clinton administration but accelerated in the first six years of the new century, require home buyers to put no money down. Interest rates, which begin at 5%-9% are fated to rise within a few years, after which they could double, triple or more. In September 2008 we began to hear of massive foreclosures in almost all sections of the country as the first round of ballooning rates took effect, and the projections for 2008 and 2009 were for 2 million homes, six percent of the U.S. total to go into serious default. New home construction came to a screeching halt and commercial building suffered only slightly less pain.

In a few weeks of October, bloated with bad loans they themselves had sold, several major banks had failed, prompting the Fed to inject billions of dollars ostensibly to save them from bankruptcy and liquidation; others, like Merrill Lynch merged with more stable partners. But the historic Lehman Brothers was fated to fail when the Treasury Secretary and the Fed chair refused to extend bailout funds. Of course, goliaths like Citibank, Bear Sterns, the insurance giant AIG and a few others were deemed by the Treasury Secretary, former Goldman Sachs executive, Hank Paulson "too big" to be allowed to go under. By the end of the month the banking system, which held trillions of dollars in "bad" paper — unredeemable mortgage, business and credit card loans — was teetering on disaster, and the crisis was widely described as a "financial meltdown." Almost all leading investment banks disappeared and those that remained were converting to traditional commercial banks.

By October, mobilized by Paulson and backed by the Fed chair, Ben Bernanke, Congress quickly passed a massive $700-billion bailout to financial institutions without scrutinizing the fine print. For different reasons, only a significant band of arch-GOP conservatives and a few liberal Democrats were prepared to let the system collapse in the hopes that either the market would self correct — the Smithians — or, in the case of the progressives, force an extensive re-regulation that had been rescinded by the Carter administration and a Democratic Congress in 1978 and followed rigorously by Democratic and Republican administrations alike. We don't like to recall bad memories, but it is useful to remember that the Clinton administration initiated a program of corporate "self-regulation" that further weakened the system and the Bush regulators simply went on a long vacation in every field, most dramatically its neglect of all manner of investment and commercial transactions that has led to the infamous Madoff scandal.

The purpose of the bailout legislation was to permit the government to purchase vast quantities of the bad securities at, or near, nominal value, in effect, a major infusion of cash into the banking/insurance systems, without imposing stringent conditions on how they must spend the money. However, within weeks of President Bush's signing the bill into law, in the wake of the banks refusal to loosen consumer and business credit Paulson announced that this strategy was being replaced by a policy of purchasing bank shares, a direct infusion of cash in return for which the government would assume a measure of temporary partial ownership of banks that chose to apply for help, but would not, as the British government did, assume outright ownership and management of the system. Nor, as it turned out, did the Federal government closely supervise the use of the funds they had so generously given. Within weeks, complaints resounded throughout the economy that the banks were not loosening their lending policies but, instead, were holding the money close to their chests. Of course, business loans were tightened, but many would-be buyers of homes, cars and other durable goods, let alone borrowers of much needed cash to pay their bills were turned away on one pretext or another, most notably because their credit rating was not top of the line.

Economic Recession and the Jobs Crisis

Meanwhile, jobless rates began their steep ascent. The November 2008 figures showed that 513,000 jobs had been lost and applications for jobless benefits soared. In fact, for at least seven consecutive months the economy had shed jobs and the official unemployment rate crept up to more than 6.5% or 10 million. In reporting the spectacular job losses, even the New York Times ran a complimentary investigative story that argued the official figures were only a fraction of the extent of joblessness. According to the Times the number of discouraged job seekers who left the labour market, premature retirees who had no prospects but to accept inadequate pensions, and recent high school and college graduates who simply did not look for work, might swell the actual figure by four or five percent. At 11% actual unemployment, the number increases from 10 to about 13 million.

By early December, the National Bureau of Economic Research (NBER) reported that the economy had been in recession since December 2007, a year before they declared the recession "official." This revelation, which any sensible observer knew for at least a year, caused no leading politician or economist to ask why the information had taken so long to be determined and revealed. The conservative NBER explained that it often takes that long to check their calculations and come up with a definitive judgment. That they felt obliged to offer an explanation responded to the unspoken suspicion that the delay had something to do with the presidential election. Many believe that if the recession had been declared in the midst of an election season, Democratic Presidential candidate Barack Obama could have repaired to Hawaii for much more than a few days.

The NBER admission that the economy was in recession at least ten months before the financial meltdown, poked a huge hole in the initial view that excessive and wanton lending was at the core of the troubles and that the crisis was essentially financial in nature. Since 2002 the emerging recessionary signs were assiduously ignored by all virtually mainstream quarters. Fall 2006 witnessed the beginning of sagging economic growth, by the measure of aggregate Gross Domestic Product (GDP) which includes spurious categories within the service sector, falling housing prices that prompted a severe slowing of new housing starts and sales, and gradual increases in jobless applications.

Stagnation of manufacturing employment belied glowing reports of healthy increments in retail sales, on the premise that industrial production was no longer an important indicator of economic health. That throughout the first decade of the new century plants continued to close and reduce workforces, and not only in the Midwest but in the South as well, was not registered as signs of a slowdown in the midst of so-called “prosperity” were barely noticed in official circles. According to the conventional wisdom, the U.S. economy was “post-industrial” — well on the way to realizing the prognostication that ours was a service economy, and it was better to let others like the Chinese and Koreans to produce material goods because industrial production caused pollution, and were inconsistent with our collective aspiration to become a nation of what Bill Clinton’s Labor Secretary, Robert Reich had termed “symbolic analysts.” If the U.S. remained a major producer of food, armaments (for national security reasons), aircraft, heavy machinery such as machine tools, trucks and specialty steels, these were necessary to maintain our trade balances, but were not otherwise fundamental for insuring economic health. Our future lay in specializing in various forms of “immaterial” production.

So, we could afford to lose the remnants of the once huge garment and textile production industries and, in the future, the U.S. might not be the center of basic steel and car production. That foreign auto companies were locating production facilities in the Southeastern and border states was a testament to the idea that union labour, not corporate malfeasance, had produced the steep decline in manufacturing. Software, research, and the growth of higher education, both as the center of innovation and, in terms of employment and capital formation, a major industry, pharmaceuticals and other activities linked to the health care industry, and entertainment would surely fill the gap left by the demise of the “rust belt,” even if some regions of the South had suffered capital flight and become a major source of foreign investment, especially automobiles. And so what if the past thirty years were times of wage stagnation and decline, we had perfected a magnificent credit system (the main spur to consumption) that seemed to know no limits.

The bare truth is that what has been taken as economic expansion since the early 1970s was a symptom that the United States (and the UK and other European countries) have survived a genuine period of economic decline by means of a dramatic increase in the creation of huge amounts of fictitious capital. Fictitious capital is money that has no material basis, but is a speculation on future economic performance. Fictitious capital is an ordinary function of the credit system. Manufacturers borrow and lend money from each other and from banks to finance purchases of raw materials and labour on the promise of a near-term repayment when the value of their respective products were realized through sales, either within the production sector or through wholesale and retail purchases. But when these loans are exchanged by banks to businesses and non-commercial consumers on a long-term basis at exorbitant interest rates, and these loans become the basis of at least 2/3 of economic activity; when consumers or business owners, some of which are banks themselves, default on a large scale on payments, and the bubble bursts the whole system reverberates collapse.

Which is exactly what happened in Fall 2008. Small producers, retailers and building contractors routinely borrowed money from banks or other lending institutions with which to purchase raw materials, rent stores or industrial facilities and hire labour on the premise that consumers who purchased their goods, and not only homes would, in turn, receive loans from lending institutions and have income sufficient to pay their credit debt on time. For nearly two decades real estate boomed, prices of all commodities — food, clothing, homes and other durables — climbed. The accumulation of debt, which underlay the fictitious accumulation of capital on a wide scale, finally collapsed like a house of cards. As

Rick Wolff has argued the discrepancy between high levels of labour productivity — abetted not only by falling wages but also by labour-saving technological changes — has led to over accumulation. We have entered what Marx has termed a “realization” crisis — commodities cannot be sold at profit rates that are sufficient to stimulate further investment in plant, equipment, construction and the labour that underlies them and other affected industries. In order to alleviate their inventory glut business up and down the line is obliged to reduce prices, but this tactic may take years before capital investment on a grand scale resumes. But as long as deflation lingers new investment is bound to remain tepid. Then comes the period of layoffs, falling prices, to the point where in many cases the value of the mortgage loan, for instance, exceeds the exchange value of the home. Wallowing deep underwater this leads to foreclosures and a precipitous decline of housing starts and sales of used homes.

Another hidden fact: for thirty five years, the private sector has not produced a net increase in jobs. The growth of jobs in computer-mediated services and software production was counterbalanced by losses in manufacturing; mergers and acquisitions in the retail industry were barely matched by growth in fast food employment. In the past decade as the private sector failed to create new jobs but relied increasingly on contingent and temporary labour to meet their short-term labour requirements, the public sector — especially education and health care — became the main source of new, decent paying jobs. And as the Federal government abdicated responsibility for a variety of services, state and local bureaucracies added jobs.

Of course, besotted by the conventional neoliberal ideology that only the private sector is a job creator, economists and politicians conveniently ignored this fact and continued to insist that whatever the service, the private sector can do it better, and more efficiently. What net increases in private sector employment occurred were largely, if not exclusively, the result of contracts awarded by federal, state and local governments who adopted both the mantra and practice of privatizing public goods. Although industrial production held steady, factory jobs stagnated during the boom because computer-mediated production began to dominate key industries and, contrary to the hype that computer-based manufacturing creates more jobs than it destroys, the reverse is actually the case. And, eventually the technology sector, of which the bubble in software and communications (dot.com) companies were the leading edge, burst. As early as 2000, this sector began to experience mass layoffs, the effects of which were notices for about fifteen nano-seconds but quickly relegated to the back burner.

The Obama Administration and the Employment Challenge

Fast forward to U.S. President-elect Barack Obama’s post-election series of declarations about the crisis: where five prior administrations beginning with Carter relied on monetary policy to address economic problems(reduction of interest rates were their major tool) had strenuously avoided using the tool of fiscal stimulus to address economic grief. Repeating his campaign promise, the President-Elect said his administration would create (or save) 2.5 million jobs in his first term. Immediately, he pledged to find huge funds, presumably by issuing tens of billions in treasury bills (previously known as deficit financing) that the Chinese and some American investors would buy, to address the serious deterioration of America’s infrastructure — roads, bridges, urban streets, schools, public facilities, and the like. In a flash, state after state reported they had billions of dollars worth of projects “ready to go.” Given the depth of the crisis, we can expect an Obama administration to inject more substantial funds that the tiny $25-billion it originally pledged. Some jobs will be created, to be sure, but we should not expect miracles.

To begin with, Obama has warned that the 2.5 million job figure is a long term projection. How much money would it take to create 1 million jobs, about 7% of current unemployment? This is a tricky calculation. Would the program(s) be contracted out to private employers or would the government be the direct employer? If contracts are let at 30% gross profits, fewer jobs would be created. And what average wage would be offered? Would the government insist on “prevailing wages” as in the current construction industry? If the new jobs paid 50% above the poverty level, for example, they would match the current national average of about $15 an hour. The sum required to create a million jobs at prevailing wages, would range from $50 to $75-billion depending on whether the Obama administration replicated the New Deal practice of government as direct employer or continued the extant policy of privatization.

We have seen almost no discussion of the real problem of job composition, particularly the relation of skilled to unskilled labour in the stimulus package, issues of training and education and the role of unions in these programs. And, of course official policy remains tied to the illusion that technology is a net job creator. For example, lost in the rush to stimulate the economy by infrastructure development is a little known fact: unlike the Great Depression era when the federal government undertook road building as a major employment program on the basis largely, of manual labour, today’s road construction industry is highly mechanized. The main “forces” of construction are earth-moving machines, machine spreaders to lay down asphalt and concrete (which are produced, automatically, on trucks). Manual labour is still employed, but not nearly to the extent as the older production regime.

On the other hand, school, hospital, recreation facilities and other public buildings employ a variety of mostly craft labour: electricians, plumbers, carpenters, among other crafts and a fairly substantial corps of labourers to haul materials and perform finishing work. Facilities construction would do more for alleviating unemployment for the skilled, less for the semi- and unskilled. Then there is the question of costs: capital intensive activities are expensive, but not nearly as costly as human labour. So, unless the administration intends to build facilities as well as improve roads and such infrastructure as water treatment and waste disposal plants, the job payoff might not be as substantial as Obama believes.

Then there is the problem of contracting out these activities. During the Depression, the Works Projects Administration, a government agency, was the direct employer; today, in the era of privatization federal and state governments often contract to private companies to perform these tasks. This means that profits must be factored into all expenditures; like the privatized U.S. health care system, it is more expensive than socialized production and the job payoff is less. Moreover, under this contracting regime there are fewer controls over hiring practices; people of color tend to be shortchanged. In which case, the level of oversight would need to be much more stringent than any administration has been willing to implement. What is the warrant for believing that Clinton era appointees will be willing to reverse past practices, especially if the Obama administration wishes to reassure the private sector?

Obama promises to create millions of “green” jobs. Some of these might be included in infrastructure plans, if windmills, geothermal, solar and other alternative forms of energy are substituted for existing power stations that run on oil and coal. Capital could be raised to build or reconvert metalworking factories to produce these products; water treatment and waste disposal plants might be constructed and put on line to fulfill the “green” objective. But there will be the problem of the administration’s apparent fondness for nuclear energy as a “clean” source or its flirtation with chimerical “clean” coal projects. In our haste to applaud an apparent jobs program, we need to examine what kind and how many jobs green and infrastructural activities will produce.

The most promising sources for job creation on a large scale are in services, environmental maintenance, and the arts. One of the least understood aspects of the 1930s New Deal’s WPA (Works Progress Administration) was its many cultural, service and clean-up activities, all of which were labour-intensive. Youth were sent into the forests and fields to clean them up; rivers and streams were cleaned by manual labour. The federal government created a system of national parks and allocated funds for cities and towns to build playgrounds, swimming pools and sponsored a program of public housing construction. Artists, writers, theatre people, social service workers, health care workers and many other groups were put to work in local communities, some directly employed by the Feds and some employed by local governments and non-profit organizations using federal funds. Writers, musicians and artists were sent into schools to teach and to paint murals. There has been little or no discussion of this aspect of job-creation in recent times, although the Johnson and Nixon administrations did create and finance “public service” programs, some of which had training and education aspects.

A Left Challenge to the Obama Administration?

In his announcement of appointees to cabinet and key administrative posts dealing with the economy and with business regulation Obama revealed that, contrary to his campaign mantra of “change,” nearly all of these crucial appointees were recruited from the alumni of the Clinton administration. From National Economic Council chair, Lawrence Summers to his appointee to chair the Securities and Exchange Commission, Mary Shapiro, Obama has signaled to the financial sector that, despite brave talk about rigorous business regulation, they have little to worry about. None of his key appointees has a reputation that might inspire fear among those who have benefited from the long wave of business deregulation and bailout that began in 1976.

In mid-December, after a virtual unconditional giveaway to banks and insurance companies of $350-billion by the Bush administration, half of the $700-billion bail-out package remained to be disbursed. On December 19, President Bush announced a $17-billion bridge loan to the major auto corporations. The remaining $333-billion could be spent on assisting homeowners suffering foreclosure or its imminent threat and putting a substantial down payment on the job creation part of the stimulus program. But there is little hope that this scenario will come about unless organized labour and social movements insist on such emphasis. For this to happen, some of Obama’s most fervent supporters on the Left would have to cut the assumed six months honeymoon short. They would be required to actively intervene on a number of fronts:

1. a set of proposals for a labour-intensive jobs program to accompany infrastructure development; 2. demand the governments be the direct employer, and only absolutely necessary private contracts be let for specialized services; 3. demand that the new jobs pay a living wage at least equal to the national average; 4. demand creation of labour-intensive jobs in public services and the arts; 5. demand enactment of the Conyers Bill HR 676 providing medicare for all. Universalizing health care would create hundreds of thousands of new jobs; 6. implement the Green Jobs program by re-opening and retooling abandoned auto and parts plants as well as building new plants to produce solar panels, windmills, geo-thermal machinery, water treatment technology and waste disposal products. These should

be owned and operated by workers' cooperatives as well as letting contracts to existing manufacturers of these goods; and 7. demand rigorous oversight of employment programs to insure employment opportunities for blacks, Latinos women and the disabled.

Progressives have advanced hope that Obama will usher in a 'new' New Deal. But the New Deal of yesteryear was never intended to pull the United States out of the depression. While it did employ more than a million workers in government projects, even considering that these might have produced three times or 3 million jobs, as late as 1940, unemployment hovered at about 20% of the labour force. What the New Deal accomplished went well beyond its relatively modest economic impact; more important was its ideological and political force.

In contrast to Herbert Hoover and the first New Deal's focus on stimulating economic activity by pouring capital into business corporations, controlling prices and wages in order to foster profits and limiting its direct aid to the unemployed to feeding the hungry, the so-called "second" New Deal put money in the pockets of the jobless through public works and service programs, promised to save small farms from foreclosure through government purchases of crops and paying farmers to retire part of their growing capacity in a land bank. But it was the farmers themselves who, through direct action and mass organizing, sometimes prevented evictions, created cooperative enterprises to oppose the big processing corporations and, even before the depression became official, created their own political vehicles.

And, after the mass industrial strikes of 1933 and 1934 conducted without a legal framework for union recognition, in 1935 the National Labor Relations Act guaranteed workers the right to organize unions of their own choosing, established a procedure for official union recognition and collective bargaining, and outlawed company unions and competitive unionism within the same bargaining unit. In short, the second New Deal was a consequence of a popular upsurge, not only the brainchild of FDR and his advisors. It remains an open question as to whether the organizations at the base of the Obama administration will match, let alone exceed, the achievements of the New Deal. There is little or no prospect that, within the current framework of neoliberal, market capitalism, the deepening economic crisis can be significantly reversed. Will the Left urge direct action to address the crisis, open a dialogue about its capitalist roots and propose possible radical solutions? •

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