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The Global Economic Crisis: Bad and Worsening

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In a new article, economics professor Richard Wolff explains the current crisis in Marxian terms. It "emerged from the workings of the capitalist class structure. Capitalism's history displays repeated boom-bust cycles punctuated by bubbles. They range unpredictably from local, shallow and short to global, deep and long." Clearly we're now in one of the latter and potentially the worst ever.

Wolff states that recurring crises and chronic instability come with capitalism, and only "social change to a non-capitalist class structure" will bring relief and stability. He explains how we got here:

— since the mid-1970s, real wages haven't kept up with inflation;

— "computerization of production displaced workers;"

— production and service jobs (including high-paying ones) have been offshored to low-wage countries; and

— "capitalists end(ed) the historic (1820 – 1970) rise of US wages" in real terms.

It gets worse. They increased productivity through technology and pressuring workers – to work harder for less pay and fewer benefits. "In Marxian terms, the surpluses extracted by capitalist employers – the difference between the value added by labor and the value paid to the laborer – rose. In capitalist class structures, each capitalist is better off the more surplus is exploited from employees. The last 30 years realized capitalists' wildest dreams."

Marx indeed was right, and his reward has been to be unfairly maligned. He explained capitalism's destructive contradictions and condemned the "free market" as anarchic and ungovernable. It alienates the masses by preventing the creation of a humane society. It produces class struggle between "haves" and "have-nots," the bourgeoisie (capitalists) and proletariat (workers). It exploits the many so a few can profit.

He predicted what's clear today. Over time, competition produces a handful of winners in the form of powerful monopolies or oligopolies controlling nearly all production, commerce and finance. Exploitation increases. Successive crises erupt, and ultimately abused workers react – according to Marx with an inevitable socialist revolution because a system this inequitable can't endure, so it won't.

Wolff explains more in his incisive analysis and in discussion on-air with this writer. "Stagnant wages traumatized (workers and destabilized families) accustomed to rising consumption afforded by rising wages." As a result, more family members work, put in longer hours on their jobs, assumed unmanageable debt to keep spending, have exhausted its limits, are now defaulting on their obligations, and so are corporations in as much or greater trouble.

It's a familiar story. "Bust followed bubble followed boom, once again" – but this time it's a whopper. As Wolff explains:

"The key point (is) since the mid-1970s, US corporate boards of directors took three interconnected steps" that got us to today. "They effectively froze workers' real wages, (cut benefits), extracted much more surplus from their increasingly productive workers, and....distributed (it in) cumulatively unsustainable" ways. This type system is "fundamentally crisis prone" and unworkable.

Wolff proposes a socially responsible one that is. He wonders if policy debates today will "ignore or deny (the) class structural basis" of today's crisis. If so, are we condemned to keep repeating this boom and bust cycle "with all the personal, familial, political, economic and cultural losses they inflict" – and in the end see capitalism fail anyway as it will.

A Systemic Crisis That's Bad and Worsening

Exhibit A – On December 5, Market Watch.com headlined the bad news: "Payrolls plunge by stunning 533,000 in November." The alternate household survey showed a 673,000 decline. According to the Labor Department, it's the steepest job loss in 34 years, and even greater ones may be coming for an extended period as the systemic crisis worsens.

Only three other times in the past 58 years have payrolls shrunk by over 500,000 in a month. Since January, a reported 1.9 million jobs have been lost, but the real toll is far higher, and the worst is still ahead.

Dean Baker of the Center for Economic and Policy Research said the latest data brought the three-month job loss to 1,256,000, the largest three-month toll since the period ending February 1975 although losses in years like 1949 and 1958 were larger relative to the size of the labor force. Manufacturing and construction have been hardest and longest hit, but of late the service sector has been "imploding," according to research firm MKM chief economist Michael Darda. He added: "As the service sector goes, so goes the US economy."

Economist John Williams runs the "Shadow Government Statistics" web site and explains how government data are manipulated, corrupted and unreliable to make them look better than they are. Along with much more analysis, he reverse-engineers GDP, inflation and employment for more accurate readings and a truer picture of economic health.

According to the Bureau of Labor Statistics (BLS), the unemployment rate rose from 6.5% to 6.7%, and September and October job losses were revised sharply higher by 199,000. Over the past three months, payrolls have shrunk by an average of 419,000 per month compared to 82,000 a month early in the year. In addition, total hours worked fell 0.9% in November, the drop is 2% for the last three months for the sharpest three-month decline in any period since the data's 1964 inception, and the average workweek fell to a record-low 33.5 hours. In addition, so-called "underemployed" temporary and involuntary part-time workers hit a 12.5% rate, up sharply from 11.7% in October.

According to Moody's economist Ryan Sweet: "The labor market capsized in November." We're "seeing a very broad-based decline in payrolls" as all sectors were affected except education, health services and government. The crisis is clearly deepening – before large expected auto industry and supplier layoffs even with a Washington bailout.

The Labor Department report masks the true gravity of the jobs picture that Williams shows on his site. BLS calculates it by business and household surveys, produces a monthly employment report, and states in a section titled Reliability of the Estimates: "The confidence level for the monthly change in total employment is on the order of plus or minus 430,000 jobs."

The report plays other numbers games as well. In recent ones, more jobs are imputed for new firms than in the same months last year. A "birth/death model is also manipulated to color the picture brighter (at 143,000 for the September – November period compared to 117,000 for the same three months last year), anyone working an hour or more in the current period is considered employed, and interviewees aren't asked if they're unemployed.

Uncalculated are many people without jobs wanting work, many of whom are long-term unemployed who gave up after months of fruitless trying. Also omitted are part-time workers who prefer full-time employment. BLS plays a cynical numbers game and presents an unreliable employment picture. It's way more dismal than it reports so it hides it.

Williams corrects it by including what BLS leaves out, and through November reports unemployment at 16.5% or more than double the manipulated government data. In addition, he calculates the November job loss at around 873,000 or nearly two-thirds greater than the flawed BLS numbers.

He does the same thing with GDP, the real value of goods and services produced. When adjusted for his higher inflation calculation, it's lower than official reports. More inflation means higher prices, not increased output, but Washington tries to hide it. Williams' data showed a negative GDP reading in 2000, and it remained there except for briefly turning positive in early 2004. Through Q 3, he has it at over – 3% and falling, and at the rate it's happening, it should be considerably below that reading by Q 4 and way below official figures that barely acknowledge a deepening recession.

And it's happening at a time wages are declining, benefits are being lost, a record number of Americans use food stamps (31.5 million, up 17% from a year ago), homelessness and poverty are rising, and only a third of laid off workers are eligible for jobless benefits that even when gotten can't support a family.

The Latest Data Confirm the Grimmest Forecasts

Besides unemployment, it's all grim, worsening, and what JVB's chief economist William Sullivan calls "economic nuclear winter" with most reported numbers the worst in years or decades for – production, the service sector, retail sales, consumer spending, capital expenditures, housing, durable goods orders, construction, factory orders, virtually every economic report in an endless dismal stream all pointing precipitously down. Economist and business professor Peter Morici told the Wall Street Journal that "the threat of a widespread depression is now real and present."

The latest reported percentage of mortgage holder delinquencies is more proof. It hit a record 6.99%, according to the Mortgage Bankers Association (MBA). The number of mortgages somewhere in the foreclosure process also reached a new high as home prices and demand are falling and greater numbers of owners are being pressured given mounting job losses in a weakening economy. Subprime mortgage holders are in the most trouble with more than 20% of them (for the first time) seriously delinquent in Q 3.

The MBA also reported a record 1.35 million foreclosed homes in Q 3, or a 76% increase from the same 2007 period. MBA's chief economist Jay Brinkmann stated: "We have not gone into past recessions with the housing market as weak as it is now, so it is likely that a much higher percentage of delinquencies caused by job losses will go to foreclosure than we have seen in the past." The report is based on 45.5 million mortgages, about 85% of the total number of first mortgages nationwide.

The latest retailers report is also weak. It shows "a Crisis in All Aisles," according to the Washington Post, as "shoppers stow credit cards" and retailers posted their worst November sales in over 30 years. They were down 2.7% compared with the same month last year, the second consecutive negative month, according to the International Council of Shopping Centers.

A recent Citi Investment Research (CIR) analysis sees at least a 5% consumer spending decline during the holiday season due to tighter consumer credit. According to CIR economist Kimberly Greenberger, "The bottom line is that consumers are genuinely concerned about their personal financial health and they are cutting back voluntarily." A Consumer Reports survey also showed that more than half of shoppers plan to rely less on credit this Christmas.

Overall, the economy is contracting at the sharpest rate since the 1930s, and before it's over may surpass the worst of those Depression years no matter how manipulative the camouflage. We're in unchartered territory, conditions are very grave, and their affect on many millions will be hugely destructive.

The toll showed up in the latest Business Roundtable's quarterly CEO Economic Outlook Index. It took its biggest ever drop to 16.5. It stood at 78.8 in Q 3, and it's lowest ever previous reading was 49.3 in Q 1 2003. Anything below 50 indicates contraction.

Budget Crises Are Impacting Cities and States Nationwide

According to the Center on Budget and Policy Priorities, "states are facing a great fiscal crisis." At least 41 have shortfalls in their budgets for this and/or next year, and the numbers are huge. For FY 2009, it's around $77 billion and likely to rise as conditions worsen. Municipal governments are as bad or worse off at about $100 billion or more in the red. It impacts all services including essential ones for the needy, and their numbers will rise going forward.

California is often a bellwether for the nation and not a good sign for what's coming. On December 1, governor Schwarzenegger declared a fiscal emergency, cited a $28 billion shortfall, and compared the state's condition to an accident victim bleeding to death. He wants an austerity budget to deal with it at a time such a measure will worsen it. It's an ongoing state problem, now aggravated by the deepening crisis, and according to one report, unless huge budget cuts are passed, California may run out of money by February or March 2009.

All sorts of draconian measures are proposed with bipartisan support except that

Republicans want stiffer ones – cuts in education, health care, and help for the needy; regressive sales and other tax increases; less environmental protection; thousands of state employee layoffs; and tax breaks for business as “economic stimulus.”

In addition, for the second time since the Great Depression, California may pay vendors with IOUs. In a December 1 letter to legislative leaders, State Finance Director Mike Genest said the state “will begin delaying payments or pay in registered warrants in March” unless an $11.2 billion deficit is closed or reduced. After approving its budget less than three months ago, California is fast running out of money – and so are dozens of other states.

Schwarzenegger warned that warrants may have to be used as a promise to pay (with 5% interest based on state law) because credit markets are tight, and it’s getting too costly to borrow. Controller John Chiang said state cash reserves will decline to $882 million by February and will be a negative $1.9 billion by March. Tax collections have been hammered the result of the collapsing real estate market and the nation’s third highest unemployment rate at 8.2%. Chiang summed up the problem by stating: “We’re just barely hanging on right now” and need major help immediately.

State budget crises was the central theme of the December 2 National Governors Association meeting at which Obama was asked for federal aid to offset up to a $180 billion shortfall over the next two fiscal years. He offered help but made no promises beyond saying he’ll propose a massive stimulus package that he hopes to sign soon after taking office. “Make no mistake,” he said, “these are difficult times, and we’re going to have to make hard choices in the months ahead. I won’t stand here and tell you that you’ll like all the decisions I make. You probably won’t.”

Neither will auto workers as Congress and the Big Three conspire against them along with UAW boss Ron Gettelfinger who earlier sold them out. On December 5, The New York Times headlined: “Democrats Set to Offer Loans to Carmakers.” The leadership said they’ll “provide a short-term rescue plan” and expect to vote on it shortly in a special session.

AP reported that it will amount to about $15 billion in loans while The Times said details aren’t available “but senior congressional aides said that it would include billions of dollars in short-term loans,” enough to last until Obama takes office. After that, further aid will likely be in stages as a way to extort maximum rank and file concessions and signal what’s ahead for all working Americans – sacrifice, austerity, lower wages, fewer benefits, and the continued erosion of their living standards, now accelerating during the systemic crisis.

What’s good for General Motors, as they say, is bad for its workers, and here’s what they’ll face:

— plant closures as the industry significantly downsizes;

— tens of thousands of permanent layoffs;

— greatly reduced wages and benefits – well beyond what they earlier sacrificed; last year the UAW leadership sold out the membership by accepting a “transformational” agreement; it slashed wages in half to $14 an hour, established a two-tiered wage and benefit arrangement (for new and current workers), cut health benefits and pensions, and let the Big Three off the hook entirely for their retirees’ health care;

— a likely government trusteeship with power to revoke union contracts for huge new concessions; Gettelfinger signaled he's willing; the UAW leadership (and other union bosses) care more about their status, high pay, and special perks, not the protection of union jobs, their pay, and benefits;

— an accelerated dumping of higher-paid senior workers to be replaced by lower-paid new ones; and

— an overall hostile environment for powerless workers forced to give up generations of hard won gains, accept pitiful little, or get nothing at all.

Over the past five years, UAW ranks have shrunk from 305,000 to 139,000 through plant closures, buyouts and early retirements. General Motors now announced that it will close another 11 North American plants and eliminate staff in them. Ford and Chrysler have their own plans along with suppliers that will shrink in numbers and size.

The Threat of Future Deflation

Most economists see deflation (not disinflation) as more stubborn and harder to correct than inflation. It also may lead to depression. A textbook definition runs along the lines of falling prices, usually from a lack of money or credit, but it's also caused by less spending, either personal, government or by business in the form of investment. Serious side effects follow – rising unemployment and falling GDP (output) with the danger of a persistent downward spiral.

Ambrose Evans-Pritchard considers the prospect in his latest December 6 article titled: "Deflation virus is moving policy test beyond the 1930s extremes" (with a response showing) the frontiers of monetary policy being pushed to limits that may now test (the) viability of paper currencies and modern central banking."

Nations are hurtling toward zero interest rates "so what next if the credit markets (won't) thaw?" Think Japan's lost decade even though (so far) depression has been avoided.

But Japan is one country. Today's problem is global, so if depression is coming "we are all going down together." No deus ex machina will save the day, including from China that's very dependent on foreign markets.

Fed chairman Bernanke calls his solution a "technology....a printing press, that (can) produce as many US dollars as (we) wish at essentially no cost." Is he right or wrong? "The world's fate now hangs" on his judgment during a "far more serious (crisis) than the Great Depression," according to Michel Chossudovsky. All measures undertaken so far haven't worked, and in his judgment, "contribute to a further process of destabilization of the financial architecture."

Evans-Pritchard is also worried. "Once the killer (deflation) virus becomes lodged in the system, it leads to a self-reinforcing debt trap – the real burden of mortgages rises, year after year, house prices fall, year after year. The noose tightens until you choke. Subtly, it shifts wealth from workers to bondholders. It is a reactionary poison. Ultimately, it leads to civic revolt. Democracies do not tolerate such social upheaval for long. They change the rules."

Bernanke claims the Fed can "expand the menu of assets that it buys" and thus never run out of tools. It may or may not work but at what price. Perhaps short-term relief for much greater trouble ahead – either a deflationary or hyperinflationary collapse.

In late November, Nobel laureate Robert Mundell and others warned that without an immediate reversal of Fed and Treasury policies, America faces disaster ahead. Bernanke himself warned in a 2002 speech: “The best way to get out of trouble is not to get into it in the first place.” Nonetheless, he cheerled “Greenspan’s easy-money stupidities from 2003 – 2006, (then himself contributed to) debt debauchery.”

Evans-Prichard thinks his monetary blitzkrieg “greatly reduce(s) the likelihood of a catastrophe.” He also says: “History will judge.”

Henry Kaufman on the Root of Today’s Crisis and How It Will Change the Way America Does Business

Now age 81, Kaufman is a highly regarded economist once nicknamed “Dr. Doom” for his interest rate forecasts during the 1970s and early 1980s. He formerly was a Salomon Brothers managing director and executive committee member before heading his own firm, Henry Kaufman & Company. He recently addressed a group of international bankers on today’s crisis and followed up with a Wall Street Journal op-ed.

He explained that “There have been more than a dozen financial crises since the end of World War II. The aftermath of each was transitory, and markets rebounded rather quickly.” The current crisis is different, and at its root is decades of ballooning debt. Especially since 2000, nonfinancial debt outpaced nominal GDP growth by nearly $8 trillion, or more than double the 1990s gap.

While debt rose, savings shrank, but buying power stayed resilient through credit card availability, mortgage refinancings, and no shortage of willing lenders. From 1960 to 1990, nonfinancial debt grew at around 1.5 times nominal GDP growth while savings averaged about 9% yearly. From 1991 to 2000, debt outpaced GDP by 1.8 times and savings declined to 4.7%.

Since 2000, however, borrowing soared twice as fast as GDP, a housing bubble resulted, households got maxed out on credit, while savings shrunk to around 1.4% and more recently to zero. Kaufman believes that to regain our economic health, we have to kick our addiction to debt and start saving again.

He also cited what he calls the most profound long-term effect of the credit crisis – the radical financial industry concentration to a dominant 15 firms holding over half of the nation’s nonfinancial debt (held by households, nonfinancial companies and government). “These are the very firms that played a central role in creating debt on an unprecedented scale through a process of massive securitization via complex new credit instruments (and that) pushed for legal structures that made many aspects of the financial market opaque.”

Kaufman says these giants “will limit any chance for the US to move toward greater economic democracy” because they’re riddled with conflicts of interests from their multiple roles “in securities underwriting, in lending and investing, in the making of secondary markets, and in the management of other people’s money. Through their global reach, (they also) transmit financial contagion even more quickly (and) when the current crisis abates, the pricing power of these huge financial conglomerates will grow significantly, at the expense of borrowers and lenders.”

This crisis "will usher in profound and lasting structural, behavioral and regulatory changes," for better or worse, and he lists some important ones:

— "international portfolio diversification has been undermined;" it failed to weather the test of the current crisis;

— "risk modeling will lose popularity" – for options and other complex financial derivatives "that are useful for dynamic hedging under normal circumstances," but these don't exist now and won't going forward;

— "financial concentration will gain even greater momentum and influence;" this is the "most profound long-term consequence of the current credit crisis; in the years ahead, the influence of these financial conglomerates will be overwhelming;"

— "the end of an era of ballooning nonfinancial debt" that's been a key US economic growth driver for decades; this trend will continue for some time;

— "US government borrowing will continue to swell, at least for a few years;"

— "Americans will begin to save again;" and

— "regulatory reform of financial markets (is coming and) will carry high stakes;" it will become a "major political contest" between "embedded interests."

Down but not out is his message, so when the current crisis ends, it will be business as usual for larger more dominant financial giants. Given the gravity of things, the prospect for global depression and near certainty that the crisis will be protracted and deep, his outlook will unfold in very troubled waters and won't at all serve the public interest.

Today's problem is survival at a time it's daunting for millions and impossible for too many others, while lawmakers, the Treasury and Fed give trillions to banksters who caused the whole mess and billions more to the auto giants and other troubled industries and companies while public America goes begging.

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