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Wages, It all gets down to wages.

By Mike Whitney
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A strong economy must be built on a solid foundation of steadily rising wages. If wages don't keep pace with production, the only way the economy can grow is through the expansion of debt, which leads to disaster.

Consider this: the US economy is 72 percent consumer spending. That means the Gross Domestic Product (GDP) cannot grow if salaries don't keep up with the price of living. Low Income Families (LOF)–that is, any couple making less than $80,000–represent 50 percent of all consumer spending. These LOF's spend everything they earn just to maintain their present standard of living. So, how can these families help to grow the economy if they're already spending every last farthing they earn?

They can't! Which is why wages have to go up. The cost to short-term profits is miniscule compared to the turmoil of a deep recession which is what the world is facing right now. The present crisis could have been avoided if there was a better balance between management and labor. But the unions are weak, so salaries have languished while Wall Street has grown more powerful, stretching its tentacles into the government and spreading its anti-labor dogma wherever it goes.

The investor class has rejiggered the system to meet their particular needs. Financial wizardry has replaced factories, capital formation and hard assets while real wealth has been replaced by chopped up bits of mortgage paper, stitched together by Ivy League MBAs, and sold to investors as priceless gemstones. This is the system that Bernanke is trying to resuscitate with his multi-trillion dollar injections; a system that shifts a larger and larger amount of the nation's wealth to a smaller and smaller group of elites.

When Alan Greenspan appeared before Congress a few months ago, he admitted that he had discovered a "flaw" in his theory of how markets operate. The former Fed chief was referring to his belief that investment bankers could be trusted to regulate themselves. Whether one believes Greenspan was telling the truth or not is irrelevant. What really matters is that the wily Maestro managed to skirt the larger issues and stick to his script. Congress never challenged Greenspan's discredited, trickle-down economic theories which guided his policymaking from the get-go. Nor was he asked to explain how a consumer-driven economy can thrive when salaries stay flat for 30 years. An answer to that question might have exposed Greenspan's penchant for low interest rates and deregulation, the two fuel-sources for the massive speculative bubbles which emerged on Greenspan's watch. These are the tools the Fed chief used for 18 years to enrich his buddies at the big brokerage houses while workers slipped further and further into debt.

There's no "flaw" in Greenspan's thinking; his views perfectly reflect his unwavering commitment to the rich and powerful. That's never changed. Since retiring, he has continued to ingratiate himself to his Wall Street paymasters while fattening his bank account with royalties from his best seller. Unfortunately, his success has come at great cost to the country.

Millions of homeowners are now facing eviction, consumers are tapped out, and the job market is in a shambles. When equity bubbles unwind, it's never pretty and the Greenspan implosion has been particularly nasty. Assets are being sold at fire sale prices and there's a frantic rush to the safety of US Treasurys. It's a catastrophe.

That said, it may seem like a bad time to boost workers' pay, but that's not the case. Crisis creates opportunities for change—real structural change. And that's what's needed.

The bottom line is that this whole mess could have been avoided if demand was predicated on wage increases instead of asset inflation. Of course, that precludes the Fed's traditional remedies for economic malaise–easy money and massive leveraging. Just last week, Bernanke announced a plan to buy $800 billion of securities backed by mortgages and credit card debt in an effort to stimulate more borrowing. The Fed chairman would rather drown the country in red ink than support pay raises for workers. Go figure? This just illustrates the class bias that underscores the Fed's policies, which is why pointless to debate the issue or try to find common ground. The only way to effect real change is with political power.

From Bernanke and Greenspan's perspective, any small gain by workers is tantamount to communism. They will continue to do everything in their power to preserve the current labor-debasing system which keeps workers just one paycheck away from the homeless shelter. This type of hostility is neither good for the economy nor the country. It just intensifies class animosities by accentuating the chasm between rich and poor. The only way to overcome these differences is by narrowing the wealth gap and rewarding hard work with fair pay.

John Bellamy Foster and Fred Magdoff explain how establishment economists and their corporate patrons developed their ideas of how to use equity bubbles to grow the economy and shift wealth from workers to elites. In their Monthly Review article "Financial Implosion and Stagnation":

"It was the reality of economic stagnation beginning in the 1970s, as heterodox economists Riccardo Bellofiore and Joseph Halevi have recently emphasized, that led to the emergence of "the new financialized capitalist regime," a kind of "paradoxical financial Keynesianism" whereby demand in the economy was stimulated primarily "thanks to asset-bubbles." Moreover, it was the leading role of the United States in generating such bubbles—despite (and also because of) the weakening of capital accumulation proper—together with the dollar's reserve currency status, that made U.S. monopoly-finance capital the "catalyst of world effective demand."

Greenspan figured out how to strengthen the grip of the banking sector by creating asset bubbles. That was his great contribution during the Clinton years. The leveraging of complex financial products and the surge in real estate prices gave the impression of prosperity, but it was all smoke and mirrors. The "wealth effect" vanished as soon as the interest payments on mortgages could no longer be paid. That's when Maestro's bubble blew up and Greenspan retired to write his memoirs.

So far, world stock indexes have lost over $30 trillion and there will probably be another bloody leg down in 2009. As the underlying economy contracts, there's no need for a lumbering, oversized financial system. Institutions will have to be shut down and their assets will have to be sold at auction. That means prices will continue to fall, business activity will falter, and GDP will shrivel. The mismatch between output and falling demand presages a painful correction. When credit gets scarce, business activity slows, and nervous investors head for the exits. That forces businesses to lay off workers which causes prices to fall even further, accelerating the pace of deflation. Economist Henry Liu made these observations in his article "China and the Global financial Crisis":

"US neoliberal trade globalization, having promised a primrose garden of economic growth, has instead led the global economy into a jungle of poison reed, resulting in the worst financial disaster in a century, setting the whole world ablaze with a financial firestorm. This unhappy fate was finally acknowledged as having been policy-induced by Alan Greenspan, the former Chairman of the US Federal Reserve who was largely responsible for the monetary indulgence that had caused this hundred-year financial perfect storm….The Federal Reserve under Greenspan repeatedly created money faster than the global economy could profitably absorb, creating serial bubbles denominated in fiat dollars. Greenspan insisted that it was not possible, nor desirable, to identify an economic bubble in the making as he was inflating it with easy money, lest economic growth should be prematurely cut short. It was a perfect example of the rule that intoxication begins when a drinker becomes unable to know its time to stop drinking." (Henry C.K. Liu China and the Global Financial Crisis", Asia Times)

The Fed wants to stimulate demand by slashing the price of money to 0% while pumping trillions of dollars into the financial system (quantitative easing). But the millions of foreclosures, credit card and student loan defaults, indicate that the underlying economy is rapidly contracting and cannot support such an oversized system. Something's gotta' give. Homeowners and consumers are poorer than they were a year ago. They're focused on paying down their debts not creating new ones. Attitudes towards spending have changed; people are hunkering down. That's why Bernanke's radical liquidity experiment is doomed. There's no way to reflate a bubble if consumers refuse to spend.

If the Fed is serious about fulfilling its mandate, it should abandon its serial bubblemaking altogether and return to basics; productivity, good wages and sound money. The country's future rests on its workers. They don't need a bailout, just a raise