Capitalist Crisis, Marx's Shadow

by Rick Wolff[1]

The so-called *financial* crisis today is a symptom. The underlying disease is capitalism: an economic system that weaves implacable and destructive conflict into its production and distribution of goods and services. Employers and employees need to cooperate to make the economy work, but they are forever adversaries whose conflicts periodically burst into crises. So it is today. Capitalism also locks employers into those endless struggles with and against one another that we call competition. It too periodically erupts into conflicts and crises. And so it is today.

Employer-employee conflict contributed to today's global capitalist meltdown as follows. In the 1970s, employers found a way to stop the long-term slow rise in real wages of their employees. By outsourcing jobs overseas to take advantage of cheaper wages, by drawing US women into the labor force, by substituting computers and other machines for workers, and by bringing in low-wage immigrants, employers drove down their employees' wages even as they produced ever more commodities for sale. The results were predictable. On the one hand, company profits soared (after all, workers produced ever more while not having to be paid any more). One the other hand, after a few years, stagnant workers' wages proved insufficient to enable them to buy the growing output of their labor. Given how capitalism works, employers unable to sell all that they produce lay off their own employees. And of course, that only compounds the problem.

Thus, in the 1970s, another capitalist crisis loomed as a bad recession hit hard. But that crisis was kept short because US capitalism found a way to postpone it: massive debt. Since employers succeeded in keeping wages from rising, the only way to sell the ever-expanding output was to *lend* workers the money to buy more. Corporations invested their soaring profits in buying new securities backed by workers' mortgages, auto loans, and credit-card loans. Owners of such securities were thereby entitled to portions of the monthly payments workers made on those loans. In effect, the extra profits made by keeping workers' wages down now did double duty for employers who earned hefty interest payments by loaning part of those profits back to the workers.

Postponing the solution to crisis of the 1970s only prepared the way for the bigger one now. Booming consumer lending in the 1980s, 1990s, and since 2000, especially in the deregulated financial world of Reagan and Bush America, provoked wild profit-driven excesses and corruption (the stock market "bubble" and then the real estate "bubble'). It also loaded millions of Americans with unsustainable debts. By 2006, the most stressed borrowers could no longer pay what they owed. This house of debt cards then began its spiraling descent.

Competition among enterprises also contributed to this crisis. As some banks made big profits rushing to lend to workers, other lenders feared that those banks would use those profits to outcompete them. So they too rushed into "consumer lending." To raise the money to make such profitable loans to workers, lenders made expanded use of new types of financial instruments, chiefly securities backed by workers' debt obligations (securities whose owners received portions of workers' loan repayments). US lenders sold these securities globally to tap into the entire world's cash. The whole world thus got drawn into depending on a whirlpool: US capitalism propping up its workers' purchasing power with costly loans because it no longer raised their wages. The competing rating companies (Fitch, Moody's, Standard and Poor, etc.) inaccurately assessed these securities' riskiness. These companies competed for the business of lenders who needed high ratings to sell the debt-backed securities. Private and public lenders around the world competed with one another by buying the US debt-backed securities because they were rated as nearly riskless and yet paid high interest rates.

No questioning, let alone challenging, of capitalism's role is conceivable for US leaders. Quite the contrary, their "policies" aim chiefly to preserve capitalism -- largely by keeping its responsibility for the current crisis out of public debate and thus away from political action. Yet this crisis, like many others, raises Marx's specter, capitalism's shadow, once again. The specter's two basic messages are clear: (1) today's global financial crisis flows from core components of the capitalist system and (2) to really solve the current crisis requires changing those components to move society beyond capitalism.

For example, if workers in each enterprise became their own collective boards of directors, the old capitalist conflicts between employers and employees would be overcome. If state agencies coordinated enterprises' interdependent production decisions, the remaining enterprise competition could be limited to focus on rewards for improved performance. The US government might not just bail out huge financial institutions but also require them to change into enterprises where employers and employees were the same people and where coordination and competition became the major and minor aspects of enterprise interactions.

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