

CRISIS AND DISTRIBUTION

Richard Wolff

My basic thesis here is simple. A sharply growing disparity between the real wages paid to workers and the goods and services produced by workers for their employers eventuated in the capitalist crisis plaguing the U.S. since 2007. The crisis, in turn, has widened the disparity. Worsening economic inequality was both a cause and is an effect of the crisis, one that deepens and lengthens the crisis.

The basic data supporting the thesis are well known and barely need repetition. Real wages have stagnated in the U.S. since the 1970's. Productivity (output per worker) has continued to rise steadily across the same three decades. In short, employers have obtained ever more goods and services to sell per hour of their employees' effort while not having to pay those workers any more. The result has been a growing gap between the value added per worker and the value paid to workers. In Marx's terms and language, this represented a stunning, long-term rise in the surplus appropriated per worker, and thus in what Marx called the "exploitation of labor."

The 150 years before the 1970's were different in a crucial way. During those years, while productivity rose faster than real wages, the latter rose every decade. Few if any other capitalist countries delivered so sustained a long period of rising real wages to their working classes. This American "exceptionalism" was sustained by the enduring labor shortages in the U.S. which successive waves of immigration mitigated but never overcame. One result was the sense of U.S. workers that they were somehow guaranteed a rising standard of living in exchange for the ever-harder work they performed to generate the rising productivity. Those workers embraced the American dream: for themselves, as a promise to their children, and as a measure of their own individual self-worth. They came to believe – with much encouragement from conservative ideologues – that the U.S. guaranteed the freedom and an equal opportunity for all to prosper, sooner or later.

Imagine then the trauma inflicted by the end of the idyll: the 1970's and since as real wages stopped rising while productivity increases continued. That circumstance delivered ever greater wealth to employers and those who could participate directly in that growing wealth (stockholders, financiers, top managers, etc.). Inequality of wealth and income grew and the American dream became ever harder to obtain or sustain.

The end of rising real wages followed four major developments that became important in the 1970's. The computerization of almost all worksites hit its stride then, an automation that

sharply reduced the demands for all sorts of labor. Likewise, the profit-driven movement of jobs to offshore sites (where wages and taxes were lower, environmental standards weak, etc.) reduced the jobs available for U.S. citizens. At the same time, U.S. women began moving massively into paid employment in addition to their home-maker and mothering labors. And new waves of immigrants, especially from Latin America, arrived. Rising supplies of labor power met reduced demands with the predictable consequences for real wages. Employers no longer needed to raise wages to get or keep workers as they had had to do for the previous 150 years. It was not the case that U.S. workers became suddenly less disciplined, educated, or motivated, absolutely or relative to other nations' workforces, as was suggested so often by popular as well as academic pundits. Across Main Street every bit as much as in Wall Street, employers large and small, financial and otherwise, stopped raising real wages because "good business practice" as well as typical capitalist competition warranted doing what labor market conditions made possible.

In reaction, the U.S. working class did not abandon the American Dream and all it had come to symbolize. Instead they devised ways to secure rising levels of consumption despite stagnant real wages. First, more family members were sent out of households to perform more hours of paid work. The extra hours of work would compensate for the end of rising real wages per hour. Adult men took second or even third jobs, teenagers and retired persons took jobs, but most socially significant were the millions of U.S. women who added paid work outside the household to all they already did inside.

The social consequences of all this extra work included provoking the deep crisis in U.S. capitalism today. As of today, U.S. workers do more hours of paid labor per year than the workers in any other advanced industrial country. Our working classes are exhausted. More importantly, the work of women outside the home proved to be a costly "double shift" given their continuing roles as primary house-worker and parent. Women could no longer perform the emotional work supporting the integrity of U.S. families as they had so long done – at least not with the time and energy they had previously devoted to such work. So the last thirty years have seen vast shifts to the point that the "dysfunctional family" has become a cultural icon, a staple of the entertainment industry. Nor did all the extra work solve the problem of raising consumption in the face of stagnant real wages. This was because extra paid work by household members, especially women, required new sets of clothes, additional cars, the substitution of prepared for home-cooked meals, and added psychological self-care (costly drugs and/or psychotherapies). The extra work, in short, yielded little in the way of net extra consumption beyond that necessitated by the extra work itself.

So the U.S. working classes turned, in some desperation, to the only remaining individual action which they had available to raise consumption given stagnant wages. They went on a borrowing binge of epic proportions, mortgaging their homes (the only collateral most

workers have), and making increasing use of that new product of 1970's economic changes, the credit card. Driven by advertising, especially "easy credit", the absence of any other remaining way to boost consumption, but most of all by a dogged determination not to give up on the American dream they had promised to themselves and their families, American workers borrowed more, eventually, than they could afford. The entire history of the country had brought them to that point. By 2007, they were physically exhausted, emotionally stressed by dissolving family ties, and increasingly anxious about unsupportable levels of personal debt. U.S. economic history culminated in a major crisis whose deep roots belie the prospects for this to be a shallow, quick "cycle" or be amenable to standard doses of Keynesian monetary and fiscal policy prescriptions.

Meanwhile, at the other end of the social distribution of wealth, U.S. employers were raking in fast rising surpluses as productivity kept climbing while real wages did not. They made socially influential uses of those rising surpluses. First, they promoted an altogether different explanation for their rising net revenues from that provided above. To hear them tell it, their companies' good fortune was the result of stunning entrepreneurship. A cult of the innovating entrepreneur – or, more accurately, CEO – arose around businessmen like Lee Iacocca and Jack Welch. This worked out nicely, since it could reasonably be argued that if entrepreneurship or top management caused the great new wealth, then such entrepreneurs and managers deserved corresponding rewards in the way of luxurious packages of salary, bonus, and stock options. Second, corporations could more easily afford the high costs and risks of moving production overseas from the U.S. Third, roaring net revenues enabled strategies of boosting profits still further by mergers. Fourth, since corporate leaders provided themselves with ever more stock options, it also struck them as especially interesting to use cash hoards to buy back company stock and thereby boost stock prices.

Two other dispositions of the employers' rising net revenues document dramatically how rising distributional inequality generated so severe a crisis and so inadequate a government response. The first of these was the employers' enhanced political interventions. They began pouring huge sums into (1) the campaigns of candidates they favored, (2) armadas of well-budgeted lobbyists inundating federal, state, and local legislatures and executives, and (3) think tanks publicizing employer-friendly interpretations of economics, politics, culture, and nature. Business saturated the political spaces of U.S. society just as stagnant wages, overwork, stress, and debt anxiety drove millions of workers withdraw their participation and then even their interest in politics and civic affairs. In such conditions politics shifted sharply rightward in the U.S.: not because many folks changed their minds, but rather because those who withdrew had different values and priorities than those who rushed in equipped with massive new money to spend on politics.

Finally, directly or indirectly through deposits and investments in banks and other financial enterprises employers lent sizable portions of their net revenues to the masses of U.S. workers. Workers' desperation to borrow allowed record interest rates and yielded record lenders' profits. In effect, after 150 years of rising wages as compensation for their rising productivity, the decades since the 1970's enabled employers to substitute rising interest-laden loans for rising wages. While U.S. business arguably never before had it so good, the social results included sharply increased inequalities of income, wealth, and power.

The profits from lending on this scale to the working classes, coupled with huge quantities of corporate debt-fueled mergers and acquisitions and rising U.S. government debt (except briefly in the 1990's) led to the U.S. borrowing vast savings from around the world. The U.S. position as pre-eminent capitalist superpower (and thus safest place to hold wealth) plus advances in telecommunications, the internet, etc. allowed it to tap global savings to an unprecedented degree. Massive global debt flows interacted with massive private profits to spiral into an all too familiar capitalist speculative bubble. Increasingly complex debt instruments and derivatives based upon them were marketed to the world's lenders, private and public. They accumulated ever more financial obligations on top of an increasingly strained economic base of inadequate wages coupled with unsustainable consumer debt. When the working class consequently began to default, the bubble burst, and the crisis arrived.

The basic relation between distribution and crisis exposed by the narrative above is this: growing U.S. inequality in the distribution of productivity gains can provoke classic capitalist crises. That is how the system works. The economic reasoning informing the U.S. government response might have taken this basic relation into account. It did not.

The business leaders shaping government policy and their economic advisors – as much under Obama as under Bush – did not address any of the mechanisms unequally distributing the productivity gains in the U.S. economy. By permitting unemployment to rise from 2007 through mid 2010, they guaranteed that no significant rise in real wages would change that distribution. An alternative program of direct government employment when the private sector proved incapable of providing jobs might have addressed that problem; it was never seriously considered. The federal government thus allowed corporations to further widen the gap between productivity growth and real wage growth since 2007.

A massive government employment program and a parallel intervention to prevent or reverse rising foreclosures might have forestalled the collapse of housing prices in many parts of the country. That was not done. Since U.S. workers' major (and often only) significant property holding is their home, the sharp declines in many workers' home prices probably did more to deepen the inequality of wealth in the U.S. than any other aspect of the economic crisis.

Especially in the context of the limited financial and stock market “recovery” after March, 2009, the failure of home prices to follow suit deepened wealth inequality and thereby further undermined any genuine economy-wide recovery.

The vast sums borrowed by the federal government to restore financial institutions and run huge fiscal deficits are accumulating levels of national debt that will soon provoke pressures from lenders. The risk assessment of U.S. debt will rise reflecting the same concerns, albeit perhaps less intensely, that afflicted the national debts of Greece, Portugal, and Spain, and then spread to all Europe and beyond. Under pressure from “our nation’s creditors”, U.S. leaders will then claim a “national” need to reassure them by raising vast sums to pay interest on, to stop increasing, and perhaps even to reduce our national debt. We must, they will say, stop “living beyond our means,” We must tighten belts by either raising taxes or, more likely, cutting state spending.

If this political strategy is allowed to prevail, it will likely further widen the gap between productivity growth and workers’ standards of living. The only difference this time will be that the government’s handling of the national debt will be the key mechanism rather than employers no longer paying rising wages for workers’ rising productivity. If workers pay more taxes and/or receive fewer government services and supports – to enable the state to pay more to its creditors – that will not only hurt them directly but also deepen the crisis since the creditors (corporations and the rich, foreign and domestic, and foreign governments) do not spend on goods and services in the U.S. as U.S. workers would have.

National debt burdens could be defrayed instead by taxing employers’ net revenues. Employers would then have to cut other dispositions of their net revenues to free up the sums to pay such increased taxes. The employers will – if history is any guide – denounce such taxes as depleting employers’ funds that would otherwise have been invested in improved technology, product innovation, additional hiring, etc. Of course, reduced top managerial salaries and perks, reduced dividends, and reduced savings of retained earnings would be alternative resources enabling employers to pay more taxes to deal with the national debt. Likewise, the national debt problem could be addressed by taxes on the top 1-5 per cent of income earners, those who have garnered the lion’s share of wealth increase over the last 25 years.

Taxing corporations and the richest 1-5 per cent raises state revenue from those most able to pay and those who prospered most over the last generation of stagnant wages, rising productivity, historically high top management salaries and the stock market’s record boom. It also means taxing those who have been the major lenders to the government over the years. After all, corporations and the wealthy own and profit from large portions of the national debt, having lent to the government, at interest, the very sums that they only retained because

the government did not tax them. Corporations and the wealthiest families are also the parts of the economy that do the most saving. Taxing their savings would leave consumer spending little affected and thus able to continue its role as generator of sales and employment. In 2009, the legislature and governor of Oregon responded to the crisis and its serious impact on state tax revenues by raising taxes on corporations and the richest Oregonians in order not to tax workers or cut state services. Early in 2010, when business groups forced a referendum, 1.2 million Oregonians ratified what their political leaders had done. There is an alternative to the direction of federal economic policy.

The crisis was brought on, in major parts, by the financial sector's speculation, over-expansion, risk-misjudgment and corruption and by the sharply increased inequality in the distributions of income and wealth. The government response – bizarre to those not blinded by the mainstream spins of business leaders, politicians, media, and academics - was to borrow vast new sums and pour them into the financial sector and into fiscal stimulus. The financial sector recovered part of its 2008 losses, while the rest of the economy waits and wonders if a recovery will come. The rising national debt provokes talk and government plans to cut social programs and raise some broad-based taxes. Either action will likely worsen unemployment and deepen the very inequalities that brought us crisis. Meanwhile, a revived financial sector lobbies massively against government regulation (using resources only available to them because of being bailed out by the same government). This amounts to a government response to crisis that not only misses its deep roots in an increasingly unequal distribution of income and wealth, it worsens the same inequality. Our national economy resembles a train that raced too fast with too heavy a load along insecure tracks that led to a stone wall. When it hit the wall, the economy collapsed. Our government response amounts to repositioning the same overloaded train on the same (or even more) insecure tracks as if it would not again hit that wall which remains just where it was.