

*Submitted by Fred Goldstein, Sept. 18, 2011
For the 6th National Meeting on Social Policy
Federal University of Espirito Santo, September 28-30.*

CAPITALISM AT A DEAD END

Job Destruction, Overproduction and Crisis

In the High Tech Era

A Marxist View

“American business is about maximizing shareholder value. You basically don’t want workers. You hire less, and you try to find capital equipment to replace them.”

Allen Sinai, chief global economist at the U.S. research firm Decision Economics

The above quote, by a prestigious and often-cited capitalist economic analyst, brutally describes a constant underlying process of capitalism in general – not just in the U.S. but capitalism as an economic system. This is a process which has been in existence since the system began 500 years ago.

The prominent bourgeois economic consultant to Wall Street, also a former Lehman Bank executive, is well known for his sharp characterizations of the economic crisis. He is the originator of the phrase “the mother of all jobless recoveries,” referring to the 2009-2010 so-called “recovery.”

Sinai’s above comment, should he have followed out the thinking that flows from his remark, would have led him to the conclusion that capitalism has no future. Of course, that is an unthinkable thought for a capitalist expert, no matter how discerning he may be.

What Sinai remarked on has been true for all of capitalism since bosses began hiring workers. And at the present moment, the process described above has reached the point where it may bring capitalism to a dead end, which is the subject of this paper.

The point of view of our presentation is that of revolutionary Marxism. Marxism has no crystal ball and no ability to prophecy. It can only rely on the scientific theory of historical materialism, observe events as carefully as possible, and attempt to uncover developments in order to more effectively intervene in those events on behalf of the working class and the oppressed.

That is the spirit in which we attempt to characterize the present crisis.

The economic crisis, which began in August 2007 with the collapse of the housing bubble in the U.S. and quickly spread around the world, marked a turning point in the history of capitalism.

A different crisis

It is a turning point which carries great danger for the workers and the oppressed of the world, but at the same time carries great future potential for those with a revolutionary perspective.

Why? Because this is not just a severe capitalist crisis. It is not a crisis which has within it the seeds of its own recovery, as all previous crises since the Great Depression have had.

There have been 10 economic crises in the United States since World War II prior to this one. Capitalism has been able to climb out of each one and push further upward in production and employment. It has used all sorts of artificial means to overcome these crises – militarism and war, imperialist expansion, state financial intervention, technological

restructuring, union busting, lowering of wages and so forth.

This crisis is different. A world historic social system, the system of capitalist wage slavery, shows many signs that it has reached the point at which it cannot revive itself.

Central bankers have poured trillions of dollars into the system. The U.S. Government Accountability Office (GAO) issued an audit of the Federal Reserve Bank in July. It found that secret loans of \$16 trillion were given out, mainly to U.S. banks, but also to many European banks.¹

This is in addition to the publicly known bank bailout by the George Bush administration of \$750 billion and the \$750 billion stimulus package by President Barack Obama in 2009.

If you include Europe and Japan, the total amount of money poured into the world capitalist financial system is probably at least \$20 trillion. (Throughout this paper, 1 trillion means 1 followed by 12 zeros and 1 billion means 1 followed by nine zeros.) The entire world Gross Domestic Product, according to the World Bank, is \$58 trillion.² So central bankers have put in amounts equal to approximately one third of global GDP.

New stage of the crisis ahead

What has been the result? In the first two years, from August 2007 to June 2009, the bailouts and stimulus packages were able to avoid a complete collapse of the system. For the next two years, from June 2009 up to July 2011, the system remained at a stage of impasse. While a crash was temporarily avoided, the system stabilized, with unemployment remaining at crisis levels while business grew very slowly and anemically.

Since this July, there have been signs that the impasse phase is coming to an end and the system is headed toward a renewed capitalist downturn. The wild stock market swings over the financial fate of Europe get the headlines. But the fundamental issue of decline in growth is widely underreported.

Behind the intensified default crisis in Greece is the fact that the Greek economy contracted by 6 percent in the last quarter. The entire euro zone grew at 0.2 percent last quarter. Germany, the engine of the European economy, grew by 0.1 percent and France had zero growth.

As for U.S. capitalism, it grew at 0.4 percent in the first half of the year, but it had zero job growth in August. There are still at least 30 million workers, one fifth of the work force, either unemployed or underemployed. For every job opening, at least 5 or 6 workers are actively looking for employment.

The U.S. government has just announced that a record number of people now live in poverty. Some 46 million people are officially living in poverty in the richest, most powerful capitalist power in the world. Yet the official numbers are artificially low by all standards and the number is probably double that. Poverty is most concentrated among African Americans, Latina/os and Native people, whose extraordinarily high rates of poverty are increasing at an alarming rate.

Thus it is clear that unprecedented amount of \$20 trillion in capitalist state intervention has been unable to revive the system. Furthermore, it has been unable to prevent a renewed contraction – called a “double dip.” (Of course for workers, it is not a double dip. They never recovered. For our class it is just more of the same, only worse.)

The capitalist market mechanisms certainly cannot revive the system. Massive capitalist state intervention cannot revive the system. And no amount of restructuring of the economy can revive things. In fact, continuous global restructuring of capitalism for the past 30 years has profoundly aggravated the crisis.

A regime of low-wage capitalism has been achieved on a global scale. Workers from every continent have been drawn into a world-wide network of exploitation and super-exploitation. Workers have been set in competition with one another all over the world. The bosses have set up a race to the bottom as far as wages go. In addition to causing untold suffering and insecurity, this further undermines the global market for the commodities produced by the workers in this global network.

Global youth unemployment

One of the extreme symptoms of capitalism's dead end is the desperate state of youth around the world. There were 81 million unemployed youth aged 15 to 24 at the end of 2009, according to a study by the United Nations International Labor Organization.³ In the U.S. official numbers of youth unemployment, completely understated, are 20 percent.⁴

Youth unemployment is 50 percent in Egypt and Tunisia, 40 percent in Spain and Italy, close to that in Africa, Youth unemployment is the most dramatic sign of the declining ability of capitalism world-wide to absorb labor. The new generation of workers coming into the work force is largely shut out. When they do work it is for low wages. Youth unemployment is a key measure of stagnation of the system in decline.

Slow growth, stagnation and outright contraction of capitalism mean a growing reserve army of unemployed. The largest contingent of that army is the youth, who have least access to the labor market.

Militarism no longer a stimulant

War and militarism have been among the principal economic stimulators to keep the capitalist economy going in the U.S., as well as in Britain. Washington spent more than \$2 trillion on the Iraq war and has spent a similar amount on the war in Afghanistan. While this military spending is a crucial part of the U.S. economy, it has not been able to help revive the system.

The lowering of wages, massive state financial intervention, militarism, war and occupation have been unable to promote a new capitalist expansion that would be strong enough to lift the U.S. capitalist economy out of its present state of stagnation, crisis and permanent mass unemployment.

There are vast differences between one of the numerous periodic crises of capitalism, which have occurred throughout its history, and a crisis in which the system reaches a dead end.

Each day produces an enormous outpouring of writing and commentary on the present economic situation facing world capitalism. Everyone who writes about it agrees that it is the worst economic downturn since the Great Depression of the 1930s.

In order to face the future and to prepare for it, the genuine leaders and organizers amongst the people must have a clear idea of what it is. What is the nature of the crisis? What is the cause? Where is the crisis at right now? Where is it going, and how can it be ended?

What makes this crisis different?

Let us look at some of the most relevant data.

By way of preface, it is worth stating at the outset that Karl Marx formulated the general law of capitalist accumulation in Volume 1 of *Capital*.⁵ The basic

premise of that law is that as capitalism develops technologically, its relative need for labor continues to drop. What Marx called the reserve army of unemployed grows as capital becomes more productive. It was this tendency which Marx saw as leading to the overthrow of capitalism.⁶

Capital needs fewer and fewer workers to produce more and more goods and services in less and less time. This tends to increase mass unemployment. Only the enormous and continuous expansion of the capitalist system can counteract this tendency.

Marx showed that, by the same law, the very development of the productivity of labor sooner or later becomes more and more of a barrier to the growth of capitalism. The increasing productivity of labor reaches a point that the system cannot overcome the overproduction generated by the highly technological productive forces. As Marx noted, the barrier to capitalism is capital.

Also world capitalism, world imperialism, has just come through a 30- or 40-year period of a scientific-technological revolution. The last 15 years have accelerated that revolution and led to a global system of highly efficient production. The bosses created a global system of low-wage capitalism.⁷

That is the stage we are at today. Capitalism, the profit system, the system of private property in the means of production, has become a barrier, indeed a mortal threat, to the further development of humanity and to the very planet. We will take this up further later on.

The data precisely reflect the operation of the law of capitalist accumulation.

I will concentrate on the U.S. because, with a \$14 trillion economy and the largest share of the world's technology, and with more military power than the rest of the world combined, it is the center of world capitalism. It concentrates all the system's characteristics and contradictions. It is the strongest capitalist power. Its vulnerabilities and tendencies reflect the vulnerabilities and tendencies of the system as a whole.

The rise of the jobless recovery: the prelude

There were early signs of the developing crisis. For the first time since WW II, during the recovery from the first Bush recession in 1991, there was a jobless recovery.

A jobless recovery means that capitalist production recovers after a crisis but the working class does not. The classic conditions of the boom and bust cycle of capitalism are that after a bust, inventories are sold off gradually, a new production cycle begins, and capitalist expansion resumes.

The bosses' need for labor grows proportionately and workers get called back to work. Historically, there has been a lag of 3 or 4 months after the recovery began before the bosses begin to rehire, depending upon the industry.

In 1991 there was a fundamental change in the nature of the capitalist business cycle. Months after the 1991 recession, not only were companies not hiring during the upturn in business, they were still firing. Instead of 3 or 4 months for jobs to recover their pre-crisis level, it took 18 months. Furthermore, economic growth was slow and muted.

The Federal Reserve Bank and financial officials and economists became alarmed. They started to study the question. But their worries evaporated with the collapse of the USSR and Eastern Europe. U.S. imperialism converted its political victory over socialism into economic gains through rapid global expansion into the former USSR, including the republics, as well as Eastern Europe. All the former colonial countries that had been able to lean on the USSR as a balance against imperialism suddenly became completely vulnerable to the intensified invasion of neo-liberalism.

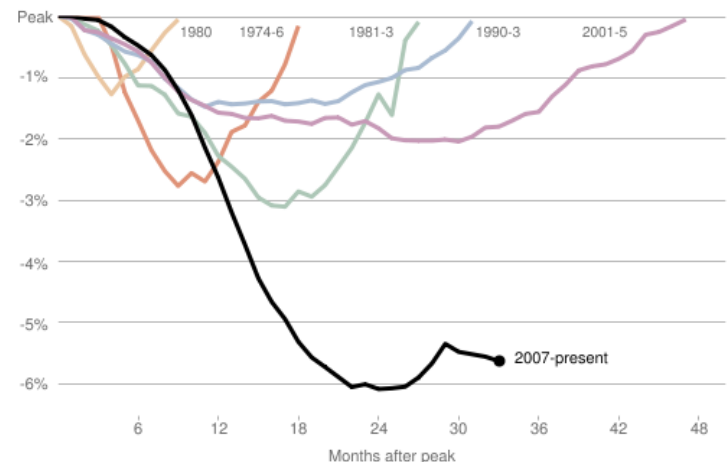
The U.S. ruling class forgot their anxiety about the jobless recovery. U.S. capitalism had the longest uninterrupted economic expansion in its history. It was based on the collapse of the USSR and the leap forward in technology, the rise of the Internet, computers, satellite communications, advanced robotics, improvements in transportation, ports, etc. The bosses and bankers used this opportunity to expand their global networks of exploitation to every corner of every continent.

They declared "the end of history" and the end of the business cycle. Capitalism triumphant and forever.⁸ Socialism was dead and Karl Marx was proven wrong.

Then came the crash. In 2000-2001, the technology bubble, the so-called dot.com boom, burst. The laws of capitalism discovered by Marx came back to haunt the ruling class. The capitalist business cycle came back with revenge. Hundreds of technology

companies, which had been created every month at the end of the 1990s, went bankrupt. Overproduction of technology ended up in a capitalist bust. While the downturn was led by technology, the contraction was general, affecting housing, auto, electronics, machine tools, and so forth.

But worse than the recession, the jobless recovery of 2001-2004 was far more severe than the one of 1991-1993. Twenty-seven months into the recovery, the bosses laid off almost 600,000 workers. It took a full 48 months for jobs to get back to pre-recession levels. (See graph below.) Millions of the layoffs were permanent layoffs, meaning jobs were being eliminated altogether by technology or off-shoring. This was especially the case with high-paying jobs. Many of the remaining jobs were low-paying service jobs.



Source: U.S. Bureau of Labor Statistics. Chart by Amanda Cox, *New York Times*, June 3, 2011.

The financial authorities, headed by Alan Greenspan, chairman of the U.S. Federal Reserve Board, took measures to overcome the developing crisis, reflected in the dangerously developing jobless recovery.

The financial authorities' answer was to pump massive amounts of credit into the economy that was way beyond the ability of the workers to pay back.

Greenspan publicly advised people to purchase homes, to get adjustable rate mortgages – the very toxic mortgages that were later peddled around the world as securitized bonds. Interest rates on money

loaned to banks by the government were reduced from 5.5 percent to 1 percent. This was the equivalent of giving the banks free money to lend and to speculate with.

The regulatory agencies and the credit rating agencies closed their eyes as banks and mortgage brokers peddled mortgages that could not be paid. The banks promoted record credit card debt. Student debt soared. The auto companies promoted auto debt. Financial advisers pushed homeowners to refinance their homes to pay off bills – like bills for medical care and college tuition. The personal debt of the population grew to be greater than their disposable income.

So in order to combat the jobless recovery and capitalist overproduction arising out of the downturn of the 2000–2001 crisis, Wall Street had created the basis for a greater crisis. By August 2007, the housing bubble began to burst. The arteries of finance capital seized up and the financial crisis spread around the world at lightning speed.

A crisis of overproduction

When the smoke cleared it was revealed that behind the financial crisis was a classic crisis of capitalist overproduction. The boom fueled by the housing bubble and peddling debt was over and the “world was suddenly awash in almost everything: flat-panel television screens, bulldozers, Barbie dolls, strip malls, Burberry stores,” wrote the Washington Post in February 2009.⁹

The U.S. auto industry had a capacity of 18.3 million cars in 2008. By 2009 they were aiming to sell only 11 million. World-wide there was a capacity to produce 90 million autos but only 66 million were produced.¹⁰

Between 2002 and 2007 there had been an increase of 8.65 million units in the country’s housing stock. In the same period there was an increase of only 6.7 million new households. Accounting for summer homes, there was an overproduction of 1.3 million housing units. This was the material basis for the collapse of the housing market and the financial crisis that followed.

There were many other indicators of overproduction in steel, microchips and other core commodities of the capitalist economy. And of course overproduction in key industries like housing and auto produced

general overproduction in all the parts industries, raw materials industries, construction, etc.

Quantity has turned into quality

Now U.S. capitalism is faced with a jobless recovery that is far worse than the previous two.

The technology introduced both before and during the crisis created an enormous drag on restarting the system and moving forward into an expansionist phase. There has been a bust. But it is not being followed by a true recovery or a boom.

Productivity, or the intensified rate of exploitation of labor, is at the root of this dangerous development, as Marx laid out in the law of capitalist accumulation.

In August 2003, in the midst of the second jobless recovery, *The Economist* wrote:

“[T]he Bureau of Labour Statistics offered the latest evidence of America’s productivity revival: output per worker soared by 5.7 percent in the second quarter, at an annualized rate. But in today’s less exuberant times [times of continuing mass layoffs--FG] the figure has raised the unhappy prospect of growth without job creation.”¹¹

According to the U.S. Bureau of Labor Statistics (BLS), the following quarter of 2003, the third quarter, saw an even more spectacular rise in productivity of 9.7 percent.¹²

Three years later, in April 2006, *Business Week*, which often speaks for U.S. big business, wrote about “The Case of the Missing Jobs”:

“Since 2001, with the aid of computers, telecommunications advances, and ever more efficient plant operations, U.S. manufacturing productivity, or the amount of goods and services a worker produces in an hour, has soared a dizzying 24 percent.... In short: We’re making more stuff with fewer people.”¹³

The bosses did not slow down one iota in trying to squeeze more labor out of the workers while they were shrinking the work force.

The BLS reported in 2009 that in the third quarter, productivity in the nonfarm business sector increased at a rate of 9.5 percent. In manufacturing, output per hour per worker increased 13.6 percent. During those three months output increased 4 percent while hours worked decreased 5 percent.¹⁴

The capitalist analysts themselves are describing the process of how capital increases the reserve army of the unemployed as the bosses invest in more and more productive equipment. They follow the logic of this up to a point and then veer away from the inevitable conclusion: Continue to develop productivity long enough, and efficiently enough, and the system will grind to a halt because of overproduction and mass unemployment.

Right now the capitalists in the U.S., not including the bankers, are sitting on \$2 trillion in cash and they won't invest. The masses have very little money to spend. There is no market. That means no profit.

President Barack Obama introduced his latest \$447 billion jobs bill on Sept. 7, 2011. Two days later the headline on the lead story of the *New York Times* was "Employers Say Jobs Plan Won't Lead to Hiring Spur." Employer after employer said that they would not hire because there is no demand, no market that could support additional hiring. But there cannot be any demand for products if the bosses won't hire.

The system has become so productive that it cannot produce. This is the ultimate contradiction of capitalism, which Marx traced to its scientific and logical end in the general law of capitalist accumulation.

It is a law of dialectics that anything taken to its extreme turns into its opposite. Developing the productivity of labor is one of the historic contributions of capitalism in the evolution of society from primary communism through chattel slavery and feudalism. (The other is the creation of the working class.) The bourgeoisie harnessed the productive powers of social labor merged with science. Capitalism unleashed production. But, with the scientific-technological revolution of the digital age, it has developed productivity to such a degree that it is now strangling production.

Capitalism is reaching a point such that the moment it starts up, with a spurt of expanded production, it will be overtaken by overproduction. That is why the bosses are sitting on their money – using it to speculate, lend out, buy back stock, increase dividends, and so forth, while 30 million or more workers in the U.S. suffer from unemployment and underemployment. Because the definition of the work force in the U.S. does not include prisoners, the 2.3 million people, the majority of them Black and

Latina/o, in the prison system are not included in the employment statistics.

Millions fewer workers needed by U.S. capital

Along these lines let us consider the findings of Morton Zuckerman, a billionaire, ranked by Forbes as the 147th richest man in the U.S. and worth \$2.8 billion. He is a real estate developer and publisher and editor of the conservative *U.S. News & World Report*. Zuckerman is a conservative ruling class thinker whose opinion is often sought by media, political and Wall Street figures.

In an alarmist article entitled "The Great Jobs Recession," Zuckerman presented research to show that there were an astonishing 10 million fewer full-time jobs in the economy at present than before the crisis started.

"There is no life in our jobs market. The recession officially ended in June 2009, but the Great Jobs Recession continues apace. Not since the government began to measure the business cycle has a deep recession been marked by such high levels of unemployment and underemployment, and followed by such anemic job growth. More jobs were lost in the recession of 2007-09 than in the previous four recessions combined — and this time it is an agonizingly slow business to replace them."¹⁵

Most importantly, the total U.S. production of goods and services, the official Gross Domestic Product (GDP), recently reached the level of \$13.8 trillion, which had been the high point before the crisis.

Thus the capitalist class, through technology and just plain speed-up, has been able to squeeze the same level of production out of 10 million fewer workers than it employed before.

An authoritative researcher for the Economic Policy Institute, Heidi Shierholz, unearthed the fact that 18 months after the recovery from the 2000-2001 recession in the U.S., there were 62.6 million job openings. In the 18 months after the current "recovery" (which began in June 2010) there were 51.1 million job openings. Thus, the U.S. capitalist economy had 11 million fewer job openings than in 2003.¹⁶

In another piece Zuckerman wrote that there are 131 million workers on the payrolls today, a lower figure than the number at the beginning of 2000, which was a recession year.¹⁷ This despite the fact that the

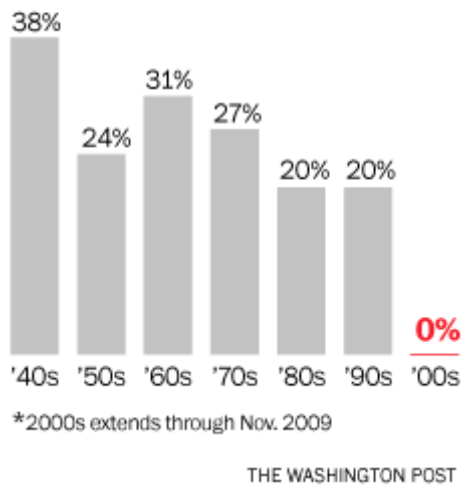
population has increased by 30 million! Where are these 30 million workers accounted for in the unemployment figures?

Zero job growth!

A graphic demonstration of Marx's general law of accumulation of capital is shown by the figures on jobs growth for the last decade. The *Washington Post* broke this news in January 2010.

There was **zero net job creation** in the first decade of the new millennium, compared to healthy job growth in each of the previous six decades.

Job growth: percent change in payroll employment.*



The Post, which is one of the most determined defenders and apologists for U.S. capitalism, wrote that the past decade has been a "lost decade" for U.S. workers: "There has been net zero job creation since December 1999. No previous decade going back to the 1940s had job growth of less than 20 percent. Economic output rose at its slowest rate of

any decade since the 1930s as well."¹⁸

It is indisputably clear from this data that the ability of U.S. capitalism to absorb the workers back into the work force has gone down in dramatic, crisis fashion.

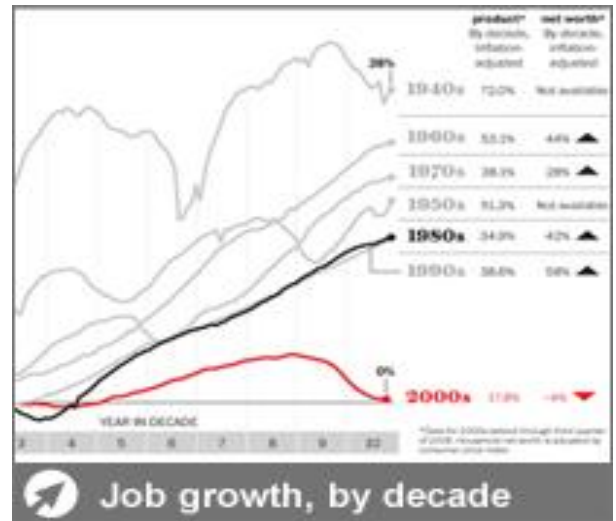
The data show that the U.S. capitalist colossus, with a \$14 trillion economy, a technologic dynamo and military superpower, is discarding workers by the millions on a permanent basis, along the lines that Marx laid out 150 years ago.

The struggle for the productivity of labor is at the same time the struggle to intensify the rate of exploitation of labor. It is the struggle for profit, surplus value, unpaid labor.

But the process of capitalist production, precisely because it is a process of exploitation whose goal is profit, contains two antagonistic but inseparable

components which must give rise to extreme contradictions and class conflict.

On the one hand each capitalist or capitalist grouping wants to get the most unpaid labor possible out of its own workers. On the other hand, each capitalist or capitalist grouping also wants its own workers to



produce more and more, which means paying them the least amount possible. Each boss squeezes every minute of unpaid labor time possible out of the workers in order to expand production, seize market share, and expand profits.

Adding up the efforts of each individual capitalist, the class collectively wants to raise production and profit without end. The collective effect of the efforts of each capitalist firm to restrict the wages of its own workers ends up objectively restricting the consumptive power of the working class as a whole.

This contradiction is the font of capitalist overproduction, economic crisis, and mass unemployment on a repeating and ever increasing scale. There is no way for capitalism to get around this contradiction.

Rise in the organic composition of capital and unemployment

Marx explained that as technology grows, the cost of the means of production is greater and greater. This cost is paid by the capitalist in order to get rid of workers and make those remaining more productive. The means of production (constant capital) grow in relation to wages (variable capital). This is called a growth in the organic composition of capital.

Here are some examples that conform to Marx's projection of the growth of the organic composition of capital and its resulting reduction in jobs.

In a small city in Ohio the giant DuPont Corporation is building a 162,000-square-foot solar materials plant. It will cost \$175 million -- and it will add a grand total of only 70 jobs.¹⁹

In Midland, Michigan, Hemlock Semiconductor is completing a \$1 billion polycrystalline silicon plant for raw materials in the manufacture of solar photovoltaic cells. The plant will add 300 jobs.²⁰

Intel is investing \$6 to \$8 billion for its next generation 22-nanometer manufacturing process on the West Coast. It will add 800 to 1,000 new permanent jobs. One vice president of Intel commented that the company makes approximately 10 billion transistors per second.²¹

These striking examples show how the enormous cost of high-tech capital results in miniscule job creation and cannot possibly create employment for the millions of unemployed and, more importantly, for the millions of youth coming into the job market who have never had a job.

Productivity, deskilling and low wages go together

It is important to take a look at the increasing productivity of labor from the point of view of its effects on the skills and wages of workers, especially youth.

How is productivity achieved? Partly by refining the division of labor and partly by transferring workers' skills to machines and software.

Leave aside the division of labor for a moment. The transfer of skills to machines and software is a dream come true for the bosses and a nightmare for the working class.

An integral part of the development of the productivity of labor, the intensification of the rate of exploitation of labor, is the deskilling of the working class. Welding, painting, machining, placing materials, bookkeeping, accounting, short order cooking, musical performances, calculating of all sorts, switchboard operating, designing, typesetting, typing, and thousands upon thousands of other skills have been eliminated, or reduced to pushing a button.

Complex mental and physical tasks for which training and education were necessary have been

incorporated into computer instructions to easily operated intuitive software or have been eliminated through automation.

The idea that the problem of unemployed workers is that they need to get training for "21st century skills" is only applicable to a tiny minority of the working class. For the most part, 21st century skills under 21st century capitalism are low or medium skills, which require little or no formal education above middle school or high school.

But the price of labor, that is wages, includes the cost of preparation and education. If the bosses need only unskilled or semi-skilled labor, then wages will go down, as they already have.

So the productivity of labor brings about mass unemployment, competition among workers, and low wages. The low wages arise from both deskilling the jobs available, the creation of more and more low-skilled jobs, and from the intensified competition among workers for fewer job openings. This is the consequence of the operation of the law of capitalist accumulation.

There are millions of youth with college educations who cannot find jobs in their fields because the demands for college-level skills are diminishing as jobs are deskilled and the absolute number of job openings declines. Remember that there were 11 million fewer job openings in December 2010 than there were in 2003, during that jobless recovery.

Most of the skills that used to be learned in high schools to provide entry into the job market are basically gone. High school youth face poverty wages or unemployment. Unemployment among African-American and Latina/o youth is between 40 and 50 percent. The prisons are filled with youth who cannot survive under jobless capitalism.

Educational institutions are being shut down, teachers laid off, schools privatized, because the ruling class regards education for the mass of youth, especially African-American and Latina/o youth, as superfluous. Skills and education are less and less needed by capital for operations -- both because the bosses are shrinking the economy and because of high technology.

A large proportion of the youth are no longer wanted or needed in the labor market. In the present economic crisis the bosses, especially the bankers, want to get their hands on the tax money used for

education and only want to create an educated elite minority for the relatively small number of high-skilled jobs.

The same is true for social services in general. The capitalist class regards the maintenance of services for the workers and the various communities as unnecessary overhead.

Austerity: deepening the crisis

This brings up the way the ruling classes in the U.S., Europe and Japan are reacting to the crisis. The solution of the financiers is to impose austerity --not austerity for the millionaires and billionaires who have gotten filthy rich by dipping into the public treasuries, but austerity for the workers.

The alarmist propaganda about deficits in the U.S. and sovereign debt in Europe springs from the historic relationship between banks, financiers and speculators, on the one hand, and the capitalist state treasury on the other.

Government debt has always been a source of enrichment for bankers, since even before the development of capitalism. But it developed by leaps and bounds once capitalism matured. The interest on government bonds constitutes a steady source of income to the financiers, who are only too glad to loan to the government.

Furthermore, by turning the government into a debtor, the financiers get a stranglehold on the state, having their representatives in the inner councils of government, dictating to presidents, prime ministers and monarchs alike. They have the inside track on all matters of finance.

Government loans are the most secure loans possible, precisely because they are secured by the capitalist state. The state not only has the power of taxation to back up the loans, but the political and legal power to give top priority to the allocation of government revenue for repayment of principal and interest. Of all government obligations, paying out interest on the debt is sacred and takes priority over all other commitments.

What banker or financier would not want to lend to the government?

In normal economic times, the bankers and bondholders do not give a thought to the unending flow of interest payments from the government treasury into their accounts. As long as tax revenue flows, the government is a permanent and secure

conduit that channels hundreds of billions of dollars annually into the vaults of the rich.

But when an economic crisis hits and government revenues drop, this secure flow of wealth to idle parasites, who do nothing for society but soak up the wealth created by the workers, comes into question. They ask: Will there be enough funds to pay the interest on the debt? Are government allocations of money to pay government workers or to maintain social services for the population, protect the environment, enforce safety in the workplace and other progressive functions of the capitalist state going to get in the way of payments to finance capital?

Bondholders get paid in pre-set amounts of money. In times of economic crisis, holders of government bonds want to be sure that the government does not put too much money into the economy for the workers because they know that the bosses will raise prices if there is money around to be sponged up. This will cause inflation, or the devaluation of the currency, and they do not want their loans to be paid back in currency that has lost some of its value.

When there is a threat to the bankers and bondholders, suddenly every politician, every publication and media source sounds the alarm about the deficit, saying that it is time for "austerity." Everyone now has to live "within their means."

This is the cry being heard now from Wall Street to Washington; from Berlin to Paris, London, Rome, Madrid, Lisbon, Dublin and Ottawa.

In the U.S. 600,000 government workers have been laid off since 2009. There is a proposal to lay off 120,000 workers from the U.S. postal service and close 3,000 post offices, many of which serve the rural poor.

Wisconsin, Ohio, Indiana, Arizona, Michigan and many other states have launched campaigns to break public sector unions, while they all cut back on financial aid to the poor and food stamps, medical care, heating assistance, student assistance, and many other services.

The Obama administration is preparing to cut Medicare, Medicaid and Social Security as part of a "grand bargain" with the Republicans. But it is not only a grand bargain with the Republicans. It is a bargain with the bankers and bosses who want to insure that their cut of the treasury is safe and secure.

The crisis in Europe has the same sound. The Greek government, in order to get a bailout from European governments, is proposing to lay off 150,000 government workers, one sixth of the public work force. There have been a series of general strikes against the austerity program.

The Italian government, in order to assure the financial markets that it will remain solvent, is proposing to change labor law to allow the government to disregard labor contracts, making it easier to fire workers. It is also going to raise the regressive sales tax. On Sept. 5 the Italian workers answered Prime Minister Berlusconi with a general strike.

The Cameron government in Britain has begun to implement an across-the-board 20 percent cut in government spending on social services. This is the biggest austerity program in the history of the country. There have been massive demonstrations against the cuts and a general strike is now under consideration.

Nothing more clearly illustrates the irrational character of the profit system and the inability of the capitalist class to extricate itself from the present crisis than the campaign for austerity.

Each bank, hedge fund, money market fund, and all the gamblers and speculators in government debt are scrambling in the U.S., Europe and around the world to secure their particular, immediate interests. Each bank or fund wants protection from the financial storm of government default and bankruptcy, which they fear is coming.

The Bank for International Settlements (BIS) issued a report in March of this year revealing some facts behind the panic over European government debt.²²

\$2.6 trillion “ultimate risk” to European and U.S. banks

The BIS reported that European and U.S. banks hold \$2.6 trillion at “ultimate risk,” which includes not only loans but potential loss on derivative and credit guarantees of various kinds. This involves only risk with respect to Greece, Ireland, Portugal and Spain. Other risk was not included in the report.

German banks have \$569 billion, French banks \$380 billion and British banks \$431 billion. The British have \$225 billion in Ireland and \$152 billion in Spain; France is “up to its neck in Greece with \$92 billion;” A Benelux-led group has \$180 billion in Spain and Spanish banks have \$109 billion in Portugal.

The BIS reported that as far as cross-border lending goes, the British banks and financial houses are in the lead with \$5.69 trillion followed by the U.S. with \$2.92 trillion.

This shows the extraordinary degree to which bankers everywhere live off government treasuries. It also shows how inextricably entangled global finance has become. And it shows that despite the collapse of Lehman Brothers in Sept. 2008, the bankers have recreated a new house of cards based upon an orgy of lending and speculation. As Marx said, capital cannot rest, it must seek a profit under even the most perilous circumstances.

In Europe the German bankers and the German government, as the richest and most powerful on the European continent, followed by the French, are demanding austerity from the Greek government, as well as the Portuguese, Irish, Spanish and Italian governments. The austerity demands have pushed all these economies toward recession.

Recession leads to cutting services and firing workers. Firing workers means cutting the revenue of the government. Lower revenue means that the governments in debt will have to borrow more, and at higher interest rates. But it was government borrowing that led to the budget crises, because the recession deprived the governments of revenue.

So the demands of the bankers lead to more recession, more borrowing, and higher interest rates. All these factors are what led to the crisis in the first place. So, in effect, the struggle in Europe over how to enforce austerity is objectively, a struggle over how to deepen the crisis. The bankers are promoting a death spiral.

Everyone knows this. It is not rocket science. But property divides. Knowledge of collective disaster is subordinated by each financial grouping acting in order to promote its own profit interests or to minimize its losses.

For the sake of protecting their own obscene prosperity, millionaire and billionaire bankers want to impose the harshest austerity on the entire working class – to the extent of throwing them out of their jobs, out of their homes and depriving them of the most minimal means of care and survival. But in doing so, the ruling classes are further increasing the grave risk to their own system in the midst of an already severe crisis. And it is truly at grave risk right

now. That is a measure of the irrationality of the profit system.

The declining rate of profit and the long arc of capitalism

It is notable that the most prominent capitalist economists are in a constant state of trying to revise their own projections and estimates. They do not understand their own system. They cannot, because if they did it would lead them to the most unpleasant conclusions.

These conclusions were spelled out by Marx, as a result of his investigations of the fundamental laws of capitalism. The conclusions were revolutionary. They foresaw the inevitable downfall of capitalism.

The most important feature of the system on which he based his conclusions was the Law of the Tendency of the Rate of Profit to Fall,²³ popularly known as the declining rate of profit.

The framework of the law is that capital cannot exist outside competition. Whether a small business or a giant monopoly, each capitalist entity is in competition with its rivals. A bigger capital kills a smaller capital. If one capitalist has a larger mass of profit, it can vanquish its rivals, either by putting them out of business or swallowing them up.

Each capitalist wants to invade its rival's markets and increase sales. The goal is not just to increase sales alone, but to increase profits, to reinvest them (accumulate capital) and grow stronger as a capitalist in the general overall competition.

The strongest monopolies, like AT&T, General Motors, U.S. Healthcare, Fiat, Total, Sony, British Petroleum and so on, are engaged in cutthroat competition with their corporate rivals on a daily basis.

No capitalist can rest once a given level of profit has been achieved. The accumulation of capital and striving after a greater and greater mass of profit is inherent in the nature of capitalism. Each capitalist must play the role dictated by this competitive race for survival -- or cease to be a capitalist.

This competition has propelled capitalist development from its earliest stages. The fundamental mechanism by which capitalists fought each other from the earliest stages was by getting a technological edge on their rivals.

But because capitalist production is also the exploitation of labor, and involves making production more profitable as against their rivals, technology is not just a weapon against capitalist rivals but a weapon against the workers.

Winning the competition against other capitalist rivals means sweating a greater mass of profit out of your labor force.

The capitalist who can introduce a technological innovation, from the power loom to the robot, immediately gets more unpaid labor time out of relatively fewer workers. Each worker produces more in less time and, if the capitalist enterprise can sell the extra commodities produced, it realizes a larger amount of unpaid labor or surplus value than its rivals.

As technology develops it takes relatively fewer and fewer workers to operate larger, more complex, and more expensive means of production and services. Introducing power looms in the days of the industrial revolution and introducing robotic production in the age of the scientific-technological revolution greatly increased the start-up expense of production.

As technology and productivity increase, the rate of profit goes down because the new technology is more expensive. The rate of profit is measured by taking the profit earned over the total investment. The constant capital, instruments of production and raw material, grow larger and more expensive the more productive they are.

The goal of the capitalist is to have fewer workers, each being more productive, and to lower the total wage bill, even if the remaining workers were to get higher wages.

Since labor creates all new value, with more commodities produced per hour by the workers, there is less and less surplus labor or profit embodied in each individual commodity. To compensate for the declining rate of profit, the capitalist must sell a greater and greater mass of commodities in order to get a greater mass of profit at the new low rate.

Soon the new technology is generalized throughout the industry as other capitalists introduce it in order to keep up. The capitalists who were the first to innovate lose their advantage. Some capitalist then tries to improve the technology further to beat out the competition and the process of technological innovation starts up all over again.

Relatively fewer workers put into motion more and more expensive means of production. The reserve army of unemployed grows. The consumption power of society remains constricted while more and more commodities are thrown onto the market.

The crisis of overproduction brings about a capitalist crash. During the crisis, the strong gobble up the weak (the centralization of capital). The victors acquire more capital. They use it to introduce further improvements in productivity, and so on.

This is the history of capitalism. The tendency of the rate of profit to decline and the attempt by capitalists from the earliest times to overcome it by introducing job-killing new technology was responsible for the historic rise in the productivity of labor.

The struggle to overcome the declining rate of profit has driven technology and the productivity of labor forward without end. It has driven capital to merge, conduct hostile buyout raids on rivals, bankrupt the competition and use every method to pursue its predatory aims of amassing more surplus value.

Capitalist monopolies have established research laboratories of their own, funded university scientific-technological research networks and received government funding for research on Pentagon high-tech projects. In fact, capitalism has been reorganized in the last 40 years around the high-tech revolution.

Workers in every sphere of production and services have fallen victim to this relentless process of increasing the productivity of labor. Typical examples are Wal-Mart's automated data processing cash registers; Verizon's wireless networks, which have thrown tens of thousands of telephone workers permanently out of work; General Motors' advanced robotics, which has enabled the shrinking of the workforce by hundreds of thousands.

The law of the tendency of the rate of profit to fall has come full circle. From being a force that drove production and capitalism forward to a force that is suffocating capitalist development and bringing new and higher levels of long-term unemployment to the working class.

Capitalism has outgrown the planet

Another measure of the depth of this crisis is that it comes at a moment in which world markets have vastly expanded. The so-called BRIC countries -- China, India, Brazil and Russia -- alone have a

combined population of over 2.5 billion people. The imperialist countries, the so-called central economies -- the U.S., Europe and Japan -- have intensely struggled to export their way out of the crisis, especially Germany, Japan and the U.S.

(The BRIC countries are developing at a different pace than the central imperialist countries. Brazil, Russia, India and China, are just beginning to feel the effects of the world capitalist slowdown.)

General Motors, Ford, IBM, General Electric, Dell, Hewlett-Packard, Volkswagen, Krupp and the entire galaxy of monopolies have also expanded production in all the BRIC to get closer to the markets. But neither exports nor imperialist investment have been able to get them out of the crisis.

Their economies are so productive, the capitalist competition so fierce, and overproduction so high, that even the expanded globalized markets cannot absorb what is produced.

World unemployment is rising. The International Labor Organization (ILO) estimate of 205 million unemployed worldwide is the closest thing to an official number.²⁴ Even this staggering statistic is most likely vastly understated. But aside from the absolute number, the ILO study shows that even though there was an increase of 27.6 million unemployed workers after the crash of 2007, unemployment remained the same during this year of so-called recovery.

Socialization of production vs. private ownership

The greatest contradiction of capitalism as an economic system is the contradiction between socialized production and private ownership. On the one hand, the bosses and bankers have built a system of production that organizes workers on a global scale into coordinated chains of production and distribution. On the other hand, ownership of all the means of production and distribution remains in private hands.

Every product of labor, from a shirt to a supertanker, is the product of intermingled world labor. But all the global means by which workers create the world's wealth in the capitalist world belong to the bosses.

An illustration of the socialized global network of production is the Dell computer company network, described by Thomas Friedman in his book *The World Is Flat*. This illustration is cited in the book *Low-Wage Capitalism* by this author.²⁵

Friedman asked Dell executives to tell him how his computer was created. Here are parts of the answer he got.

"Once his [Friedman's, fg] order was placed by phone it went to Penang, Malaysia, one of the six Dell factories in the world (the others were in Limerick, Ireland; Xiamen, China; Eldorado do Sul, Brazil; Nashville, Tennessee; and Austin, Texas). Surrounding every Dell factory are numerous parts supply centers, called Supplier Logistic Centers (SLCs), owned by different suppliers..."²⁶

It was not possible to tell precisely where the parts for Friedman's notebook came from without taking it apart. But even an account of the various possibilities is revealing.

The Intel processor came from an Intel factory located in either the Philippines, Costa Rica, Malaysia or China. The memory came from locally owned factories in south Korea, Taiwan, Germany or Japan. The graphics card could have come from a Taiwanese-owned factory in China, the motherboard from a Korean-owned factory in Shanghai, and the hard disk from a Japanese-owned factory in Indonesia or Malaysia, and so on.

Each component, including the modem, battery, LCD, power cord, memory stick, carrying bag, etc., could have been made at any one of multiple suppliers throughout the region, including Thailand, Indonesia or Singapore. Dell makes sure it has a stable of suppliers on hand to compete with each other and have parts available at all times. It is the suppliers that must keep the inventory on hand in order to keep Dell's business from going elsewhere.

The total "supply chain" for this computer, including suppliers of suppliers, came to about 400 companies in North America, Europe and Asia, mostly the latter, with about 30 prime suppliers.

This is the model of most global transnational corporations – differing only in detail, depending on the type of company.

If the Dell board of directors decides that sales and profits are slipping, it simply orders cutbacks in production. From a boardroom in New York, the order goes out that can wreak havoc on the lives of struggling workers on five continents, in different occupations, from manufacture to assembly to transport to clerical work, etc., working for subcontractors and their subcontractors.

Disposing of the world's productive forces as private property, whose aim is not to advance society but to advance the profits of super-rich owners, is becoming unendurable. This contradiction is playing out on a scale that is more widespread than at any time in history.

Capitalism has made every corner of the globe its sphere of exploitation and has now truly outgrown the planet. Not only is it threatening the economic survival of the world's population, it is threatening the physical basis of life, nature and the environment.

The new stage of imperialism, the crisis and prospects for struggle

The oppressed peoples of the world, the regions colonized and enslaved historically by colonialism and imperialism, have suffered the lashes of super-exploitation for the past 500 years. They have borne the brunt of the expanding system of global capitalism. And they have been robbed of much of the wealth that served as the foundation of capitalism.

Vladimir Lenin, the architect of the Bolshevik revolution of 1917, made a significant contribution to Marxism in his book *Imperialism, the Highest Stage of Capitalism*, written in 1916 during World War I.

Lenin described the division of the globe by the predatory "great" powers, the development of monopoly. He traced the merger of financial and industrial capital into finance capital and the rise to dominance of the banks. He also emphasized the growth of the export of capital and super-exploitation of the colonies characteristic of imperialism.

One of his lesser known but highly important contributions was to explain how the plunder of the colonial world by imperialism provided the wealth with which the ruling classes were able to throw crumbs to the upper strata of the working class, including first of all the labor leadership.

He explained that these privileges doled out to the "labor lieutenants of the capitalist class" and their base in the upper sections of the working class were the key factors in postponing the proletarian revolution in Europe.

This discussion by Lenin of the effect of imperialism on its own working class must be looked at anew and updated in light of changed circumstances.

To quote from *Low-Wage Capitalism*:

“In the present era the scientific-technological revolution has brought about development of the productive forces — in electronics, computerization, transportation, communication, and Internet technology — that has enabled the monopolies to reorganize world production, bringing hundreds of millions of low-wage workers into global manufacturing and services and thus, in direct wage competition, job for job, with the working class in the imperialist countries....²⁷”

“The process of imperialist super-exploitation was freed from all geographical limits by the scientific-technological revolution. It could now be carried out wherever workers could be rounded up on the globe....²⁸”

“Whereas the export of capital was once used to foster an upper stratum of the working class in the imperialist countries, to soften the class struggle, and to promote social stability, with the new world division of labor the export of capital is being used to drive down the living standards of the workers in the imperialist countries, decimate the upper layers of the workers and sections of the middle class, and destroy job security and social benefits. This will inevitably undermine the foundation of social stability. It will lay the basis for the revival of class warfare in the heartland of the giant corporate exploiters. Furthermore, the expanding worldwide socialization of the labor process and the rapidly growing international working class is making class solidarity across borders against imperialism an imperative.²⁹”

Prior to the economic crisis of 2007, the majority of the working class in the U.S. had already suffered three decades of decline in their wages and benefits. The workers waged a hard-fought but losing battle against a relentless, repressive anti-labor campaign that began during the Reagan administration.

They put up valiant struggles but were betrayed by a conservative labor leadership, tied to the Democratic Party -- in reality, tied to the ruling class. This leadership led a humiliating retreat and is still doing so today.

But crisis conditions will dictate rebellion. The working class and youth in Greece have struck and demonstrated militantly against the austerity plans imposed by the European bankers. Spanish workers have struck and the “indignant ones” in Madrid have taken the struggle to a higher level. Portuguese workers have had three general strikes in the last two

years. Italian workers and British workers struck or demonstrated en masse against austerity.

The Tunisian and Egyptian upheavals were driven by unemployment and poverty caused by world capitalism. The students and workers in Chile have defied the regime. The Honduran masses are in a state of resistance against the U.S.-backed coup.

In the U.S., workers are just beginning to stir. In 2006 immigrant workers staged what amounted to a general strike involving millions to protest proposed repressive anti-immigrant legislation. The legislation was dropped. In 2009 workers occupied the Republic Windows and Doors factory. This was the first plant occupation since the 1930s.

Wisconsin workers in alliance with students seized the state Capitol and held it for two weeks last winter to try to stop a union-busting bill. There was even talk of a general strike.

This was the first such seizure by U.S. trade unionists since World War II. The International Longshore and Warehouse Union (ILWU) called a one-day general strike in solidarity with the Wisconsin workers and shut down ports all along the West Coast.

Only maneuvers by the Democratic Party and the labor leadership to get the workers in Wisconsin out of the capitol building and steer them into an electoral recall movement kept the struggle from going further.

In Washington state this September longshore workers in the International Longshore and Warehouse Union blocked a train carrying grain to a scab, non-union-operated granary and entered the warehouse, scattering the corn. All ports in Washington state were shut down for the day.

These are rumblings of resistance from down below that are sure to grow in frequency and intensity as the crisis deepens and workers, communities, students and youth come under even greater pressure and suffer even greater hardships.

No one can know when and how the struggle will grow and spread. The only certainty is that it will.

It is extremely important to grasp the profound nature of the present crisis. After pouring in trillions of dollars to stem the crisis, the ruling classes have lost even the temporary control that financial intervention gave them.

We are in the early stages of an historic crisis. It is important to recognize this for all those who strive to

get rid of capitalism. If we can anticipate tumultuous events and great pressures on the masses that are to come, then we can anticipate the opportunities and challenges also.

Being determines consciousness, but not automatically and not necessarily in the short run. In fact, consciousness lags behind events, but it eventually catches up when life cannot go on in the old way.

We must imagine the workers in the imperialist countries, and especially in the center of world imperialism, the U.S., not as they were yesterday under conditions of witch-hunt and reaction, not as they are today, in the hands of sell-out labor leaders and capitalist politicians, but as they will be tomorrow under completely transformed conditions of the steady breakdown of capitalism at a dead end.

But revolutionary class consciousness and revolutionary organization, both of which are necessary for the workers and the oppressed to fight their way out of the crisis, will not spring forth automatically. Class-conscious revolutionaries, intent on helping the workers, must play an indispensable role by facing the crisis and preparing now for future struggles.

In the long run, the only road to genuine recovery from the present capitalist crisis, true recovery by the working class and the vast majority of humanity, is to get rid of capitalism altogether and to reorganize society on a socialist basis, where all the forces of production and distribution are operated for human need, and in harmony with nature, not for human greed and profit.

The present crisis confirms Marx's analysis and prognosis. In that regard the final words of his chapter in Volume I of *Capital* on the "Historical Tendency of Capitalist Accumulation" are appropriate:

"Along with the constantly diminishing number of the magnates of capital, who usurp and monopolize all advantages of this process of transformation, grows the mass of misery, oppression, slavery, degradation, exploitation; but with this too grows the revolt of the working class, a class always increasing in numbers, and disciplined, united, organized by the very mechanism of the process of capitalist production itself. The monopoly of capital becomes a fetter upon the mode of production, which has sprung up and flourished along with, and under it. Centralization of the means of production and socialization of labour at

last reach a point where they become incompatible with their capitalist integument. This integument is burst asunder. The knell of capitalist private property sounds. The expropriators are expropriated."³⁰

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⁴ "Give the Kids Jobs," Gordon Brown, The Daily Beast, Sept. 2, 2011.

⁵ Karl Marx, *Capital*, Vol. I, Part VII (New York: International Publishers, 1967).

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⁸ For a full treatment of this period, see Goldstein, *Low-Wage Capitalism*.

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²⁵ Goldstein, *Low-Wage Capitalism*.

²⁶ Friedman, *The World Is Flat*, p. 516.

²⁷ Goldstein, p. 57.

²⁸ Ibid. p. 55.

²⁹ Ibid. p. 57.

³⁰ Marx, Vol. I, Chapter XXXII, p.763.