

# **Struck by Congress: Social Welfare in the United States<sup>1</sup>**

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**“I’ve been struck by lightning, struck by Congress.”**

Woody Guthrie

**“Somebody done nailed us on the Cross.”**

Mississippi Sharecropper (1930s)

**“What needs explaining is neo-liberalism’s growing dominance in the industrialized countries alongside the long stretch of economic stagnation.”**

Harry Magdoff<sup>2</sup>

## **I. Introduction**

The purpose of this paper is to present a state of the union status of the United States, which is likely to ring very different than that which is delivered by the US President every January. The perspective will be from that of the working class and based upon published statistics, mostly from the US Government itself. The paper will also attempt to address the above observation by Harry Magdoff concerning the dominance of neoliberalism in mature capitalist countries. Is it a result of Gramscian ideological hegemony, which tends to preclude democracy from the grass roots, or is it necessarily part of the logic of mature capitalism and part of the contradictions of the capitalist system? Even if life is to become more of a struggle for the majority in the interests of

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<sup>1</sup> A shorter version of this paper was presented at the conference: The Socialist Market Economy and Other Theoretical Issues, Beijing, China, 2-3 June, 2007.

<sup>2</sup> Quoted in William K. Tabb, “Let the Dialectic Continue,” *Monthly Review* 58 (5) October 2006, p. 41.

corporate profits and capitalist accumulation, why do the vast majority of people tolerate their economic degradation when the tools of democracy are available to be used?

My mother used to tell a story, I believe an old Arkansas story, perhaps passed down from some of her Scottish ancestors. It is about three old men dividing up the fish that they have caught. Two are apparently illiterate. The other one in charge has devised his tactic cleverly, it seems and the process sounds legitimate to the illiterate hillbillies. He takes a fish and goes round from one of the fishermen to the other saying “ought from ought and one I carry, and he places the fish in his basket. He takes another fish and repeats the process until at the end all the fish are in his basket and the other two bewildered fishermen are left with nothing (ought or naught). His clever formula is his cover for cheating the other two from each fish, equivalent, perhaps, to an ideology. The process of hocus pocus appears to be legitimate but in the end accumulates the capital of the fish to him, who assumes the position of the ruling class. There was a good reason that such stories went around among the Irish working class in America in coal mining communities.<sup>3</sup> It was what they experienced every day, month and year as part of the working class.

It seems that the story illustrates quite clearly the principles of neoclassical economics, which embodies a myth and appearance of fairness, but in the end strips the working class of the fruits of their labor, even when they develop a class consciousness that they are being cheated. Perhaps it would be too costly to revolt and ask for justice. Perhaps they buy into the ideology that the system is just if they can just get into a better position.

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<sup>3</sup> Eddie J. Girdner, “A Miner’s Life: American mine workers on film,” [Link](#), [India] October 1993, pp. 14-23.

We know that the protestant ideology and its work ethic has resulted in an exceptionally productive and hard-working class of laborers in the United States, yet a large proportion of them end up at the end of their lives with essentially nothing in terms of wealth. As Woody Guthrie once lamented at the end of a song, “I gave my fish back to the finance company.” Their fish end up with the finance company and they are left with nothing to show for their hard labor. In fact, this is exactly the way the capitalist system is supposed to work and could not work otherwise (if it is working well), but one is not supposed to understand how or why it works this way. It is the function of ideology to preserve the lie. Neoclassical economics is a theory of an imaginary economic system which does not exist in the real world<sup>4</sup> and sometimes leads to astonishing fantasies, such as the idea of the “new economy” in the 1990s,<sup>5</sup> which was supposed to be immune from the historical ills of capitalism.

The United States is generally recognized to be one of the wealthiest countries on the earth. This has certainly been true since the end of the Second World War and consequently, with a reasonable degree of social welfare, its citizens should be relatively well off. But this is true only to a degree and in the last 30 years inequality has been steadily growing worse. The contradiction which the above anomaly seems to embody is, as we know, a normal consequence of the capitalist system and is to be expected. As in the fish story, the division of the spoils is set ahead of time and those who control the system are sure to end up with the pot of gold.

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<sup>4</sup> Samir Amin, The Neo-liberal Virus. New York: Monthly Review Press. Neoliberalism is not a “scientific framework.” It is “an ideological cover for the promotion of capitalist interests.” See Martin Hart-Landsberg, “Neoliberalism: Myths and Reality,” Monthly Review, 57 (11), April 2006, pp. 1-17p. 2. Vincent Navarro has pointed out that neoliberalism is also a form of class practice. “The World Wide Class Struggle,” Monthly Review 58 (4) Sept. 2006, pp. 18-33.

<sup>5</sup> “The New Economy: Myth and Reality,” Monthly Review 52 (11), April 2001, pp. 1-15.

It is useful to mention a few works which have dealt with the political economy of America from a working class standpoint. The myth of interest group theory constructed as the main ideological explanation of the operation of American politics by American political scientists such as David Truman and Robert Dahl<sup>6</sup> was shown to badly miss the point by C. Wright Mills in his 1959 book, The Power Elite. Mills pointed out that the “warlords, the corporate chieftains and the political directorate” formed the “power elite of America” and that rule was essentially in their hands.<sup>7</sup> Thorstein Veblen analyzed the values of the upper classes under capitalism as part of “the Barbarian Culture” in The Theory of the Leisure Class.<sup>8</sup> The degradation brought to the common people of America in the great depression was depicted by Erskine Caldwell in his 1932 classic, Tobacco Road.<sup>9</sup> Woody Guthrie portrayed the experience of the working class in America in his ballads and John Steinbeck chronicled the class struggle of the Okies.<sup>10</sup> Working class woes have also been chronicled in Edward Abbey and Studs Terkel.<sup>11</sup> Of enormous value is the work of Harry Braverman on the degradation of work under capitalism.<sup>12</sup> The degradation of social welfare in the deep south has been studied and documented by

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<sup>6</sup> Robert A. Dahl, A Preface to Democratic Theory. Chicago: University of Chicago Press, 1956. David B. Truman, The Governmental Process. New York: Knopf, 1951.

<sup>7</sup> C. Wright Mills, The Power Elite. New York: Oxford Univ. Press, 1959, p. 9.

<sup>8</sup> Thorstein Veblen, The Theory of the Leisure Class. New York: Dover, 1994. First published in 1899.

<sup>9</sup> Erskine Caldwell, Tobacco Road. Univ. of Georgia Press, 1995. First Published 1932.

<sup>10</sup> Woody Guthrie, Pastures of Plenty; Joe Klein, Woody Guthrie: A Life. New York, Dell Publishing, 1980; Ed Cray, Ramblin' Man: The Life and Times of Woody Guthrie. New York, W.W. Norton, 2004; Woody Guthrie, Seeds of Man: An Experience Lived and Dreamed. Lincoln, Univ. of Nebraska Press, 1976; John Steinbeck, The Grapes of Wrath. Penguin, 2002.

<sup>11</sup> Edward Abbey, Confessions of a Barbarian; Selections from the Journals of Edward Abbey 1951-1989. Boston, Little Brown, 1994; Edward Abbey, The Fool's Progress. New York: Henry Holt and Co., 1988. Studs Terkel, Working: People Talk About What They Do All Day and How They Feel About What They Do. New Press: 1997. See the classic: Harry Braverman, Labor and Monopoly Capital: The Degradation of Work in the Twentieth Century. New York: Monthly Review, 1974. The workers class struggle has recently been analyzed in Ralph Miliband, Divided Societies: Class Struggles in Contemporary Capitalism. Oxford, Oxford Univ. Press, 1991. More recently, the work by Barbara Ehrenreich, Nickel and Dimed: On (Not) Getting By in America. Owl Books, 2002. See Barbara Ehrenreich and Tom Engelhardt, “A Guided Tour of Class in America,” Znet, June 4, 2006.

<sup>12</sup> Harry Braverman, Labor and Monopoly Capital: The Degradation of Work in the Twentieth Century. New York: Monthly Review, 1974.

James C. Cobb. The New Deal programs of the 1930s were diverted to the southern planters in Mississippi as a mainstay of the ruling class.<sup>13</sup> US public policies have long kept people poor and politically and economically repressed. This is not changing as recent works have shown.<sup>14</sup>

In fact, under neoliberalism during the last thirty years, the hard-won gains of the working class in the United States have been eroded, badly degrading social welfare for the great majority of people.<sup>15</sup> On the face of it, there is no objective reason why the working class should be so poor, as the statistics show they are in the United States. The US is one of the richest countries on earth. The US has spent on the order of \$500 billion on the war in Iraq, so far, which has completely failed in its stated goals, and there is no end in sight.<sup>16</sup> The United States has resources to provide adequate social welfare to

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<sup>13</sup> James C. Cobb, The Most Southern Place on Earth: The Mississippi Delta and the Roots of Regional Identity. Oxford, Oxford Univ. Press, 1992.

<sup>14</sup> Molly Ivins and Lou Dubose, Bushwhacked: Life in George W. Bush's America. New York: Random House, 2003. Ivins and Dubose contains a wealth of information on the first George W. Bush Administration. Eddie J. Girdner, "A Picture from Life's Other Side," Mainstream [India] 42 (26), June 29, 2004, pp. 23-31 (My review of Ivins and Dubose). Si Kahn and Elizabeth Minnich, The Fox in the Henhouse: How Privatization Threatens Democracy. San Francisco: Berrett-Koehler Pubs., 2005; Greg Palast, The Best Democracy Money Can Buy: the Truth About Corporate Cons, Globalization, and High Finance Fraudsters. New York, Plume, 2003.

<sup>15</sup> Some of these negative trends for the working class are mildly addressed by Ben S. Bernanke, Chairman of the Federal Reserve Board. For example, admitting that economic inequality has increased over at least the last three decades, that immigration from poor countries is reducing wages, that trade is having adverse effects on the working class (while arguing that less trade would be worse for the country), that decrease in unionization has contributed to inequality and that the real value of the minimum wage has "been fairly flat in recent years." On the last, on the average, it has actually decreased. Bernanke makes a few very weak policy suggestions, none of which address the large hand-outs to corporations. But even the ones he makes, such as "cushioning the effects of any resulting dislocations" due to globalization, such as supporting retraining and job search and improving the health and pension benefits of displaced workers, are completely opposite of the policies of the Bush Administration. Ben Bernanke, "The Level and Distribution of Economic Well-Being," (Remarks made before the Greater Omaha Chamber of Commerce.) Feb. 6, 2007. It has been pointed out that even when the minimum wage is increased by 2009, it will only be back to the level of the 1950s. Just because more people may have air conditioners and refrigerators than in the 1950s, and this helps them out, it says little about well-being in the larger sense. Some of the poorest people have cell phones, once the market has been saturated and flooded with these products. Holly Sklar, "Minimum Wage Raise Is Good for Business," McClatchy-Tribune News Service, Feb. 12, 2007.

<sup>16</sup> The estimates of the cost at some two trillion dollars by Joseph Stiglitz and Linda Bilmes has got the Government so upset they have pulled off some of the websites upon which the article was based. "Economist Stiglitz Says Iraq War Will Cost \$1-2 trillion," Columbia Magazine. See

everyone, yet, it is not the case. The reason, we know, is simply capitalism, but within the dynamic of actually existing capitalism, there is a class struggle and a division of the spoils.<sup>17</sup>

The ultimate objective of capitalism in the United States is not really “consumer satisfaction” as claimed by political economists such as Robert Gilpin,<sup>18</sup> but rather the accumulation of capital. There is a direct contradiction between social welfare and capitalist accumulation. Today in the US the problem is excess capital and excess capacity and so investment flows abroad and is not invested in the US. The manufacturing sector has been declining for years. At the same time, the public is being asked to believe that it is no longer possible to provide social welfare as it is not possible to do so and keep capitalist accumulation high.

There were two recent notorious cases, but they are all too frequent nowadays, of 200 million dollar range giveaways to CEO’s, not for performance, just giveaways, even though the performance was actually very low. These were at Home Depot and Pfyzer. Moreover, it seems that the prevailing psychology in the United States is significantly different from that in Europe and even Turkey, where people were shocked at the callousness of the US Government over the Hurricane Katrina disaster. Turkish commentators were asking why the state did not step in and do something for the people

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[www.josephstiglitz.com](http://www.josephstiglitz.com) for the paper. At the same time, the domestic infrastructure crumbles. Jason Leopold, “Power Problems Persist,” Znet, August 20, 2006. From the standpoint of the ruling class, however, one could argue that the cost has not been inordinately high. The deaths of some 3600 US soldiers by mid 2006, while staggering by European standards, is probably considered trivial by US standards and the US occupation of the region is in place for the rest of the twenty-first century. The necessity of further costs in wars and lives lost is of little or no concern from those quarters.

<sup>17</sup> See the magnificent study by the late Ralph Miliband, Divided Societies: Class Struggle in Contemporary Capitalism. Oxford: Oxford University Press, 1991. The fallacy of market capitalism is considered in George Soros, “The Capitalist Threat,” The Atlantic Monthly, February 1997, pp. 45-58.

<sup>18</sup> Robert Gilpin, Global Political Economy: Understanding the International Economic Order. Princeton: Princeton Univ. Press, 2001.

in the disaster. Turkey is a much poorer country but in the past, as a result of having a strong state, has provided a degree of social welfare which has now been significantly eroded by IMF austerity programs imposed from Washington.

In the United States, on the other hand, there is a long tradition that seems somewhat (perhaps) unique and has only been challenged perhaps in the populist era when struggles were launched. It was only with the New Deal that anything very significant was done for the purpose of saving the system. We can understand the past better by reading Erskine Caldwell's Tobacco Road, which shows that miserable state of degradation which many had sunk into in the era of the Great Depression. John Steinbeck's Grapes of Wrath, too shows this era of social degradation of the capitalist system from the perspective of the working class and Woody Guthrie's Dust Bowl Ballads. A more systematic study of this is in James C. Cobb, The Most Southern Place on Earth. All these show that there is a long tradition of denying the material essence of democracy to the American people. For this reason it is questionable whether one can seriously consider the United States a democratic country. We see that there is a direct contradiction between the actually existing neo-liberal economic system in the US and democracy and social welfare. Social welfare is not possible to an adequate degree under neo-liberalism. The strain institutionalized in the US is exceedingly virulent.

The data shows that since the 1970s, the working class in the United States has been under attack and many historic gains made by the working class have been rolled back.<sup>19</sup> This, however, does not conform to the image of the United States around the

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<sup>19</sup> Simon Head, "The New, Ruthless Economy," The New York Review of Books, Feb. 29, 1996, pp. 47-52, shows the trend of falling wages for workers while the salaries of CEOs increase inordinately. Jeff Madrick, "In the Shadows of Prosperity," The New York Review of Books, Aug. 14, 1992, pp. 40-44, shows how inequality in the US is increasing by leaps and bounds. Nicholas Lemann, "Mysteries of the

world. Generally, there exists the myth of the United States as a successful capitalist country that generally gives every one ample opportunity to get rich and where everyone generally has enough. The reality, however, is quite different. In fact, the American people are being set up for a much more difficult future with the triple deficits existing today: the budget deficit, the trade deficit<sup>20</sup> and the current account deficit. Along with the push for more imperialist ventures, there exists the further rolling back of social welfare, loss of social security, loss of pensions, further dilution of the educational system, and further privatization of education.<sup>21</sup>

In fact, private capital is gaining ever greater control, ever greater rule over the lives of people with the US Government primarily serving the needs of capital. The argument that government under neo-liberalism is being hollowed out is not quite correct. In fact, government is often expanded and strengthened to serve capital, rather than the people. When capital rules, this is the antithesis of democracy.

Further, the so called war on terrorism is bogus to the core. Now there is increasing evidence that 9-11 did not really happen as a terrorist act.<sup>22</sup> The war on terrorism is designed to replace the Cold War as a device for political repression and discipline and to further imperialism around the globe. The Cold War was also largely an ideological construct.<sup>23</sup> Today we see war profiteering on a colossal scale with such firms

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Middle Class," The New York Review of Books," Feb. 3, 1994, pp. 9-13, reviews a series of books which shows the declining prosperity of the middle classes since the 1960s. Benjamin M. Friedman, "The Morning After," The New York Review of Books, Aug. 13, 1992, pp. 11-16, reviews books about the Reagan era in the 1980s, in which the rich did well but the national debt of the United States grew inordinately.

<sup>20</sup> The US trade deficit reached some \$740 billion dollars for 2006.

<sup>21</sup> Barbara Ehrenreich, "Class Struggle 101," The Progressive Nov. 2003.

<sup>22</sup> See the video "Loose Change" available on the internet.

<sup>23</sup> David Horowitz, From Yalta to Vietnam: American Foreign Policy in the Cold War. Middlesex, Penguin, 1967.

as Halliburton the most prominent example.<sup>24</sup> The data shows that firms are rich with capital in the United States but do not find an outlet for the investment of capital in the domestic arena. The whole corporate establishment has long been feeding at the public hog trough. It is time for the American people to force some change, but it cannot be done by simply changing faces in the Government. What we are talking about is class struggle. What the current crop of democrats may talk about or do will be only minor tinkering and window dressing as both political parties in the United States are essentially part of the same political machine. They simply represent two factions of the political class which has the same ideology and essentially the same platform. There will be no significant change without a ground swell from the public, which does not seem to be in the wind at the moment, or a deep crises in the entire global system which forces unavoidable change. While the George W. Bush Government is surely the worst government ever in the United States things can yet get worse.

## **II. The Welfare Crisis in the United States:**

It is often noted that among developed nations, the United States has the most regressive system of welfare and the system is becoming more punitive.<sup>25</sup> Today the US lacks a national health care policy, the universal right to health care, and a comprehensive family policy. Welfare reform beginning with the Clinton Administration has resulted in deep cuts in welfare and those receiving any kind of help are today under constant surveillance.<sup>26</sup> Currently some 170 million Americans are covered by employment-based

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<sup>24</sup> "Money trumps peace." George W. Bush's remark at a news conference on February 14, 2007. Did he understand the implications of this remark? See the video: "Iraq for Sale: The War Profiteers," (Brave New Films).

<sup>25</sup> Tony Platt, "The State of Welfare: United States 2003," *Monthly Review* 55 (5) October 2003, pp. 13-27.

<sup>26</sup> Robert M. Solow, "Guess Who Pays for Workfare," *The New York Review of Books*, Nov. 5, 1998, pp. 27-28, 36-37. This article shows that President Bill Clinton's welfare reform, Workfare, would have the effect of putting the burden upon the working poor and in the end not work. The system would not provide

health plans while some one-third has occupational pensions. Such plans are assisted and made feasible by government subsidies and tax breaks.

Historically, the US drew upon the European poor laws as the basis of a welfare system. This was based upon teaching the lesson that all must work and was pointedly “intimidating and begrudging.”<sup>27</sup> In 1965, the United States was ranked 21 out of 22 western nations in welfare expenditures. During the 1970s, about 14 percent of the federal budget was spent on welfare compared to 24 percent for other nations in the same category. By 1995, the US was spending only about half of what other comparable nations spend (17 percent of GNP) and the US spent the least of ten comparable nations.

Historically, welfare for the working class in the United States has gone through three stages. First, from the Civil War to the 1920s, a post-war pension system was established which reached a quarter of the elderly men. The federal Freedman’s Bureau (1865-72) implemented programs to deal with the dissolution of slavery. In the 1910’s, “Mother’s Pensions” were established and gave benefits to about 50,000 widows with children, although the program covered only a small portion of the needy. The second period (1930’s to 1970s) saw the creation and expansion of a national welfare system primarily due to the efforts of the labor movement, the partial reform of capitalism, and the Civil Rights Movement of the 1960s. Also important was the New Deal, the GI Bill, the War on Poverty, Medicare and Affirmative Action. However, these programs in their totality never reached the level of European welfare standards.<sup>28</sup> Many programs were established, including old age insurance, unemployment insurance, worker’s

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enough jobs to absorb those thrown into the work force and the Government would need to have a program to create jobs.

<sup>27</sup> Tony Platt, “The State of Welfare,” pp. 13-14.

<sup>28</sup> Tony Platt, p. 14.

compensation, the GI Bill, job training programs, housing subsidies, family subsidies, the War on Poverty, Medicare, Medicaid, anti-poverty initiatives, and Affirmative Action.

The Third period (1980s to the present) has resulted in a reduction of welfare to the poor and working class after the defeat of liberal social policies. This corresponds with the triumph of neo-liberalism and the weakening of the Left.<sup>29</sup> During the second Clinton Administration, welfare reform began to be implemented under the “Personal opportunity and Work Responsibility Act” signed in August 1996. The old program, Aid for Families with Dependent Children (AFDC), was replaced with “Temporary Assistance for Needy Families” (TANF). Under this new program, welfare aid is limited to 60 months in one’s entire lifetime, work activities are required, legal immigrants are prohibited from receiving food stamps and social security insurance, teen parents are required to live at home or under adult supervision, and food stamps are limited to three months out of every 36 months for able-bodied single unemployed adults.<sup>30</sup> As a result of the new laws, between 1994 and 2001 the welfare case load was reduced from some five million cases to 2.1 million.

Under TANF, welfare recipients are being forced into menial work while most training and educational programs have been cut. More men and women are being sent to prison.<sup>31</sup> About 12 percent of Blacks age 20 to 34 are in prison. There are about one million Blacks in prison in the US. The effect has been even more severe on women, with the number of women in US prisons tripling between 1985 and 1997. The US has ten

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<sup>29</sup> A useful paper is Kim Scipes, “Neo-Liberal Economic Policies in the United States: The Impact on American Workers,” ZNet Labor, February 2, 2007.

<sup>30</sup> Tony Platt, p. 15. Marvin Olasky, The Tragedy of American Compassion. Washington, DC: Regnery, 1992.

<sup>31</sup> James Vicini, “Number of U.S. Prisoners has biggest rise in 6 years,” Reuters, June 27, 2007. Between June 30, 2005 and June 30, 2006, the US prison population increased by 62,000 or 2.8 percent. This brought the total prison population in the U.S. to 2,245,000. The second leading country in the world is China with 1.5 million prisoners and Russia is third with 885,000.

times the number of women in prison as Spain, England, France, Scotland, Germany and England combined.<sup>32</sup> Tony Platt argues that “workfare” created a “new stratum” of workers who are “indentured,” have lost their previous welfare rights and do not enjoy the basic rights of workers.<sup>33</sup> There are other ways the US welfare or “workfare” system contributes to poverty creation. These welfare recipients can be used to replace regular employees, such as 34,000 city employees in New York City, some ten percent of the work force. These workers are used to clean the subways and do other menial labor jobs at below minimum wage. So they are not given jobs with living wages which could sustain a viable life style. This keeps them in bondage in a perpetual poverty trap with no hope or effective possibility of escape for all practical purposes. No one can live effectively on the minimum wage, much less below it, so it merely sets up individuals for inevitable failure.

Another aspect is the creeping “social engineering” from the political right, which forces teenage mothers to live with families or relatives. The needy are subjected to “morality tests” which are not applied to the middle classes. Right-wing pundits have reared their heads in these vineyards. These include the notable Marvin Olasky, a right-wing born again historian; the infamous John Ashcroft, former Attorney General under George W. Bush’s first presidency, who has worked to broaden the role of religious organizations in providing welfare; John Dilulio, a conservative born-again political scientist; and James Towey, a government official in Florida who provides legal advice to the state in getting welfare grants shifted to religious groups.<sup>34</sup> This is actually the Texas model, writ large, on a national scale. The rest of the world awaits but certainly the

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<sup>32</sup> Another possibility is that the “criminal justice system” is indeed a criminal justice system.

<sup>33</sup> Tony Platt, “The State of Welfare.”

<sup>34</sup> Tony Platt, pp. 18-20.

models warms the heart-strings and inspires religious political parties in countries, like Turkey, which have tried to adhere to secular principles in national social advance.

Currently, some 42 million people in the United States have no medical insurance at all. While the Bush Government is trying to shift more people to Health Maintenance Organizations (HMOs), states are being given more freedom to put caps on health benefits to the elderly, poor, and disabled. There are cut-backs in services such as prescription drugs, eye glasses, and nursing home care. Another jewel of right-wing social engineering is “charitable choice” provided for in the TANF bill. States can delegate welfare programs to religious groups, the twin aspects of “privatization and moralization” combined. All this adds to the crises in welfare in the US.<sup>35</sup>

### **III. The Neo-liberal Economy in the United States Today (Macro Factors):**

The shift toward a neo-liberal attack on the working class in American can be traced to the McCarthyist right-wing political purges during the Eisenhower Administration in the 1950s, but which began to be more fully institutionalized in the 1970s with the rise in competition abroad with the recovery of the European and Japanese economies.<sup>36</sup> With stiffened competition from the outside world, beginning in the 1970s, US corporations reacted by taking a series of measures including abandoning core businesses, investing offshore for cheap labor, shifting capital into speculative ventures, subcontracting to low wage contractors in the US and abroad, demanding wage cuts and

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<sup>35</sup> Tony Platt, pp. 20-21.

<sup>36</sup> There was a purge of “Fair Dealers” within the Government, under various guises in the 1950s, at least 134,000 employees to turn the policies more conservative. Jobs were withdrawn from civil service coverage. Thousands were fired or forced to resign through a “security ruling” in which a person could be fired for “a reasonable doubt” of someone’s “security risk” status. Some jobs were simply abolished. Others were “let dry up on the vine” in useless projects in order to get rid of those “whose ideologies” were “covertly hostile to Republican policies.” C. Wright Mills, The Power Elite, p. 239. Of course this was related to McCarthyism.

concessions from workers, and converting jobs to a contingent, part time, status.<sup>37</sup>

Moreover, the US Government continuously encouraged firms to take these steps to make the US more competitive globally.<sup>38</sup> Today the degradation has advanced much further and matured into what can only be called a crisis in welfare and relatively extreme insecurity for workers in the United States.

Michael Perelman has looked at inequality in the United States which largely resembles that in Latin America.<sup>39</sup> In the 1960s, capitalism in the US ran into problems. The reaction of capital, as noted above, was to attack workers' rights, pursue tax cuts and deregulations, and increase government subsidies to companies. The major effect was to shift wealth upwards. Between 1970 and 2003, per capita income doubled, but the system created far more inequality.<sup>40</sup> Wages peaked in 1972 at \$8.99 per hour in 1982 dollars. By 2002, some 80 percent of workers were worse off than in 1970. In terms of average income for the bottom 90 percent of the population (2000 dollars): wages in 1970 were \$27,041; in 1973: \$28,540; in 1993: \$23,892; and in 2002: \$25,862. The picture at the top looked considerably different with the top 10 corporate CEOs getting about 49 times the wages of the average worker in 1970. By 2000, this inordinate flogging of the working

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<sup>37</sup> US and European corporations are infused with corruption. The 161 partners of Goldman Sachs shared \$2.6 billion. At the same time, the 26 million people of Tanzania shared \$2.2 billion. Paul Foot, "Is Capitalism Sick?" The Guardian, June 13, 2002. The huge bonuses at Goldman Sachs continued in 2006.

<sup>38</sup> Bennet Harrison and Barry Bluestone, The Great U-Turn: Corporate Restructuring and The Polarizing of America. New York: Basic Books, 1988. As neoliberalism has deepened in the United States in subsequent decades, these trends have only been strengthened. Serge Halimi, "The America Not Made For You and Me," Znet, March 15, 2006. The CEO of Wal-mart received \$27,207, 799 in 2005, while the average employee earned \$13,861. This is a ratio of one to 2000. Wal-mart employees some one million people in the US. If it were a separate country, it would be the third largest importer of Chinese goods.

<sup>39</sup> Michael Perelman, "Some Economics of Class," Monthly Review, 58 (3), July-Aug., 2006, pp. 18-28; William K. Tabb, "The Power of the Rich," Monthly Review, 58 (3), July-Aug. 2006, pp. 6-17. Inequality means that people are less healthy and their lives are shorter. Helen Epstein, "Life & Death on the Social Ladder," The New York Review of Books, July 16, 1988, pp. 26-30.

<sup>40</sup> Paul Street, "What is a Democracy: The Empire and Inequality Report, no. 8," Feb. 3, 2007. He names the American political system "dollar democracy." Or why not just "dollarocracy"?

class by corporate management increased the top CEO salaries to some 2173 times the average wage.<sup>41</sup>

The rich have been inordinately successful in the strident and callous rolling back of Keynesianism since the 1970s. William Simon, who later became the US Treasury Secretary, wrote that the financial and business class had to take back the power and privileges which they had lost due to the Great Depression and the New Deal.<sup>42</sup> This assault was carried out with a vengeance. The political system in the US is a “government of the rich that has acted in the interests of the rich.”<sup>43</sup> Almost all of the money for political campaigns in the US is donated by some 100,000 individuals. This is the soul of the system, the fuel on which it runs. Corporate lobbyists spent some 4 billion dollars in 2004 buying the laws they need to sustain profits. William Tabb sees political “parties” as “blocs of investors that back candidates who represent their interests.”<sup>44</sup> We could just as accurately, perhaps, say who “buy” those candidates. In the 2000 Presidential Campaign, George W. Bush told his backers at a fund-raising meeting: “This is an impressive crowd... The haves and have-mores. Some people call you the elite. I call you my base.”<sup>45</sup> The wealth of these big campaign-givers depends upon the government, particularly military contractors. Today big oil corporations make the energy policies in the United States. The government smooths the way for corporate profits by shredding

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<sup>41</sup> Perelman, pp. 18-19.

<sup>42</sup> John Bellamy Foster, “Aspects of Class in the United States,” *Monthly Review*, 58 (3) July-Aug. 2006, pp. 1-5.

<sup>43</sup> William K. Tabb, “The Power of the Rich,” *MR*, 58 (3), 2006, p. 8.

<sup>44</sup> Tabb, “Power of the Rich,” p. 9

<sup>45</sup> Tabb, “The Power of the Rich,” p. 11.

red tape. There is very little difference between the two relevant political parties in this sense. This is “the investment theory of politics.”<sup>46</sup>

Big corporations found enormous advantages over the working class as they steam-rolled their agenda. For example, they could conceal earnings in offshore tax havens, collect large subsidies for corporate jets, and pay their executives enormous salaries. Corporate tax rates decreased from 25 percent of federal taxes in the 1950s to 20 percent in the 1960s, 11 percent in the 1990s, and only 6 percent in 2002. In 2003, some 46 companies paid zero taxes and many firms received tax rebates totaling \$5.4 billion. In some cases, tax cuts for corporations in individual states have been even more extreme. Wall Street CEO’s make tens of millions of dollars a year in salaries and benefits. When it comes to tax cuts, 58 percent of the benefit goes to the rich, while 78 percent of the people get no tax cut and some 10 percent get no more than \$100.

As for workers, they were working 20 percent longer than in most advanced economies while seeing a decline in their benefits, pensions,<sup>47</sup> health care, medical benefits, quality of public education,<sup>48</sup> and in the services of other public institutions. There were higher fees for services, with banks collecting \$38 billion in service charges. While corporate profits grew, there were higher prices for health care, energy,

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<sup>46</sup> Big companies like Wal-mart fund conservative think tanks like the American Enterprise Institute for Policy Research through the Walton Family Foundation. Individuals are funded to write right-wing opinion pieces which appear in papers such as The Washington Times. The Pacific Research Institute gets funded by Wal-mart and writes “free market” opinion pieces for the Miami Herald and San Francisco Examiner. These links are generally not disclosed. Also the Heritage foundation is engaged in the same activities. Strom Stephanie and Barbaro Michael, “Wal-Mart Finds an Ally in Conservatives,” The New York Times, Sept. 8, 2006.

<sup>47</sup> Robert Reich, “Pension Reform,” TomPaine.com, Aug. 9, 2006.

<sup>48</sup> Margot Pepper, “No Corporation Left Behind,” Monthly Review, 58 (6), 2006, pp. 38-47. Educational standardized testing under the No Child Left behind Act (NCLB) is being used to legitimize policies that produce “a cheap, uneducated labor pool and increased profits in the private sector,” similar to the way IQ tests have been used historically in the US since 1917.

transportation, food and education. There was no effective job protection for workers.<sup>49</sup> A study by the Center for American Progress showed that Americans do not have enough savings for financial setbacks and that wages have not kept up with prices. Only 18 percent of families had saved three months of income. While wages are flat, household debt has reached a record 126 percent of disposable income. The greatest share of the surplus goes to profits and the least to wages, in history.<sup>50</sup> By 2000, the richest 0.01 percent (13,400 individuals) had 3.06 percent of the income, equivalent to the poorest 25 percent of all households in America. Wealth became even more concentrated with the top one percent of the population having 40 percent of the financial wealth in the US and the bottom 80 percent having only 16.5 percent. In terms of financial wealth, the top one percent had four times as much financial wealth as the bottom 80 percent. Between 1983 and 2001, the top one percent of the population gained 28 percent of the rise in national income, 33 percent of the gain in wealth and 52 percent of the gain in financial wealth.<sup>51</sup> The Middle classes have clearly suffered with real earnings of college graduates falling by 5 percent between 2000 and 2004. Corporations are shedding the professional managerial class which has essentially no job security today. This helps corporate executives pad their portfolios. The vast salaries going to CEO's is largely legalized plunder from the working class.<sup>52</sup>

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<sup>49</sup> "Ford Slashes 10,000 More Jobs, 2 Plants," Associated Press, Sept. 15, 2006. By the end of 2008, Ford was slashing some 30,000 jobs in the US and Canada. This would reduce their North American factory capacity by 26 percent over 2005. Some 14 facilities would be axed by 2012. Globalization is used as a rationale for keeping wages low. Susan B. Hansen, "The Globalization Excuse," TomPaine.com, Sept. 22, 2006.

<sup>50</sup> "Middle-Class Families in Worse Shape than Ever." For an explanation of surplus value more accessible than that in Marx's *Capital*, see Pierre Jalee, *How Capitalism Works*, New York: Monthly Review Press, 1977.

<sup>51</sup> John Bellamy Foster, "Aspects of Class in the United States," p. 2.

<sup>52</sup> Ehrenreich, "A Guided Tour of Class in America,"

Perelman calls this embezzlement of the life-blood of the country, the “Matthew effect.” “For to every one who has will more be given, and he will have abundance but from him who has not even what he has will be taken away.”<sup>53</sup>

Since George W. Bush moved into the White House, in 2001, “the transfer of wealth and income has accelerated at an alarming rate.”<sup>54</sup> The tax cuts for the rich have placed growing burdens on the poor and middle classes.<sup>55</sup> And it is primarily the poor who are sending their sons and daughters off to die in imperialist wars to enrich the American ruling class ever further. A class of rentiers in the United States, rising in power especially with the financial revolution, helps to annihilate what is left of social mobility. The “...right-wing revolution still represents the largest transfer of wealth and income in the history of the world.”<sup>56</sup> We see that the ruling class has captured nearly all of the growth in wealth and income in recent years. This is due to new measures by corporations to extract more surplus value from the working class, some 90 percent of the population. But with the undermining of the foundations of the US economy, the shift from manufacturing to financial speculative businesses, more surplus must be squeezed from overseas investment making imperialism and imperialist wars such as in Iraq a necessity and inevitable.<sup>57</sup> The environment has also suffered as ecological degradation is

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<sup>53</sup> Perelman, p. 24.

<sup>54</sup> Perelman, p. 25; Barbara Ehrenreich and Tom Engelhardt, “A Guided Tour of Class in America,” Znet, June 4, 2006.

<sup>55</sup> William K. Tabb, “The Power of the Rich,” *Monthly Review*, 58 (3), July-Aug. 2006, pp. 6-17. Tabb points out that tax laws are tools for corporate and class power in the US; “Middle-class Families in Worse Shape Than Ever,” Reuters, Sept. 28, 2006.

<sup>56</sup> Perelman, p. 26.

<sup>57</sup> The dangerous side of this is the fragility of the global economy built upon a sort of casino economy. Gabriel Kolko, “An Economy of Buccaneers and Fantasists,” Znet, Dec. 16, 2006. Also Saul Landau, “The Country’s Going To Hell At Home and Abroad,” Znet, March 9, 2006.

growing.<sup>58</sup> Of course, green-washing abounds to sooth consciences and allay the fears of the population.<sup>59</sup> This is becoming more difficult of course, with the growing public awareness of global warming, the lack of responsibility in the US in addressing this issue, and more severe weather patterns.<sup>60</sup>

#### **IV. The Debt Bubble in the Economy and Stagnation:**

“The atmosphere of industrial revolutions – of progress is the only one which capitalism can survive.” (Joseph Schumpeter, 1939)<sup>61</sup>

“When you begin to do the arithmetic of what the rising debt level implied by the deficit tells you, and you add interest costs to that ever-rising debt, at ever higher interest rates, the system becomes fiscally destabilizing. Unless we do something to ameliorate it in a very significant manner we will be in a state of stagnation.” (Alan Greenspan, March 2, 2005)<sup>62</sup>

“It’s our currency, but its your problem.” (John Connally, US Treasury Secretary under President Richard Nixon)

Stagnation tied to growing debt in mature capitalist countries has clearly become a contemporary issue.<sup>63</sup> In the United States, total debt as a percent of the economy has reached about 340 percent. In 2005, with GDP reaching \$13 trillion, total debt in the

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<sup>58</sup> Fred Magdoff and John Bellamy Foster, “Capitalism’s Twin Crises: Economy and Environment,” Monthly Review 54 (4), September 2002, pp. 1-5. See also Eddie J. Girdner and Jack Smith, Killing Me Softly: Toxic Waste, Corporate Profit and the Struggle for Environmental Justice. New York, Monthly Review Press, 2002.

<sup>59</sup> The term “climate change,” used in place of “global warming,” dreamed up by a hack speech writer for George W. Bush is a blatant example of green-washing. And popular too. I am not sure if news organizations have a policy of scrapping the more honest term which alerts people to what is really happening.

<sup>60</sup> See Al Gore’s video, ‘An Inconvenient Truth.’”

<sup>61</sup> “The Great Fear: Stagnation and the War on Social Security,” Monthly Review 56 (11), April 2005, pp. 1-11.

<sup>62</sup> The Great Fear, p. 10.

<sup>63</sup> “The Great Fear; Fred Magdoff, “The Explosion of Debt and Speculation,” Monthly Review, 58 (6) Nov. 2006, pp. 1-23.

United States reached \$42 trillion. The Japanese economy has been stagnant since 1989. In the US, the debt crisis is seen in government, households, financial businesses, and non-financial businesses. The make-up of this debt is as follows: financial business debt: 10 percent; non-financial business debt: 33 percent; local, state and federal government debt: 29 percent; and household debt: 28 percent. On an international scale, the US is the world's largest debtor.<sup>64</sup> Today, the US buys 50 percent more than it sells overseas. When the US buys from China, China then loans the dollars back to the United States. Today, fully one-half of US Government bonds are owned by foreigners. This huge borrowing by the US Government is used for consumption, tax cuts (mostly for the rich under Bush) and military spending. The US trade deficit with China continues to increase, reaching a record \$201.6 billion in 2005. China with around one trillion dollars in reserves, and Japan with \$830 billion in reserves, provides much of the \$2 billion the US borrows daily. The US current account deficit reached \$805 billion in 2005, which is 6.4 percent of national income. The budget deficit has also reached some one-half trillion dollars under George W. Bush, the national debt increasing at the rate of \$1.62 billion dollars per day (between Sept. 29, 2006 and February 2007).<sup>65</sup> The US budget has been

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<sup>64</sup> William K. Tabb, "Trouble, Trouble, Debt and Bubble," MR 58 (1) May 2006, pp. 8-10. See John Bellamy Foster, "Monopoly-Finance Capital," Monthly Review 58 (7), Dec. 2006, pp. 1-14. As pointed out here, "making money increasingly replaces making goods and the latter is consequently dwindling in proportion." The financial explosion of the last three decades seems to have pushed capitalism into a new phase which has not been explained by Marxist economics.

<sup>65</sup> The outstanding public debt on February 2, 2007 was \$8,709,900,667, 153.22 and increasing at the rate of \$1.62 billion per day. With a population of 300,860,456, each citizen of the United States owed \$28,950. The legal debt limit is currently \$8.96 trillion and has been raised four times since George W. Bush took office. The limit will be reached in 160 days from February 2, around July 10, 2007. The Government frequently uses tricky accounting to give the appearance of the reduction of the national deficit when the opposite is happening. Up to this point, the entire cost of the war in Iraq has been "off-budget." The defense budget for 2007 has reached \$439 billion, officially. Joseph Stiglitz, "A Tale of Two Deficits," Global Agenda Magazine, Feb. 28, 2006. The trade deficit has reached \$780 billion.

described as a “slush fund for the defense industry executives and stockholders.”<sup>66</sup> While savings and investments are increasing in Asian and many other developing countries, these are generally decreasing in industrialized countries. Since 1960, world growth has fallen to around one-half the levels previously seen: in 1960: 5.4 percent; in the 1970s: 4.1 percent; in the 1980s: 3.0 percent; and in the 1990s: 2.3 percent.<sup>67</sup>

This US debt, in turn, is tied to war production which is needed to stimulate the US economy and which also serves the purpose of discouraging greater welfare spending. It is, in fact, a crisis grounded in the lack of democracy, which allows over-accumulation and under-consumption. The result has been long periods of slow growth, weak employment and weak investment. There are major risks to the US economy: first slow average economic growth in the United States is shown by the following figures : 1947-67: 2.3 percent; 1973-79: 0 percent; 1979-89: -.6 percent; 1995-2000: 1.4 percent; 2000-2003: 0.9 percent; 1979-2003: 0.1 percent.<sup>68</sup> Global economic growth under neo-liberalism is about half that of the post-war Keynesian developmentalist period. Constraints include rising oil prices, the falling dollar; high interest rates; huge twin deficits, the budget deficit and the current account deficit. The ruling class tries to balance the budget, as much as possible, on the backs of the people in increased extraction of surplus value, but this is not entirely possible. One significant measure, the attack on social security, is a “new class war from above.”<sup>69</sup>

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<sup>66</sup> Robert Scheer, “Bush Budget Delivers the Bacon,” Truthdig, Feb. 8, 2007. Caren Bohan and Richard Cowan, “Bush proposes billions for Iraq, may seek more,” Reuters, Feb. 5, 2007. Defense spending was put at \$725 billion but that was deceptive as it did not include money for the escalation of the war (the so-called surge) in Iraq.

<sup>67</sup> William K. Tabb, “Trouble, Trouble, Debt and Bubble,” MR 58 (1) May 2006, pp. 28-35.

<sup>68</sup> Michael D. Yates, “A Statistical Portrait of the US Working Class” p. 15.

<sup>69</sup> The Great Fear, p. 3.

Today over-accumulation is seen in excess capacity, the restricted consumption of the masses, the shutting off of investment, and the banning of price competition in mature industries. With less investment and vast profits of \$500 billion, corporations in the US have some \$2 trillion in total cash available. This over-accumulation and over capacity tends to bloc investment. When productivity increases, corporations do not cut prices nor increase real wages; the amount of surplus accruing to corporations increases.<sup>70</sup>

It seems clear that the natural state of capitalism is stagnation and that prosperity is brought about by peculiar historical conditions which allow capitalist accumulation to advance.<sup>71</sup> In the case of the Great Depression in the 1930s, the crisis of capitalism was overcome only by the historical factor of war production which began in the early 1940s. After the war, consumers spent savings they were forced to make during the war, the reconstruction of Europe stimulated capitalist accumulation in the United States, and with the Bretton Woods arrangements, the dollar acquired global hegemony. As the Cold War became established as a permanent war, the vast commercialization of American life was expanded along with automobilization and suburbanization and this was the beginning of a bubble in the financial superstructure.<sup>72</sup> Additionally the GI bill and home loan guarantees stimulated the housing and educational sectors.<sup>73</sup>

But by the 1970s, there was a return to economic stagnation. The ruling class responded in three ways: first, a stepped up class war, secondly, by pumping government

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<sup>70</sup> John Bellamy Foster, "The Household Debt Bubble," *Monthly Review*, 58 (1) May 2006, pp. 1-11; William K. Tabb, "Trouble, Trouble, Debt and Bubble," *Monthly Review*, 58 (1) May 2006, pp. 28-37. Major oil corporations such as Shell and BP have reported enormous profits recently.

<sup>71</sup> Essentially the argument advanced by the late Paul Sweezy.

<sup>72</sup> *The Great Fear*, pp. 4-5.

<sup>73</sup> I would argue that one can see a similar phenomenon in neo-liberalizing economies today in the big emerging markets. Today we see similar trends in the expanding of the Turkish economy, largely through the greater provision of credit. Credit card debt has gone wild and the mortgage system for purchase of houses is being implemented.

money into the economy in a way which primarily served capital, and thirdly, a growth in imperialism and war, generally taking the form of counterinsurgency after John Kennedy became President in 1961. As we can see, the mechanism for maintaining capitalist accumulation remains essentially unchanged today. Bush policies include putting more pressure on labor and the poor; the generation of massive deficits to stimulate the economy while “starving the beast,” that is social welfare; great military spending and obscene tax cuts for the wealthy; reducing social programs for the working and middle classes; and getting rid of Medicare, Medicaid, social security, housing assistance, and other programs which help people cope with the ills of capitalism.

In the case of the Social Security System, the Trojan horse has been attempts at partial privatization through the creation of private savings accounts. This is meant, of course, to undermine and weaken the existing system. We agree that the Social Security crisis, which is said to be running out of funds in 2042, is a hoax. After all, the US has just spent some \$500 billion dollars for a lost war in Iraq in the last four years.<sup>74</sup> The above projection that the social security system will fail is based upon estimates of economic growth of three percent between 2005-10, 2.2 percent between 2010-15, and 1.8 percent between 2015. In fact, if such slow growth occurs in the future, social security, even funded at 75 percent of current, would be even more necessary than at

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<sup>74</sup> The war in Iraq has been lost in technical terms, but in a larger sense is a victory for capital and achieved the central goal of the neo-conservatives, the creation of chaos in the Middle East. As of February 2007, it is clear that the neocons, still in power, are forging ahead to further destabilize the entire region. As for the Vice-President, Dick Cheney, he sees only a success story, with a few road bumps along the way. In terms of the interests of capital, as opposed to the people of the United States and the world, Cheney is probably correct. From a ruling class perspective, the US has not lost, as can be understood from the enormous and record profits of several big oil corporations announced on February 1, 2007. Similar arguments can be made about the Vietnam War. See Eddie J. Girdner, “Pre-Emptive War: The Case of Iraq,” Perceptions, Winter 2004-2005, pp. 5-30.

present and private accounts would also fail to generate their promised benefits.<sup>75</sup>

Actually, any short-fall in funds could be taken directly out of the tax budget to keep the system viable. All these developments signify an increasing attack upon the working classes. At the same time, there is a trend for the Government to shift the welfare function to religious organizations, called compassionate conservatism.<sup>76</sup> This is but yet another way to harass the downtrodden in America.

### **V. The Working Class:**

“Just bring me back two for each one I lend you, singing I’m the jolly banker, jolly banker am I.” Woody Guthrie

“Self-reproduction is an essential characteristic of a class as distinct from a mere stratum.” Paul Sweezy

It has been noted that the US is now a “class-bound society” and that some 45 percent to 60 percent of the parents’ advantage is passed on to the children. The rich have gotten inordinately richer over the last half century and this trend has accelerated. From 1950 to 1970 for every \$1 gain of the bottom 90 percent of the population, the top 0.01 percent gained \$162. Between 1990 and 2003, for every \$1 gain by the bottom 90 percent of the population the top 0.01 percent gained \$18,000.<sup>77</sup>

There has been a traumatic impact upon workers under neoliberalism as shown in recent statistics which can only realistically be called the pauperization of the working

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<sup>75</sup> The Great Fear, pp. 6-8.

<sup>76</sup> Marvin Olasky, The Tragedy of American Compassion. Washington, D.C.: Regnery Publishing, 1992. The book is a propagation of perverted notions about how the poor should be treated or rather religiously repressed and the inspiration traced to “God.” One wonders if it is God or Olasky who is cracking such a cruel “compassionate” whip over the poor.

<sup>77</sup> John Bellamy Foster, “Aspects of Class in the United States,” pp. 1-2.

class in America due to US “workers taking a beating for the past 30 years.”<sup>78</sup> While there have been great productivity gains, this has not automatically raised wages, as main-stream economists expected. Clearly, wage costs have not been a great concern to businesses as productivity rises. One impact is that after the passage of NAFTA, thousands of Mexican peasants and wage-workers have been forced to migrate to the US. In rich countries, such as the US, there has been an assault on the benefits to workers, such as social welfare, legal protection, health care and so on. Workers are forced into part-time contingent jobs or forced to work as “independent contractors.” There is a large pool of workers, that is, a reserve army of the unemployed. Some of these are immigrants and some locals. This provides an enormous class of poor workers prepared to be exploited, in accepting low wages, long hours and terrible working conditions.<sup>79</sup> In the United States, about 12 percent of the population (33.5 million) are foreign born and more than half are from Latin America. A quarter is from Asia.

It is necessary to look at some statistics. In 2004, average wages in the US were \$15.27 per hour or \$31,700 per year before taxes (in 2003 dollars). But there is much wage inequality. Some 24 percent of all workers are below the poverty level for a family of four.<sup>80</sup> The poverty threshold in 2003 was \$18,660 before taxes with 12.5 percent of workers (35 million) falling into this category. But poverty rates are variable: Whites: 10.5 percent; Blacks: 24.4 percent; Hispanics: 22.5 percent. In terms of a living wage, the

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<sup>78</sup> Michael D. Yates, “A Statistical Portrait of the U.S. Working Class,” *Monthly Review* 56 (11) April 2005, pp. 12-31.

<sup>79</sup> Michael D. Yates, “Capitalism Is Rotten to the Core,” (A review of two recent books) *Monthly Review* 58 (1) May 2006, pp. 51-63. The books reviews are: Immanuel Ness, *Immigrants, Unions, and the New U.S. Labor Market*. Temple University Press, 2005 and Howard Karger, *Shortchanged: Life and Debt in the Fringe Economy*. Berrett-Keohler Publishing, 2005. See also: Michael D. Yates, *Cheap Motels and a Hot Plate: An Economists Travelogue*. New York: Monthly Review Press, 2006.

<sup>80</sup> Government statistics significantly underestimate the true number living in poverty. John Schmitt and Dean Baker, “Labor Department Undercounts Poor, Uninsured, and the Non-Employed,” Center for Economic Policy Research, Aug. 24, 2006.

actual poverty threshold should be double the official, which would put 88 million people in the category of being under the poverty line. Income distribution in the US has become much more unequal with the richest one percent getting 38.4 percent of the income (about the same as in 1925). Meanwhile, the poorest 20 percent receive 0.8 percent of the income, the middle 20 percent receive 5.1 percent, and the richest 20 percent get 74 percent. But about half of the latter income is in the top one percent (38.4 percent).<sup>81</sup>

Wealth is more unequally skewed, when looking at net worth (total assets and total debt). The richest one percent of the population has 33.4 percent of the net worth while the bottom 90 percent has only 28.5 percent of net worth. And 17.6 percent of the population has a negative net worth. For 30 percent of the population, the net worth per capita is less than \$10,000. Some 13 percent of white households have zero or negative net worth while 31 percent of Black households have zero or negative net worth. The median financial wealth of all Black households is only \$1100. For whites, the median wealth is \$42,000. Simply put, almost everything in America is owned by a tiny percentage of the population, while the poor are mostly in debt.<sup>82</sup>

Almost all the stocks in America are owned by a few. Those earning over \$250,000 own 41 percent of all stocks. The top one percent owns 45 percent of the stocks while the poorest 80 percent owns only 6 percent. With 94 percent of stocks owned by the top 20 percent, it seems that stock market reports directly concern only about 20 percent of the population. Those having less than \$15,000 in income own less than one percent of the stocks. The figures show the poor to be in debt and exploited by debt service. For those having \$20,000 income and less, 27 percent of households are paying

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<sup>81</sup> Michael D. Yates, "A Statistical Portrait", pp. 19-21.

<sup>82</sup> Michael D. Yates, "A Statistical Portrait", p. 20.

40 percent of their income for debt service. For the lowest 20 percent of the population some 18.2 percent of income is going to debt service. Outstanding consumer debt as a percentage of consumer disposal income has increased greatly from 62 percent in 1975 to 127 percent in 2005.<sup>83</sup> Financial distress is largely based in lower-income, working class families. This has produced more bankruptcies, some 5 million in the first four years of the Bush Government. And debt secured by homes has soared. There is a large credit-card debt among US households with the average household having \$5000 debt in 2005. The unpaid balance on credit cards is some \$839 billion. This is even more serious since two-thirds of these credit cards have variable interest rates which currently average 15.8 percent but can increase. This has opened up the way for an army of debt collectors, involving at least 500 companies. The largest borrowings is from household equity resulting in the recent “refimania”, that is, cashing out values in houses with the average “cash-out” running at \$34,000.<sup>84</sup> Refinancing produced \$900 billion for personal consumption in 2006. For those earning \$90,000 to \$100,000, on the other hand, their debt service is about two percent of income.<sup>85</sup>

At the same time, the tax system has become more regressive, channeling money from the poor to the rich. Woody Guthrie dreamed of a society where we would “all be union and all be free” but unions have become weaker.<sup>86</sup> Today only 12.5 percent of the work force is union. For the private sector, only 8 percent belong to unions and for the public sector, 36.4 percent. Some states such as Missouri and Indiana have abolished

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<sup>83</sup> John Bellamy Foster, “The Household Debt Bubble,” MR, 58 (1), May 2006, p. 2.

<sup>84</sup> John Bellamy Foster, “The Household Debt Bubble,” MR 58 (1), May 2006, pp. 2-7. The drop in house prices in 2006 meant that many families owed more on their houses than they were worth. Barrie McKenna, “The housing collapse heard round the world,” Globe and Mail, Sept. 5, 2006.

<sup>85</sup> Michael D. Yates, “A Statistical Portrait,” p, 20-22.

<sup>86</sup> It is not unusual for workers who try to organize to get fired. This is illegal but studies have shown it happens at least 75 percent of the time. David Sirota, “The War on Workers,” San Francisco Chronicle, Sept. 4, 2006. Peter Rachleff, “Welcome to the Service Economy,” Znet, Sept. 3, 2006.

collective bargaining for state workers. So called free trade has generally been a disaster for workers, with this trade accounting for one-third of the growth in wage inequality.<sup>87</sup> It has been estimated that some 400,000 jobs a year are being outsourced to Mexico and India.<sup>88</sup> Recently, since 2001, 85 percent of real income growth has gone to capital.<sup>89</sup>

At the low end, for some 10 percent of the work force the minimum wage of \$5.15 is 25 percent less than in 1967. At the beginning of 2007, the federal minimum wage had not been raised in ten years. This is \$1.50 less in real wages than in the late 1970s. It is only three-fourths of the poverty level for a family of three (\$10,712 per year). For 5 years through 2005, real wages fell by 0.8 percent. In California, Governor Arnold Schwarzenegger agreed to raise the minimum wage<sup>90</sup> and it will be raised somewhat on the federal level, as a result of mid-term elections in 2006, but this will not do a whole lot for workers.<sup>91</sup> Meanwhile the pay of CEOs has doubled between 1989 and 2003. While it can be measured in different ways, the salaries of executives have come to be closer to theft or asset stripping, than anything reasonable. By one calculation the ratio with

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<sup>87</sup> There is considerable resistance to free trade pacts such as the Central American Free Trade Agreement (CAFTA) in the US Congress. David Sirota, "The Prairie Populist: Byron Dorgan," *In These Times*, Sept. 12, 2006.

<sup>88</sup> "Ford Slashes 10,000 More Jobs, 2 Plants," Associated Press, Sept. 15, 2006. Chrysler announced the lay-off of 13,000 workers in the US and Canada on Feb. 14, 2007. At the same time UNICEF issued a report saying that the US and the UK were the worst places in the developed world for children to live. Meanwhile corporate executives salaries skyrocket.

<sup>89</sup> Michael D. Yates, "A Statistical Portrait," pp. 23-30.

<sup>90</sup> Marc Lifsher, "Deal to Raise Wage to \$8," *Los Angeles Times*, Aug. 22, 2006. The minimum wage was raised from \$6.75 per hour to \$7.50 on January 1, 2007 and will go to \$8.00 per hour on January 1, 2008. Even this was a struggle with Republicans loading the bill with hand-outs to corporate America. Senator Edward Kennedy asked: "What is it about working men and women that you find so offensive that you won't permit even a vote denying the Senate the opportunity to express ourselves.?" Anthony DiMaggio, "Class Warfare and the Minimum Wage: Behind the Senate's Attack on American Workers," ZNet, Jan. 29, 2007.

<sup>91</sup> Jim Kuhnenn, "Minimum wage bill heads to negotiations," Associated Press, Feb. 2, 2007. The bill is to raise the minimum wage from \$5.15 to \$7.25, but the higher figure will not kick in for another two years. 60 days after signing, it goes to \$5.85. A year later it goes to \$6.55 and then to \$7.25 a year after that. But the rub is that the Republicans and Bush will go along with it only by adding amendments to the bill to give \$8.3 billion in tax breaks to business.

workers was one to 24 in 1967, increasing to one to 300 today, but in many cases, it is worse than that.<sup>92</sup>

By any reasonable measure, the George W. Bush Government has produced the most miserable performance for workers since Herbert Hoover. The manufacturing sector shed jobs for 41 consecutive months after Bush took office. In 2004, the average duration of unemployment was 20 weeks. Some 22 percent of the unemployed had looked for work for 27 weeks or longer. These long-term unemployed made up 20 percent of all unemployed and included the college educated, prime working age, white collar, and professional workers. In fact, the highest category of long-term unemployed were those with a bachelor's degree or higher, those 45 and older, management and services, and those in information and professional business services. In February 2004, some eight million people were officially unemployed and had looked for work in the last four weeks. At the same time there is a decline in the labor force participation rate. In 2004, two million who wanted to find work had stopped looking. Four million who wanted fulltime work were working part-time. At 66 percent, the labor force participation rate excluded three million people who had given up finding a job. Their participation would have raised the unemployment figures to 7.5 percent if they had actually been looking for jobs. About 14 million total workers were underutilized or not utilized, some 10 percent of the total work force. Another group of workers were retiring early to take Social Security benefits at age 62, rather than wait for age 66. The US needs to produce 1.7 million jobs a year (140,000 a month) to keep up with population growth.<sup>93</sup>

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<sup>92</sup> Michael D. Yates, "A Statistical Portrait", pp. 15-18.

<sup>93</sup> Only 110,000 jobs were produced in January 2007, according to official figures.

This necessary job growth, of course, has not happened and the Bush Administration has been referred as “a jobless recovery.”<sup>94</sup> Significant unemployment is, of course, the normal condition under capitalism and capitalist economies generally reach full employment only under special conditions, such as wartime. It is significant that the annual “Economic Report of the President” under President George W. Bush has begun to neglect employment statistics. By 2004, the Bush Administration had lost 2.3 million jobs. This was the first time in 11 recessions that there had been no full recovery after 31 months. One had to go back to 1939 to find a similar pattern and the first time since Herbert Hoover that there were actually fewer jobs after a 4-year presidency. The contention was that job growth would follow in the wake of large productivity gains. But not enough jobs were being created to keep up with population growth with missing jobs as follows: in 2001: 1.6 million; in 2002: 3.8 million; in 2003: 4.6 million. It appears then, that this situation cannot be said to be due to the normal business cycle, but is due to “deeper structural changes.”<sup>95</sup>

Structural change is also seen in the fact that after 1991, a higher proportion of job layoffs have been permanent. Before 1991, 50 percent of layoffs were permanent, but in the 1990s, this increased to 70 percent. In the 2001 recession, permanent layoffs increased to 90 percent of layoffs. There was also a drop in manufacturing jobs of 16 percent from June 2000 to December 2003. This is also because the US is increasingly consuming rather than producing. A quarter of the manufactured goods in the US are produced

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<sup>94</sup> “The Stagnation of Employment,” *Monthly Review* 55 (11), April 2004, pp. 3-17. This article contains important and revealing statistics.

<sup>95</sup> “The Stagnation of Employment,” pp. 4-6.

abroad, double that of 1980. The figures show that firms have increased profits by shedding labor during the recession and more jobs are being off-shored.<sup>96</sup>

In terms of this new “global labor arbitrage,” many jobs can be off-shored to countries such as Mexico and India to the tune of 300,000 to 600,000 jobs a year in areas such as computer programming and call centers. It is estimated that this saved US corporations some \$11 billion in 2001. This is part of the structural changes that are altering the pattern of recovery. China too is a leading player, with Chinese exports reaching \$121 billion in 1994 and \$365 billion in 2003. These exports are coming mainly from Chinese subsidiaries of transnational corporations and joint venture firms. The wage differential with China and India is enormous with wages in India 10 percent to 25 percent of that in the US.<sup>97</sup> Of course, a part of this formula is the operation of sweatshops in India and China where workers experience super-exploitation.

The above situation creates a crisis in terms of aggregate demand because the income of the majority of the population is stagnant. The real aggregate wage and salary income of workers employed is dropping. But this has been propped up in recent years by borrowing against home equity for purposes of consumption. The capacity utilization in manufacturing in the US is only 73.4 percent, the lowest since 1982. One way to explain what is happening is that the economic contradictions (failures) of the declining West is being exported to developing countries which subsidize the West. The economy in the US is being pumped up with a type of Keynesianism. Private and public debt, large

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<sup>96</sup> “The Stagnation of Employment,” pp. 6-9.

<sup>97</sup> “The Stagnation of Employment,” pp. 9-12.

military spending, and large sales and marketing effort, to the tune of one trillion dollars a year,<sup>98</sup> tends to boost the economy.

On a personal note, I recall staying in a Motel 6, in Reno Nevada in 1997. It became apparent that this motel had largely been taken over by workers, many Mexican. By the 1980s, people began living in motels as it was cheaper than living in apartments and they could not afford the deposits required to move into an apartment. Sometimes other activities such as drug dealing and prostitution spring up in these locations.

A significant development is the increasing number of “contingent” and “nonstandard workers.”<sup>99</sup> Contingent means jobs of limited or uncertain duration. Nonstandard jobs are anything other than full-time wage and salary jobs. Nonstandard jobs are often contingent jobs. A more frequent situation is that someone is employed by one firm (such as a temp agency) but working at another firm. According to the Bureau of Labor Statistics (BLS), an increasing proportion of work is “nonstandard.” By 1997, some 35 percent of jobs were contingent or nonstandard. These range from day-labor to self employment; about 8 percent of the workforce is in self-employment. The most common contingent employment is in retail trade and services, reflecting a shift from manufacturing jobs; these jobs are much less likely to provide pensions, health insurance, and job security and are generally low-wage. The worst off of these workers are the day-laborers who are often undocumented and paid off through intermediaries or “co-employers.”<sup>100</sup>

The above means that there are effectively two labor markets, the primary labor market and a secondary labor market. The primary market includes predominantly white

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<sup>98</sup> “The Stagnation of Employment,” pp. 12-17.

<sup>99</sup> Ken Hudson, “The Disposable Worker,” *Monthly Review* 52 (11) April 2001, pp. 43-55.

<sup>100</sup> Ken Hudson, “The Disposable Worker,” pp. 43-46.

males, while the secondary labor market is more likely to include Blacks, women and teens. In the case of temps, numbers have increased from 500,000 in 1979 to some four million by 2000. These workers get low wages, have little or no benefits and 95 percent are without health care. Only about four percent are in line for a pension or retirement benefits. The secondary labor market serves the function of slowing the flow of workers into the primary market. By splitting the labor market, one group of workers benefits at the expense of the other.<sup>101</sup>

Sometimes workers in the informal sector are cheated out of their wages, especially migrant workers.<sup>102</sup> This cash-based economy is expanding all over the US and some other western countries, and increasingly these non-standard jobs are replacing jobs previously in the formal sector.<sup>103</sup> Under these conditions, workers are paid substandard wages in poor working conditions, with no required health and safety regulations, with no guaranteed minimum or maximum working hours, no paid holidays, no vacations, no workman's compensation, no unemployment and no life insurance. They often suffer gender, ethnic, and racial discrimination. A study done in Los Angeles County showed that the informal economy produced an \$8 billion payroll, unreported and untaxed, so that the public loses the tax revenue, amounting to \$1 billion in Social Security taxes,

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<sup>101</sup> Ken Hudson, "The Disposable Worker," pp. 46-55; Fred Magdoff and Harry Magdoff, "Disposable Workers: Today's Reserve Army of Labor," *Monthly Review* 55 (11), April 2004, pp. 18-35.

<sup>102</sup> Sam Quinones, "Many of Katrina's Migrant Workers Go Unpaid," *Los Angeles Times*, Sept. 11, 2006. In this case, the original contractor (not surprisingly) was Halliburton subsidiary Kellogg, Brown and Root. These jobs to fix houses get subcontracted down as many as five layers. Finally the work gets done by migrant workers on a cash-economy basis. Workers brought from Bolivia, Peru and the Dominican Republic were not paid in a system referred to as a "system of slavery." The undocumented workers are unable to claim their rights and it is difficult to prosecute the contractors for cheating the workers.

<sup>103</sup> Richard D. Vogel, "Harder Times: Undocumented Workers and the U.S. Informal Economy," *Monthly Review*, 58 (3), July-Aug. 2006, pp. 29-39. This is not really a new development, but getting worse with NAFTA. "The New Jungle," *U.S. News and World Report*, Sept. 23, 1996. US companies increasingly rely upon the labor of illegal aliens for profits. Only the workers are charged when a raid of factories takes place. In 1996, some 25 percent of employees in meat packing plants were illegals. The companies like IBP, Iowa Beef Processors, have an underground recruitment process in place and pay money, \$300 or more, per worker to bring them from other areas of the US or Mexico. It is all about profits.

\$236 million in Medicare, \$513 million in worker's comp insurance, \$96 million in California state disability, and \$220 million in unemployment insurance. This represents a loss of some \$2 billion in unpaid payroll benefits. In L.A. County, 61 percent of informal workers are undocumented.

A wide range of industries, such as factories, mills, restaurants, warehouses, workshops, nursing homes, offices and private homes, employ informal workers. This means that these workers are not casual day-laborers. There are generally stable relations between workers and employers. Undocumented women workers are getting around 66 percent of men's wages. Overall, workers get about 41 percent of the wages in the formal economy. It is estimated that eight to ten percent of workers in the US are in the informal economy. The North American Free Trade Agreement (NAFTA) has resulted in the displacement of many of these workers and contributed to their pauperization.<sup>104</sup>

## **VI. Deeper Exploitation:**

Not only is the labor of the poor exploited; a huge industry has grown up in the United States based upon the exploitation of this class of workers. The typical worker in this category lacks money, has no credit, is unable to cash a paycheck in the normal way at a bank, cannot get a telephone, cannot get utilities connected (lacking money for deposits), cannot buy furniture, cannot purchase a car, and cannot rent or own housing. This puts these individuals in a vulnerable position for further predation by shark corporations which are now turned loose to prey upon them. We must note that the state is increasingly absent in dealing with such problems, so there is nothing in the public sector to fall back onto.

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<sup>104</sup> Vogel, "Harder Times," p. 32-39.

Specifically, the way is opened to usury, predatory lending and the flourishing pawn shop business. This class of workers, often immigrants, works for low wages, usually in the service sector, and is predominantly male. The US has become more dependent upon migrant labor and New York City is a haven for such immigrants. In New York City, between 1992 and 2002, a million immigrants arrived, mostly from Latin America and South Asia. Some 36 percent of New York City's population is foreign born (3 million people) and they make up 47 percent of the work force. On the other hand, immigrants are 62 percent of the low-wage work force, making \$5.15 to \$7.10 per hour. Much of the work is actually in the informal sector and labor unions do not generally enter the picture except among those in the construction sector. Labor laws have been weakened and it is common practice nowadays for workers to be declared "independent contractors" such as in the case of taxi drivers.<sup>105</sup>

In New York City, immigrants make up 73 percent of workers in eating and drinking establishments, 62 percent in construction, 64 percent in the grocery trade, 89 percent in garment and apparel, and 85 percent in private household work. Many work long hours, such as 12 hours per day, seven days a week, at less than the minimum wage, with no benefits, no paid vacations and no holidays. When declared an independent contractor, it means that these individuals have to bear all the expenses of working, such as paying car leases, buying gasoline, and purchasing insurance, as in the case of black car drivers. In some Chinese sweatshops, workers slave 100 hours a week at \$2.00 per hour and live up to 15 persons in a one-bedroom apartment. In the case of a Pakistani

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<sup>105</sup> Seth Sandrosky, "A Joint Attack by the Senate ad the NLRB: The War on Nurses and Other Workers," Znet, Sept. 27, 2006. A ruling by the U.S. National Labor Relations Board ruled that nurses and other wage earners could be reclassified as "supervisors," making them ineligible to belong to labor unions. The academic community is under pressure too from the private sector. Michelle Renee Matisons and Seth Sandrosky, "Corporatization of The University," Znet, August 9, 2006.

black car driver, he said, “I feel like I am living like a slave. I borrow everything from the owner and he now owns me.”<sup>106</sup>

While some of these workers, who are very vulnerable and are in the country without documentation, have organized, it is not the case with Wal-mart workers who are more isolated. Some workers in New York have been able to organize because of sharing a common national origin, such as being from the same place in Mexico or India. They develop a functioning social network, often have a common religion, get treated in a racist manner by Americans, and often live together. Traditional labor unions are not of much use, given the fact that they make deals with the employers, are corrupt, and concentrate upon work places where there are large numbers of workers. Moreover, unions generally have not been willing to allow these grassroots associations to remain independent and have crippled them in the cases of the Mexican green-grocery workers and the West African deliverers unions. On the other hand, the black car drivers have achieved some success by finding a union which would help them with resources and allow workers to control their own union. Even these efforts were badly set back by the crack down on immigrants after 9-11. What these unions face is “racism, corruption, bureaucracy, nationalism, and war” as their enemies.<sup>107</sup>

The new and flourishing businesses which have grown up in America, centered around exploiting the victims of capitalism and neoliberalism, include pawn shops, check-cashing outlets, payday loans, stored-value credit cards, tax refund advances, rent to own furniture, furniture lease-backs, low-rate phone cards, reverse mortgages, and

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<sup>106</sup> Michael D. Yates, “Capitalism is Rotten to the Core,” p. 55.

<sup>107</sup> Yates, “Capitalism is Rotten to the Core,” p. 57.

shared appreciation mortgages.<sup>108</sup> These are all predatory schemes, part of a billion-dollar corporate operation which preys upon the poor and is generally known as the “fringe economy.” In the US, there are over 22,000 payday lenders comprising \$25 billion in short-term loans. There are 11,000 check-cashing stores, amounting to 180 million checks and \$55 billion. There are around 14,000 pawn shops. The three largest firms are pawn-shop chains which do more than a billion dollars of business a year. The rent to own furniture businesses have three million customers worth \$6 billion in business. Some 12 million people get tax return anticipation loans. There are more than 332,000 “sub-prime,” that is, very high interest rate mortgages taken out each year. The companies are sometimes new corporate giants and sometimes part of old established companies. ACE Cash Express serves 38 million customers in 1230 stores and does \$8 billion in business a year. There are many other similar companies. The three biggest pawn shops are Cash American International, EZ Pawn, and First Cash. Each has revenues of some \$15 million. Big corporations doing business in the fringe economy include H&R Block, Wells Fargo, JP Morgan Chase, Morgan Stanley, Bank of America, Wachovia, Citigroup and Lehman Brothers. These schemes are very profitable because of the “outrageous” and “hidden fees.” H&R Block earned \$1.8 billion on tax refunds. On “sub-prime” car loans, rates are around 35 percent. Another outfit is BH-PH, a “buy here, pay here” used car lot. Others go by the names of “Drive Time” and “Car-Mart.” These outfits even rent tires for the cars they sell. There are 19,000 of them in the United States and comprise a quarter of all used car sales. Corporate CEO’s of these firms get big payoffs. The salary

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<sup>108</sup> Carl Bloice, “The Mortgage Crisis and its ‘Ugly Geographic Pattern,” Black Commentator, April 9, 2007.

of the Chairman of EZ Pawn in 2004 was \$1.26 million while the CEO of Cash American made \$2.2 million and received \$9 million in stock options.

Some 12 million households (one fourth of low income families) have no bank accounts and must rely upon such exploitative businesses. The number of people outside of the regular economy is growing due to neo-liberalism, as seen in the falling median wage, a frozen minimum wage in recent years, less health coverage, a dismantling of welfare, and the destruction of the means of livelihood. Further, family debt has increased by 500 percent since 1957. The system bleeds the poor and then keeps them in debt.<sup>109</sup>

## **VII. Retirement:**

What is in store for American workers after their working life is over? In some cases, the answer is still more work, given “pension reform” that is now coming for workers.<sup>110</sup> In many cases people have lost, or are about to lose, their retirement benefits. Threats include partial or full privatization of the Social Security system, pension terminations by corporations (such as Delphi and United Air), record low household savings, cancelled retiree health benefits, and the use of bankruptcy courts to abandon benefit obligations, such as in the airlines industry. While most pensions may be protected by the Pension Benefit Guaranty Corporation (PBGC), there is now a shift in thinking in Congress and the Bush Administration toward abandoning workers to the “market.”<sup>111</sup>

Today new legislation gives private companies less incentives to set up pension plans. It is likely that many companies, such as Hewlett-Packard, Verizon, Motorola, and

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<sup>109</sup> Yates, “Capitalism is Rotten to the Core” pp. 58-62.

<sup>110</sup> Robert Reich, “Pension Reform,” TomPaine.com, August 9, 2006; Tony Platt, “The State of Welfare: United States 2003,” *Monthly Review* 55 (5), October 2003, pp. 13-27; Teresa Ghilarducci, “The End of Retirement,” *Monthly Review* 58 (1) May 2006, pp. 12-27.

<sup>111</sup> Ghilarducci, *The End of Retirement*, p. 12.

IBM, will terminate existing plans. If there is a contract with a union, the company can declare bankruptcy and escape their obligation. In the last 25 years, the percentage of companies offering pensions has dropped from 80 percent to 33 percent. In future, there will be a shift to “defined contribution” plans, called 401ks. There needs to be no matching funds from corporations because Congress has not required that companies contribute, even though pension plans are affordable. However, workers continue to lose economic bargaining power. There are 76 million “baby boomers” but most are not saving and social security, which will replace only 41 percent of income, is not enough to cover their retirement income needs. The US ranks last among developed countries in personal savings rate. In many developed countries, it is around 12 percent but in the US the overall rate is currently less than zero. For all of 2006, the personal savings rate was a negative one percent, the worst in 73 years.<sup>112</sup> This is a looming problem for future retirees.<sup>113</sup>

In fact, what is happening is that older Americans are increasingly being forced back into the work force. The largest area of expansion of new jobs is for retail sales clerks and older people are often filling these jobs, especially older women. For the most part, working conditions are unfavorable. The assumption behind pension reform is that older people do not value free time. But what it really reflects is that the working class is losing the class struggle to corporations.<sup>114</sup>

### **VIII. The Nafta Corridors:**

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<sup>112</sup> Martin Crutsinger, “Savings tumble poses risk to boomers,” Associated Press, Feb. 1, 2007. In 2005, the personal savings rate was negative 0.04 percent. Before that, the rate had not been negative since 1933. The only other year with a negative rate was 1932.

<sup>113</sup> Reich, “Pension Reform.”

<sup>114</sup> Ghilarducci, “The End of Retirement,” pp. 13-27.

This section shows the pattern of political economy which capital has in store for the US working class. The whole design brings together nicely many facets of what is referred to today as “globalization.” The Nafta Corridors plan is designed to maximize capitalist accumulation by exploiting labor from Mexico and East Asia and at the same time it embraces many of the fundamental contradictions of capitalism, such as over-accumulation and under-consumption.

As more of what Americans consume, particularly electronic goods, is produced in China and other countries of East Asia, US capitalist firms are interested in getting imports from producers in East Asia to consumers in the US at the cheapest cost. In order to get around the Longshoremen’s Union in ship ports on the West Coast, goods will be brought in through Mexico and hauled up through the US via a superhighway and rail system, which will be built mostly with Mexican labor. This is called the Nafta Corridors Project, also referred to as the “Lazaro Cardenas-Kansas City Transportation Corridor.” It is all about off-shoring jobs to Mexico and China.<sup>115</sup>

The project is rather mind-boggling in scope, not really because it is the largest engineering project in the history of the United States, but because of the clear picture of how capitalism victimizes and exploits people for profits. Simply, it is part of a larger assault on labor on both sides of the US-Mexican border and both sides of the Pacific Ocean. First, it is not about the shortest most efficient route. The route will be from Singapore, Hong Kong, Pusan, and Tokyo to Lazarro Cardenas on the Mexican coast, and then north up to Kansas City. From there distribution points branch off to other parts of the US. This route is actually 2000 miles longer than the old route. But the main thing

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<sup>115</sup> Richard D. Vogel, “The NAFTA Corridors: Offshoring U.S. Transportation Jobs to Mexico,” Monthly Review, 57 (9), February 2006, pp. 16-29.

is that it is cheaper, saving some 15 percent of the transportation costs compared to bringing the merchandise through ports in California.

Currently, the ports in California, Long Beach and Los Angeles, are the largest employers in California. To offshore many of these jobs, container terminals are being constructed in Mexico using Mexican labor. This “Mexican Land Bridge” has increased by 450 percent under Nafta.<sup>116</sup> The Nafta Corridor will carry some 4 million trucks per year and use mainly Interstate 35 (I-35) and Interstate 69 (I-69) to the east. The project includes 10 lanes for traffic (4 for trucks each way), and six rail lines. The Corridor will be 1200 feet wide, almost a quarter of a mile, with the land area being consumed equal to that of the state of Vermont. The corridor will eat up some 146 acres of land per mile. The cost is estimated to be in the hundreds of billions of dollars, perhaps 350 billion or more. Of course, the public money put into the project will constitute a public subsidy to private capital.

It appears that much of the project, roads, rails, and ports, will be privately owned. Facilities are apparently to be privatized both in the US and Mexico with US capital owning the ports and facilities in Mexico. Labor, of course, will be done mostly by Mexicans, including construction, driving the trucks, and manning the railroads and trains. A considerable part of this labor, it seems, may be in the informal sector and so off the books. Perhaps big firms like Halliburton-KBR will get the primary contracts and sub-contract to scabbing firms, as is typically done. Since there will be a large amount of pollution the project will necessarily have a large impact on the environment. It is

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<sup>116</sup> Vogel, “The NAFTA Corrodors,” p. 17.

claimed that some 880,000 jobs have already been off-shored by Nafta between 1993 and 2002 and that these were mostly high-paying jobs.<sup>117</sup>

### **IX. Imperialism:**

This severe degradation of the American working class drives imperialism. The appropriation of America's sons and daughters on the battlefields of US imperialist conquest abroad is a criminal form of capitalist accumulation in the form of theft of an individual's life in the service of American imperialism. It is, in fact, unconstitutional in the US and a violation of international law. It is unconstitutional because only Congress has the power to declare war under the Constitution. Moreover, This the invasion and occupation of Iraq was illegal under international law. This, one might say, is an instant and immediate, appropriation of a life's productive value (some 3600 dead American soldiers in Iraq by mid 2007) and through a slower form of life-appropriation in the case of the 30,000 injuries so far in Iraq alone. As for the Iraqis, at least two million have perished over the last decade and a half and if one adds up those who have perished in US imperialist wars over the last 50 years, it would perhaps not be less than some 20 millions. This is an enormous waste and a series of inordinate crimes against humanity that only increase and intensify under the global neo-liberal agenda. Various rationales are devised to conceal the truth of these crimes.<sup>118</sup>

There exists the hidden imperialism which results from a global economic and financial system which is still essentially based upon the dollar. The Federal Reserve Board (National Bank of the United States) can manipulate its policies and use the institutional tools which it works through, the IMF, the World Bank, and World Trade

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<sup>117</sup> Vogel, "The NAFTA Corridors," p. 26.

<sup>118</sup> Eddie J. Girdner, "The US Neo-Wilsonian Grand Strategy For The Middle East: Subterfuge For Neo-Liberal Conquests," World Affairs 10 (3), Autumn 2006, pp. 86-104.

Organization. These organizations extract additional tribute, in the form of interest and hidden taxes, from every country around the world which uses dollars in its international financial transactions.

Harry Magdoff showed how Third World countries were being drained of capital due to debt service to capital in the global center. This may be seen as a subsidy to capitalist economies where the contradictions of capitalism have become acute under mature capitalism and a subsidy from the developing world is required to sustain the system. This is perhaps the essential role that China is playing in relation to the United States. Countries may take measures to help protect themselves from these viruses, but the prophylactic<sup>119</sup> measures are limited as to their effects.<sup>120</sup> India has some 160 million dollars of forex and China some 1 trillion dollars, as noted above.

## **X. Conclusion:**

As John Hobson predicted, under-consumption among the poor and over-accumulation is driving imperialism. Hobson noted that as the power of rentiers grows, taxation becomes more regressive. The drive for accelerated capitalist accumulation is driving US imperialism. This “rentier shift” toward finance capital has produced an upward shift of income and drives investment abroad. Given the contradictions of mature capitalism, even the attack which we have seen upon the US working class cannot set things aright and it becomes necessary to control as much of global production as possible. In a word, the capitalists are driven to destroy their own societies in order to

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<sup>119</sup> Prophylactic: Acting to defend against or prevent something, especially disease: protective. In this case protection against the “liberal virus.”

<sup>120</sup> “International Economic Distress and the Third World,” *Monthly Review*, 58 (5), October 2006, pp. 65-75. First Published in MR, April 1982.

save the capitalist system.<sup>121</sup> The effect is less pronounced in Europe and Japan because these societies are more egalitarian and have a higher savings rate, while the savings rate in the United States is now negative.<sup>122</sup>

It appears that three factors help to account for the consolidation of neoliberalism under the current phase of corporate globalization. First, it is necessary for countries to apply neo-liberal economic policies in order to compete for the global market. As countries are pitted against each other, it is necessary to slave the working classes in order to produce products cheap enough to compete in the global market. This is what we see happening on a massive scale in China. Secondly, the ideology of neo-liberalism has become firmly established among ruling elites, even when they see themselves as objectively “socialist,” as in China and Vietnam. This logic of global corporate capitalism is exceedingly difficult for exploited working classes to challenge and resist. Thirdly, the prevailing model of pluralist democracy largely strips the working classes of the political tools which they need to resist the onslaught of a world awash and largely ruled by the movements of capital. Without the intervention of the state in the interests of the working class as one sees today in Venezuela in coordination with other countries and democratic movements, resistance by the people can be easily defeated.

Imperialism is serving the interests of the US ruling class.<sup>123</sup> Internally, increasing inequality and concentration of income at the top contributes to a low rate of savings.

This necessitates foreign borrowing. Spending has been driven in recent years by “asset

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<sup>121</sup> Chalmers Johnson, “Empire v. Democracy: Why Nemesis Is at Our Door,” Tom Dispatch, Feb. 1, 2007. Johnson points out that the end of the Republic in America is nigh.

<sup>122</sup> William K. Tabb, “Trouble, Trouble, Debt and Bubble,” MR 58 (1) May 2006, pp. 35-36.

<sup>123</sup> Edward C. Banfield saw Western mass societies under capitalism as superior in ethics to small rural villages in southern Italy where the entire logic of action was based on what served the interests of the family. He referred to this as “amoral familism.” One might well describe capitalism in the United States as “amoral corporationism” as the logic of the public good seems to be pure fiction. Edward C. Banfield, “The Moral Basis of a Backward Society.” New York: Free Press, 1958.

inflation” of real estate holdings. With “imperial overstretch,” the US is following previous empires down the road to decline.<sup>124</sup> The state is used to increase rents for the ruling class in state handouts, protection of corruption by business, and regressive tax policies.<sup>125</sup> It is hard to escape the conclusion that the majority of the American working class is politically challenged in their lack of political consciousness concerning their status. They also lack the tools and knowledge to compare their situation with comparable countries in the industrialized world. The US comes in flat last in terms of critical measures of social well-being among developed countries. This can only be reversed if the working class seizes power and abolishes capitalism. It is acknowledged by those who are honest, including the rich, that the wealth of society is produced by society, not by talented individuals.<sup>126</sup> Meanwhile the working class in the US should wake up and use all the tools of democracy in its possession to fight for their interests, which is in great measure, the public interest. Meszaros and Chomsky have clearly defined the contemporary choices.<sup>127</sup>

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<sup>124</sup> A useful perspective is Paul Kennedy, The Rise and Fall Of The Great Powers. New York: Vintage, 1987. However, Chapters 7 and 8 on the Cold War period are weak on the logic and dynamics of capitalism.

<sup>125</sup> William K. Tabb, “”Trouble, Trouble,” pp. 36-37.

<sup>126</sup> Gary Olson, “The Very Rich are Different from You an Me, F. Scott Fitzgerald,” Znet, Economy, May 1, 2007.

<sup>127</sup> Istvan Meszaros, Socialism or Barbarism: From the American Century to the Crossroads. New York: Monthly Review Press, 2001. Noam Chomsky has described the choice as hegemony or survival in his recent book of that title. Noam Chomsky, Hegemony or Survival: America’s Quest for Global Survival.