CHAPTER 10

The U.S. Economy, 1970s–2000: Its Crises and Triumphs, Achievements and Disasters

SUMMARY OF THE THREE DECADES

1970s Reversals from rapid and healthy growth to stagnation and inflation; from strong to weak unions; from grudging cooperation to aggressively combative and always bigger big business

1980s Stepped-up globalization and financialization

1990s "The new economy's" ups and downs, and emerging new crises

Throughout Always deepening consumerism and its high indebtedness (household, business, national, foreign)

INTRODUCTION

From the mid-1930s and up through the 1960s (as noted earlier), the USA went through a broad set of social and economic changes which, taken together, took us a few steps toward both economic and social democracy. Much was left in need of change and reform in every part of our society; still, at least some steps were taken in hopeful and necessary directions. But by the mid-1970s, as though a switch had been pulled, the nation began to move in the opposite direction, and at an always accelerating rate.

The change in political direction was substantial; so much so that someone from Mars would have wondered how such changes could occur without something like an overthrow of the government. There was no actual *overthrow* of course; none was needed. Instead, negative and harmful changes since the 1970s were engineered by a very savvy right wing and its media, and met with sickeningly substantial approval, as the changes got worse from the 1980s on.

If we are ever to be able once more, to take ourselves toward a decent and safe society, we should know about this shift to the right. Our discussion will begin

with the economy in the 1970s and continue through the 1990s. The emphasis will be on the USA but with due attention to the rest of the global economy. The politics and corruption essential for the victory of the right will be discussed at length in Chapter 11.

THE 1970S: DEVOLUTION OF THE SYSTEM

The basic nature of capitalism is that it produces periods of economic crisis. More exactly:

Capitalist Functioning: A Syllogism

> *Major premise:* Capitalism is a system that functions anarchically in principle.
>
> *Minor premise:* Its functioning, energized as it is by a voraciousness for profits and power, inevitably produces periods of pervasive excess productive capacities.
>
> *Conclusion:* Therefore, capitalism is endlessly destructive. It moves through time like a huge rudderless ship, ploughing this way and that through the seas, leaving behind a devastating wake—except that, unlike a real ship, which is at the mercy of the weather, capitalism also produces its own storms and tidal waves.

Problems Galore

Economic crisis—this is what capitalism produced with The Depression of the 1930s. That catastrophe began with the long socioeconomic crisis that produced World War I—and the crisis was still not resolved, except by World War II.

As we have seen, as the only nation left with any strength at all after either of those wars, the USA was able after 1945 to take the main steps that created a new and most successful capitalism ever. But by the 1970s the many economic, social, political, and military changes allowing capitalism to come back to life and strength after the war had themselves become dysfunctional.

The troubles of the early 1970s had their origins in more than the socioeconomic processes of the two decades or so after World War II. They emerged also from the enduring nature of capitalism, and its imperatives of expansion, exploitation, and capitalist rule. Those imperatives have been satisfied intermittently

in periods of growth and crisis only to the degree that the powers of capital have managed also to create of an entire society created in its own image.

Item In earlier chapters, we examined the first giant steps toward that—that is, when land and labor were made into saleable commodities. Now we are perilously near the point where, if capital has its way, there will be nothing and nobody without a price: *Everything for Sale,* as a recent book has put it. (Kuttner)

The Defects of its Virtues

The new system had the *defects of its virtues.* Thus, the following transpired:

1. In the context of seemingly assured economic expansion, both giant companies and organized labor acted so as to raise costs and prices irrespective of market contexts.
2. The new superstates of the global economy became rife with inefficiency and stained by their always more corrupt ties with business.
3. The seemingly endless expansion that had produced rising profits and incomes carried with it duplicative and excess productive capacities over the globe, thus slowing economic growth.
4. The essential expansion of debt to unprecedentedly high levels in all quarters brought economic fragility in its wake.
5. Although economic growth slowed in the late 1960s and stagnated in the 1970s, both prices and taxes continued to rise.
6. Rising taxes, combined with rising unemployment, led to increased social tensions and facilitated rightist polices calling for decreased social expenditures—at a time when urban decay and poverty were also intensifying.

All this occurred as *consumerism* had created whole populations whose desires for *always more* were much frustrated by ongoing stagflation.

Du Boff captured the nasty devolution of the first stage of monopoly capitalism in this way:

> The impasse of American capitalism in the 1970s was defined by the tightening [of the] constraints [of] accelerating inflation led by energy and food prices, expectations of annual wage and benefit increases in the face of pressure on corporate profitability, more frequent intervention by government in ways that threatened freedom of action by business, an emerging import penetration of consumer goods markets, and the seemingly sudden loss of international hegemony symbolized by military defeat in Vietnam in 1975 in the longest, costliest,

and least successful of a series of postwar interventions against the socialist and communist left all over the world.

Therefore, as the 1970s moved toward their end, if crisis were to be superseded satisfactorily, it was again essential to change the rules of capitalism. There was not, of course, a committee to do so. What existed, instead, was a diverse set of needs and opportunities that led to still another (also temporary) stage of capitalism.

MONOPOLY CAPITALISM II

Whether as seen by its critics or its supporters, Monopoly Capitalism I seemed to have involved substantial departures from capitalism's "true nature." It continued to expand at home and abroad and exploit labor, but its oligarchic rule was *much tempered.* But *much* does not mean *entirely*. Nonetheless, certain key decisions of both business and the State were not those of capital alone. Workers and citizens had some say — for a while.

This circumstance was most evident in the 1960s in the top layer of industrial capitalist countries. The lives of a large majority of their people rose to previously undreamed of levels of real income, with parallel improvements in working conditions. Capitalism had taken a turn toward social democracy in some degree, thereby raising the standard of living for a significant percentage or people.

As noted earlier, all of this depended in important degree upon trillions of dollars of military expenditures and savage warfare in the weaker countries; still, it was a capitalism that Marx would not have recognized.

What is therefore so striking about the decades since the 1970s is that the capitalism that Marx *would* have recognized has moved toward its *second coming* — not, of course, in every way, but as a set of major *tendencies,* modified by contemporary technologies and business forms.

Put differently, the capitalism that marches in triumph today displays tendencies that are more capitalist than ever. It is a form of capitalism demanding and getting always more expansion at home and abroad, a return to heightened exploitation of both land and labor in both the rich and poor countries, and the reproduction of the labor conditions of the first industrial revolution elsewhere — including in Communist China! At the same time, capital's rule over the State tightens — as it does also over the hearts and minds of the people. All

of that is so to a greater degree than in Marx's time, when he declared that "the ruling ideas of [the] era are the ideas of its ruling class."

Those large and disturbing generalizations will now be elaborated upon. As they are, it will be pertinent to examine the manner in which the several main elements of Monopoly Capitalism I have changed to become Monopoly Capitalism II.

The two are similar, but there are important differences:

1. The giant corporations of today, especially the TNCs, make even those of the 1950s seem relatively small.
2. The State is still huge (and monstrous), but it functions always more at the beck and call of giant TNCs and Wall St. and always less for social well-being.
3. The global economy is considerably more integrated and considerably more disruptive and dominated by finance than earlier—and less dependent on the Cold War.
4. Consumerism has spread and deepened all over the globe and (like much else) become dependent upon clearly precarious debt accumulation.
5. The world of the media, rightly called the "lubricant of monopoly capitalism," has taken on forms and power that make even its great strengths in the 1960s seem paltry.

The focus will continue to be more on the United States than elsewhere, for it has taken the lead in all major economic and social changes. But note that the order in which the foregoing dimensions are examined has changed and have become intermingled, and that the relative emphasis given to each of them has altered. That is because Monopoly Capitalism II is a very different and more integrated creature than its predecessor. For capitalism to exit effectively from the crisis of the 1970s, it had to become so.

GIANTS ROAMING THE EARTH

Capitalism today is dominated by two interacting processes:

1. A striking increase in the concentration of economic power, centering especially on the transnational giants
2. An equally striking intensification of globalization well beyond that already accomplished by the 1970s

For those processes to take on their dynamism and velocity, it was of course

essential that governments throughout the world allow or encourage them to do so. As we now proceed to explore some of the important elements of that extraordinary set of changes, let us begin with a summary statement about globalization.

> Globalization is both a tendency and an ideology. As an objective tendency, globalization implies a deepening and strengthening of trade, financial markets and production systems across national boundaries. Propelling this tendency, we find broad institutional changes occurring, strengthening the integration of the circuits of trade, finance and production. Globalization infers a greater degree of convergence in markets and institutions, and a greater degree of homogenization of dysfunctional movements such as economic crises which quickly shift across national borders.
>
> As an ideology, globalization infers both the *inevitability* and *desirability* of the above described tendencies toward integration and the *denial* of the existence of dysfunctional movements arising from this tendency. (Cypher, 1999)

The central role in these developments was played by the largest companies of the world. Our discussion will commence with the processes of growing giantism, necessarily taking us to a discussion of the linked growth of financialization of both national and global economies.

As we have seen, already as the twentieth century began, the economic stage had come to be dominated by larger-than-life companies—most dramatically in metallurgy and petroleum. Then followed wave after wave of M&A's in all the industrial economies. At the time, the outburst of M&A's of the 1960s in the United States *seemed* to have exhausted all possibilities:

> Commencing in the early 1950s, merger activity registered progressive increases and reached a frenzied pace in 1967–1970, when more than one of every five manufacturing and mining corporations with assets exceeding $10 million was acquired. (Adams and Brock)

But the best—or worst—was yet to come. M&A's come from at least one of two pressures: (1) increase profits, or (2) stave off destructive competition. As often as not, they are the result of both pressures. And both were intensified by globalization.

There have always been, however, other reasons for consolidations. They moved increasingly to the front after the 1970s, not infrequently taking on a life of their own. The high monetary (and ego) rewards accrued to the main actors

involved — CEOs, corporate raiders, underwriters, and lawyers. All of that can be nicely (and rottenly) found in the low tragicomedy of Enron.

In the very first billion-dollar deal — the merger that created U.S. Steel in 1901 — all these motives were embodied in the persons of J.P. Morgan and Andrew Carnegie. But they were unique in their time; those who follow in their footsteps in our era have become commonplace, but with some variations to be noted now.

The stagflation of the 1970s combined with the business-friendly policies of the Reagan years of the 1980s to stimulate two decades of record-breaking waves of M&A's, spurred on by the first stages of something new: *hostile takeovers, leveraged buyouts*, and the increased financialization of the economy, and — because of the combination of rising company indebtedness and speculation — rising fragility. In addition, the late 1970s saw the beginnings of the now common merging across national lines, led by the oil companies:

> [T]he post-1978 mergers were a mixture of conglomerate (USX-Marathon [steel and oil], for example), vertical (Du Pont-Conoco [chemicals-oil]) and horizontal (the first and second largest). For the first time in a U.S. merger movement, foreigners were important participants (British Petroleum-Standard Oil, Unilever-Cheeseborough), another manifestation of the global changes in market structures in the 1980s. British firms, long the leaders in foreign investment in the United States, acquired at least 140 American enterprises worth $19 billion in 1987 alone. (Du Boff)

Leveraged buyouts began in 1983. In the ensuing 5 years there were over 700 such mergers, totaling over $200 billion. Major financial institutions were and are always involved as promoters and creditors in such deals. Along the way there were also numerous mergers in the financial community involving insurance companies, investment banks, and the like.

The groundwork had been laid for the 1990s, during which the kinds and sources and values of M&A's broke new ground. Here are some data comparing 1990 with 1998, and some instances from 1999 (from *Fortune Magazine,* 1991-04-22).

> The largest 500 U.S. industrial corporations in 1990 amounted to less than one-quarter of one percent of all industrial corporations (and, of course, an even tinier fraction of all industrial enterprises). The Top 500 made about three-quarters of all industrial sales, with about the same percentage of all industrial profits. Their sales were $2.3 trillion, and their net income (after taxes) $93.3 billion.

> The Top 100 of the 500 had 71 percent of its assets and the same percentage of its profits.
>
> The Top 50 had 57 percent of the Top 500's sales, 63 percent of its assets, and 52 percent of its profits; of the Top 100, the 50 had 81, 83, and 73 percent of sales, assets, and profits, respectively.
>
> And then there were the supergiants, the Top 10: General Motors, EXXON, Ford, IBM, Mobil, GE, Philip Morris, Du Pont and Chevron. They alone had 30 percent of the Top 500s sales, 36 percent of its assets, and 28 percent of its profits. GM, the largest company in the world then as now, had a bad year in 1990, with sales of $126 billion (and losses of $2 billion).

By 1998, signifying the great changes that had begun in the Reagan years and that had become rampant by the mid-1990s, the *Fortune 500* U.S. industrials had become the "*Global 500*— The World's Largest Corporations." Here are some of those data (organized somewhat differently from the foregoing). As noted earlier, mergers and the great size accompanying them occur for defensive as well as offensive purposes—exemplified by the performance of the 500 global giants in 1998 (*Fortune* still):

> For many of the world's largest companies, 1998 was a year to forget. As one market after another succumbed to the spreading economic malaise—first in Asia and later in Russia and Latin America—the corporations of the Global 500 struggled to eke out an almost imperceptible 0.1% growth in revenues. Profits fared even worse, sinking 2.6%, the first such decline since 1992; they fell a startling 6.1%.

In 1998 there were 12,500 M&A's, with a value of $1.6 trillion, a new record. The two sectors most affected were in financial services and telecommunications, both of them recently deregulated under the auspices of the World Trade Organization, the successor organization of GATT. As a result, *Fortune* remarks, "the face of the Global 500 was dramatically altered."

That was the year of DaimlerChrysler ($40 billion), Of Travelers (once just insurance) buying out Citibank ($75 billion) and becoming Citigroup (having earlier gotten directly into Wall Street with its purchase of Salomon Smith Barney). The oil industry joined in with the international merger of Amoco and BP and the first steps toward the merger of EXXON and Mobil (which once were both part of Standard Oil, until its dissolution in 1911).

Fortune adds that these mergers were just a prelude, for "in a world of limited pricing power one of the few ways giant companies can grow is by buying their

rivals." In a moment, we will note a few of the even more striking mergers of 1999; first, some summary data for 1998:

The Global 500: A Summary

Revenues	$11.5 trillion
Profits	$440 billion
Assets	$39 trillion
Employees	40 million

The Top 10 had average revenues of $122 billion (No. 1, GM's, were $161 billion). The Top 10 were (1) GM, (2) DaimlerChrysler, (3) Ford, (4) Wal-Mart Stores, (5) Mitsui, (6) Itochu, (7) Mitsubishi, (8) EXXON, (9) GE, and (10) Toyota. (When the EXXON/Mobil merger is consummated, they will become No. 2).

It is interesting to note that Philip Morris (#27), with revenues of *only* $58 billion (about one-third of GM's) had profits of $5.4 billion (almost twice GM's), and that Royal Phillips Electronics (#57), with revenues of $38 billion had profits of $6.6 billion (second only to Ford).

The Bottom 50 of the 500 had average revenues of $9.5 billion—something more than peanuts; but even added together, less than *10 percent* of the Top 10.

Of the Global 500, 191 were U.S. companies; about one-third of TNCs were also registered in the United States.

MERGERS AT THE END OF THE NINETIES

And here are a few mergers providing a little idea of what went on as the 1990s were ending. We note recent or planned mergers only in the realms of media/telecommunications and petroleum. (From the financial pages of *The New York Times)*

Media/Telecommunications

- In 1998, Bell Atlantic had merged with GTE ($71 billion); in January 1999 Vodafone merged with AirTouch ($66 billion); in September, Bell/GTE and Vodafone/AirTouch (USA-UK) agreed to share markets;

November, Vodafone began a hostile takeover of Mannesmann (Germany) ($151 billion: a new record)

- In 1998, AT&T had merged with Telecommunications, Inc. ($70 billion); in April 1999 it merged with MediaOne ($63 billion).
- In June 1999,Qwest Communications merged with US West ($49 billion).
- In September 1999, Viacom and CBS merged ($37 billion). The two companies now represent radio, TV, film, books, theme parks, video, cable, and much more.

Petroleum

- EXXON and Mobil are expected to close their deal in 1999 ($86 billion).
- BP and ARCO (UK-USA) announced their merger in April 1999 ($34 billion).
- Total Fina and Elf Aquitane (both French) announced their merger in September 1999 ($49 billion).

WHO BENEFITS AND WHO PAYS

In recent years, hardly a week has passed without the announcement of at least one new major merger; just as common is an accompanying announcement detailing the layoffs soon to follow. The reasons given for the mergers usually include expected efficiencies, increased ability to meet foreign competition, and the expectation that in the long run all will benefit.

In fact, the expected efficiencies and the enhanced profits usually have not occurred. For the average CEO, though, in every year since the 1990s, there has been an always sweeter increase in income and wealth. Meanwhile, in the USA since the 1970s, the average worker's income has declined since the 1970s, and poverty rates have risen as the overall material conditions of workers in weaker countries have moved toward or into tragedy. Globalization has been a prime mover in all these processes. It will be examined directly in a later section.

Now we examine the consequences of the new giantism for workers; more exactly, what stands behind downsizing, outsourcing, and TNCs.

DOWNSIZING AND OUTSOURCING: LEAN, MEAN, AND GONE

The processes of outsourcing and downsizing began to be evident in the 1970s.

As their impact on labor also became evident, criticism began to mount. Alongside that, however, also mounting was the institutional advertising and the *engineering of consent* by the corporations involved, much assisted by governmental pronouncements, lauding the benefits to all of "the free market." That the critiques by unions had substance to them is revealed by some income data for the United States in the decade 1977–1987. The "median family" is the one that is right in the middle, between the top and bottom halves (that is, 50 percent of families are above, and 50 percent are below). Here's what happened to the median family's income in those years.

Its *money* wages rose from about $16,000 in 1977 to about $28,000 in ten years later, an increase of 75 percent. *But* that same family's income tax payments rose by 84 percent and its social security payroll deduction rose by 116 percent. Put those numbers together with the price inflation of the same years, and the *after-tax i*ncome of that median family (in 1987 dollars) had *fallen* by over $2,000. In those same years the median family had also come to be defined as having not one but two wage earners (Phillips, 1993). The tendencies toward falling real wages continued up to at least 1997, when continuing expansion combined with low unemployment rates brought modestly rising wages.

But for workers in the United States and elsewhere from the 1970s to the present not only had real wages (and social benefits) fallen, there had also been a process in which good jobs were lost, probably permanently.

The ways in which the TNCs outsource and downsize and in so doing diminish the lives of workers in the most advanced countries have been aptly called "the global labor arbitrage" by William Greider. (See also Hahnel.) Their losses have had both quantitative and qualitative dimensions. Quantitatively, one of the many damages done is well summarized by Bluestone and Harrison as follows:

> [It] is evident that somewhere between 32 and 38 million jobs were lost during the 1970s as the direct result of private disinvestment in American business. The chances of even a large, established manufacturing plant closing down within a given seven-year period during the last decade [1972–1982] exceeded 30 percent....As a result of plant closings in new England industries such as shoes and apparel, anywhere from two to four jobs were eliminated for every single new job created by new capital invested elsewhere in the region....In the New England aircraft industry, 3.6 jobs were destroyed for every new one created; in the metalworking machine industry the ratio was 1.6 to 1.0.
>
> Moreover, contrary to popular belief, the deindustrialization process has not been limited to the 'Frost belt.' Almost half the jobs lost to plant closings (and

> relocations) during the 1970s occurred in the Sunbelt states of the South and the West....Bankruptcies were responsible for some of the job losses, but a great many of the shutdowns occurred in establishments owned and operated by profitable companies.

Those are aspects of the quantitative dimension. What about the qualitative results? What happens to the workers thus affected? Do they get other jobs? Yes, usually—except for those not forced into early retirement at a pension less than half their salary. Those that continue to work, but at another job, usually in another type of work, almost always find themselves working for a lower wage at a job classified as unskilled.

In the latter and most numerous cases the quantitative and the qualitative become one. It takes little imagination to comprehend what it must mean to skilled workers to find themselves—say, at ages 45–55—in a nonunion job with no benefits, less or no dignity, and no future; with a family needing two full-time wage-earners in order to keep from falling further.

Those processes are at one with the others noted earlier, as has been underlined by Bluestone and Harrison:

> [C]apital—in the forms of financial resources and of real plant and equipment—has been diverted from productive investment in our basic national industries into unproductive speculation, mergers and acquisitions, and foreign investment. Left behind are shuttered factories, displaced workers, and a newly emerging group of ghost towns.

All this has been effectively presented to the public as some combination of unavoidable realities, a consequence of foreign competition and, in the long run, beneficial to all. (The *long run* appears to be the one noted by Keynes—when *we will all be dead.)* In that same process, whatever ills average workers may see hurting them have been effectively spun as being caused by big government, high taxes for the wealthy, the undeserving poor, and immigrants.

Bluestone and Harrison do much in their analysis to show that the causes lie elsewhere. Among them, the most important in the United States are those having to do with the lopsided structure of jobs in U.S. companies—where *lopsided* refers to the extraordinary percentage of the U.S. workforce that spends its time not in producing but in supervising those who do. That takes us to a related discussion.

FAT AND MEAN

That was the title of a recent book by David M. Gordon. Its subject is a matter rarely studied, but Gordon did so exhaustively and definitively. In order to make his case about lopsidedness, Gordon took the time to deflate other explanations for the stagnation and decline of real wages, those that blame the victim: the so-called "skills-mismatch" problem, and the related consequences of globalization.

His focus is on the United States; but as globalization (and "americanization") intensify, what has been true in the United States becomes so elsewhere. Before turning to what Gordon sees as the main problem — bloated management — the skills and global problems will be examined briefly.

Simply put, the problem surrounding skills is seen as deriving from the swiftness of technological advance. Modern industry demands and reward skills that are out of the reach of (especially) middle-aged or older workers. But careful studies of labor markets in all sectors and at all levels of skill do not support that notion.

Gordon shows that within *manufacturing*, "in moderately skilled occupations...where employment increased most rapidly during the 1980s, wages were scratching rock bottom...." He goes on to show that the wages of computer operators (1983–1993) rose by about 0.033 percent on average each year and that those for engineering technicians fell about 0.01 percent annually (as those for doctors and lawyers rose by about 3 percent).

As for globalization, the export of jobs by the United States (among other rich countries) and rising import surpluses of commodities have of course placed downward (or prevented upward) pressures on wages.

Those pressures, however, should be greatest on those areas of the economy in which foreign trade is significant. Manufacturing — the most exposed of all sectors to imports — might reasonably be expected to have suffered most in wage trends. But it did not. In the years 1979–1994 these are the figures Gordon provides for the real earnings of production and nonsupervisory workers (as measured in 1994 dollars):

Change in Real Earnings (1979–1994)
Production and Nonsupervisory Workers

Industry	*Change (percent)*
Mining	-12.4
Construction	-20.7
Manufacturing	-10.1
Transportation and public utilities	-15.2
Wholesale trade	-5.8
Retail trade	-17.4
Finance, insurance and real estate	+12.1
Services	+2.9

What stands out in that listing is the sharp difference between the financial sector and the producing sectors. They will be examined after the discussion of Gordon's *fat and mean.* The *fat* refers to high bureaucratic costs; the *mean* is the wage squeeze, or what Gordon calls "the stick strategy."

> The connection between the wage squeeze and the bureaucratic burden runs in both directions. In one direction, stagnant or falling wages create the need for intensive managerial supervision of frontline employees. If workers do not share in the fruits of the enterprise, if they are not provided a promise of job security and steady wage growth, what incentive do they have to work as hard as their bosses would like? So the corporations need to monitor he workers' effort and be able to threaten credibly to punish them if they do not perform. The corporations must wield the Stick. Eventually the Stick requires millions of Stick-wielders.
>
> In the other direction, once top-heavy corporate bureaucracies emerge, they acquire their own, virtually ineluctable expansionary dynamic. They push for more numbers in their ranks and higher salaries for their members. Where does the money come from? It can't come from dividends, since the corporations need to be able to raise money on equity markets. It can't come from interest obligations, since the corporations need to be able to borrow from

> lenders as well. One of the most obvious targets is frontline workers' compensation. The more powerful the corporate bureaucracy becomes, and the weaker the pressure with which employees can counter, the greater the downward pressure on production workers' wages. The wage squeeze intensifies.

And Gordon goes on to point out that the ratio of supervisory to production workers in the United States is a multiple of that found in Western Europe—countries with higher wage gains and the smallest corporate bureaucracies and with more effective trade unions. Here are some numbers Gordon provides to show the dimensions of nonproductive workers in the United States:

> Depending on the definition, between 15 and 20 percent of private nonfarm employees in the United States work as managers and supervisors. In 1994 we spend $1.3 trillion on the salaries and benefits of nonproduction and supervisory workers, almost one-fifth of total gross domestic product, almost exactly the size of the revenues absorbed by the entire federal government. (Emphasis added)

It is also relevant to note that in the same years in which production workers' real hourly take-home pay was declining by 7 percent, after-tax CEOs' annual salaries were increasing by 66 percent (adjusted for inflation). In the years 1990–1996, when the ratio of CEO incomes to production workers' wages was rising from 140–1 to 209–1, that same ratio began and remained at 7–1 in Japan; and the ratios in Western Europe are considerably closer to Japan's than to the United States. [Gordon]

The data for 1997 show that average CEO pay rose by 35 percent—to $150,000 a week—while average worker pay rose 3 percent—to $424 a week. That's $7,800,000 vs. $22,000 a year. And the CEO/factory wage ratio rose to 326–1. (See *Business Week,* April–May 1998, and H. Sklar, in *Z Magazine,* June 1998)

To top things off, also in the 1990s, the intensity and hours of work increased for the average worker. In 1999, the average worker put in 260 more hours of overtime—without pay—than 10 years earlier; that equals 6 extra weeks of work. *(Business Week,* 1999-12-06)

The foregoing response of U.S. companies to the developments of the past quarter century were. for a while, unique, whether as regards the outrageous incomes of CEOs, money and social wages, or, and among other matters, the numbers of supervisors. No longer: globalization, which has "americanization" written all over it, has taught the other industrial countries that they too must introduce more "flexibility"—i.e., weakened workers, lowered unemployment

compensation, health care benefits and pensions, and more "supervisors"—all of this (from companies' point of view) made more urgent by a soft world economy.

The above quality of lopsidedness in the work and income structure of U.S. corporations, when joined to globalization and financialization, have been decisive in the warping of incomes for the bottom 80 percent of the U.S. population.

These characteristics of the present period have meant troubles mostly for all but the very top. Taken together, however, they also threaten to mix the top with the rest of us in an overall economic calamity. It will have its immediate origins in the degree and ways in which globalization and finance now dominate virtually all economies, with the USA as frontrunner.

THE SUPERSTATE'S NEW MASTERS

In capitalism's first stage, in Britain, the State's two main functions were to keep labor peace at home and to pave the way for external domination (with or without peace). With substantial variations, that was also true for the other major capitalist powers before World War I. But after World War II, the State took on what must be viewed as an entirely different life—different in ways of taxing and spending, but even more importantly in the new functions it performed.

Those functions, with substantial variations from country to country, always included active fiscal and monetary interventions to maintain economic stability, and (among other matters) social programs that, under whatever name, had the effect of blunting the harsh edges of earlier capitalism. In doing so, by redistributing income downward, it facilitated consumerism. The redistribution was in terms of shares, made easier because the levels of income for all rose, most especially for those on top. However, the stagflation of the 1970s made such overall increases in real income impossible: some had to lose. The structure of power being what it is under capitalism made it likely that the losers would not be those on the top.

As Monopoly Capitalism II evolved, that outcome was assured by the determined "corporate counterattack" (as Du Boff has called it) against both organized labor and the "welfare state." The ability to do that was much facilitated by what had become the *softness* and corruption of organized labor and the active cooperation of the media—itself almost entirely under the control of giant corporations through ownership and indirectly through their advertising expenditures.

All of this had been made simpler by the ideological housecleaning of the Cold War and the growing power of already powerful companies.

Such companies — most importantly, TNCs — confronted growing needs and opportunities for exploiting very low-wage unorganized labor in countries rich in natural resources. The poor countries lacked environmental restrictions and run by governments often eager to be corrupted at bargain basement prices.

The upshot was that considerably more than in its two previous stages of development, capitalist viability came to be dependent on global developments which themselves came to be controlled always more through the financial than the production sector. None of that could occur unless the State was controlled by the financial markets and the TNCs — often the same companies.

In the ensuing processes, and among other major developments, the State in all nations was paying increasing attention to the demands of central bankers and decreasing attention to internal needs of its people and its society. Therefore, to discuss globalization requires almost continual reference to financialization and the role of the State: two sides of the same coin.

Thus, in what follows. financialization, globalization, and the role of the State areas will be examined as though by a juggler, keeping all in focus and in motion at the same time.

First, we will take a summary look at the contemporary global economy, and then move on to finance. In doing so, it will be seen that the organizing institutions of Monopoly Capitalism II are verging toward their own dysfunctionalities.

THE WORLD AS CAPITAL'S OYSTER

The capitalist process was dependent for its very birth upon global expansion, and has since became habituated to it. Its eggs were the trading cities of medieval Europe, its midwife the colonialism of the sixteenth century and beyond, which, as Marx put it, "signalised the rosy dawn of the era of capitalist production. These idyllic proceedings are the chief momenta of primitive accumulation..." (*Capital,* I)

It was *primitive* because it was the essential first step. The next and most vital step was *capital* accumulation, based upon the exploitation of workers in the industrialization process in what became the industrial capital societies (led by Britain).

The geographic expansion of associated imperialism was much assisted by the technologies of transportation and communication of the nineteenth century.

But they were both cumbersome and slow, and set firm limits to how much could be accomplished in distant places.

With today's technologies there are almost no limits. The great speed and reliability of contemporary transportation and communications combine with *production* technologies that are easy to transport. The lines between domestic and foreign production come to be wiped out.

With appropriate modifications, this also blurring of borders applies to workers—not only the unskilled workers who assemble parts for diverse products, but also skilled workers (especially those in the electronics fields). For example, software engineers now work for U.S. firms in New Delhi, in Bangalore, in Silicon Valley—but in India they work at much lower pay, without the threat (or possibility) of unions. As Marx put it sarcastically in *Capital,*

> If the Free Traders cannot understand how one nation can grow rich at the expense of another, we need not wonder, since these same gentlemen also refuse to understand how in the same country one class can enrich itself at the expense of another.

In addition, in the poorer parts of the world (most of Asia and Latin America, and parts of Europe) in addition to that easy worker exploitation, as Greider has noted, the same companies are free of environmental laws, and thus can easily destroy forests, or water supplies, or the air. They can buy their way out of the few existing restrictions. Plus, they may be assured of exemption from taxes—with the added attraction that the existence of such possibilities in distant places means they can be used successfully as bargaining chips at home.

That such advantages to capital sooner or later may bring on problems of a global decrease in average purchasing power...or that the debts required to maintain economic expansion will reach their limit and contribute to a major collapse...or that environmental damage will become ubiquitous and make the world unliveable. Well, they will think about that—tomorrow. Maybe.

Such has been true in all or part of capitalist history. Such problems are to be confronted *after* they appear, not before. That, too, is in the nature of capitalism.

As has been, also, financial recklessness, from early modern Holland (and its "tulip mania") to the Crash of 1929. But today is very different; in Monopoly Capitalism II, everyone and everything is at risk.

THE BANK OF BRITAIN AND ITS OFFSPRING

When Britain played the role of global boss now exercised by the United States, the Bank of England was in effect the world's lender of last resort; as such, it was able to preside over much of the rest of the world's pace and content of economic development through its alteration of interest rates. Private though it was, the Bank of England thus served as something like (though even stronger than) a central bank not only for Britain but for much of the world—including both the United States and Germany in their early industrializing decades.

The principles to which that bank abided came to be the principles of monetary theory and the *monetarism* that was critically powerful before the depression of the 1930s, by which time every industrial nation had its own central bank, controlled either partly or entirely by the State.

Item The Federal Reserve System of the United States is *owned* by its member banks. It has twelve *districts* each with its own governing body, entirely appointed by the member banks and selected other representatives from business and the community. But they are presided over for may critical decisions by the Board of Governors, whose seven members and whose chair are appointed by the U.S. president, with Senate approval. That power of appointment and approval is widely understood to be at the informal consent of the private financial community. In one variation or another, this is the practice throughout most of the world—and an odoriferous instance of the fox guarding the chicken coop.

In the two decades or so after World War II, all major capitalist economies placed monetary (that is, central bank) policy in a role secondary to governmental fiscal (taxing and spending) policies. But a major outcome of the stagflation of the 1970s was the beginnings of a rightward shift of politics—led by Margaret Thatcher in Britain and pushed much farther during the Reagan Administration in the United States.

As globalization intensified in those same years, and as the financial community began its sharp rise to dominance, Keynesian economics—whose perspective was always broader than the business community, let alone just its financial sector—was pushed aside, and monetary policy came to rule once more: in, however, a very different world.

This very different world is one where the main processes are those of globalization, and the main actors are TNCs and financial markets. By the 1990s, those main actors found themselves functioning in a context increasingly dominated by speculation in currencies, stocks and bonds, and, linked to them, derivatives.

Meanwhile trade agreements were bringing various sectors of the globe under pressure—those culminating in the European Union, the North American Free Trade Agreement (NAFTA), and the World Trade Organization (WTO). A linked part of those pressures is to restore monetary policy to the throne it occupied in the days of the Bank of England. That reversal was well underway already in the late 1970s in the United States, when *the Fed* was restored to its 1920s position—ominously. Now the European Central Bank is moving toward the same result.

Euroland is not yet fully in place or accepted, but it is almost there in practice: Its 15 members already strain to keep their national debts and budgets within specified limits. An implied consequence, also already under way, is the lowering of social spending levels. Thus Euroland moves toward becoming like the United States as regards health care, unemployment benefits, vacation and old age benefits.

Although the member countries of the European Union for some years have had relatively low rates of growth and high rates of unemployment (averaging over 10 percent), most are not quite yet in recession. If and when recession arrives, the need to expand rather than to contract the policies of social democracy will come in sharp conflict with the presently unchallenged dominance of monetary policy.

Up to now, membership in the Union has been popular in most of Europe (especially in Italy). That is likely to change when *Europe* comes to mean harder times for all. In fact the riots in France, Germany, and elsewhere of 2006 were largely a result of hard times. If, and when recession happens, there will be more—and perhaps a revival of currently sleeping left politics.

Among the several factors making that likely are the current extraordinary mountains of debt splotching the globe, and most especially where debt is highest and counts the most...

IS THE UNITED STATES BUILDING A DEBT BOMB?

That was the title of a late 1999 essay in *Business Week.* The debt referred to was household debt, corporate debt, financial sector debt, and the U.S. external debt.

But it is not only the high levels of debt, but the reasons why they have been and continue to be taken on that are troubling. First, the levels:

Household debt as a share of disposable income stood at about 62 percent in

> 1978; in 1999 it had risen to 98 percent; non-financial corporate debt as a share of corporate output rose from under 60 percent in 1978 to over 80 percent in 1999; financial sector debt as a share of GDP more than quadrupled, from under 20 percent to 80 percent; and the U.S. debt to the rest of the world, about $1 trillion in 1980, has since more than doubled, to over $2.3 trillion.

Debt in the business community: a report of the U.S. Comptroller of the Currency for 1998 should have been viewed as an alarm going off: It showed that in 1995, about 12 percent of syndicated loans went to companies already carrying heavy debt and subpar credit ratings. But by 1977, fully 17 percent were to such indebted borrowers. And at the end of first quarter, 1998, that figure had soared to 31 percent.

The *Business Week* essay of 1999 shows that quite the opposite took place as regards corporate debt:

> The most alarming sign of trouble ahead may be what's happening to corporate balance sheets. Despite the huge gains in the stock market, there is a pronounced tilt in corporate financing toward debt and away from equity. Even at today's prices, companies are buying back far more stock than they are issuing. Over the past 12 months, an eye-popping 3.6% of GDP went into stock buybacks, and even with the IPO boom, nearly $500 billion in equities have been taken off the market since 1997. Making the situation even worse, some companies are borrowing to finance buybacks....At the same time, companies have been issuing more and more debt to finance acquisitions and expansion.

That not only nonfinancial corporations and consumers (as will be seen) are borrowing for such purposes, but also financial institutions, is an important part of the explanation for Wall Street's recent boom to end all booms. Those outside the financial world would be startled to learn how much borrowing (and why) those inside have been doing. It is common practice for all financial companies—banks, mortgage companies, et al.—to repackage the loans they have made and sell them as bonds and notes—"creating debts of their own," as *Business Week* puts it.

And the numbers are huge: Direct borrowing by financial institutions plus securitized lending held by investors has soared from $2.4 trillion in 1989 to $7 trillion today, bigger than household debt and almost double the size of nonfinancial corporate debt. *Business Week* adds, quoting a financial expert, "The worry is that we might become too efficient at creating debt."

In the Fall of 1998, there was a scary period accompanying the emerging

markets meltdown, which almost brought down the major derivatives firm of Long-Term Capital Management. It was saved from a multibillion dollar bankruptcy—and who knows what other associated developments—by a last-minute bailout engineered by the Fed. Far from either the Asian (and associated) crises serving as a warning to take heed and calm down, debt rose by 8 percent in the ensuing year, "matching the savings-and-loan financed spree of the mid-1980s."

Then there is U.S. external debt. The United States in 1980 was the world's largest *creditor* ever, owed mountains from others. As the 1990's began, however, began we had become the world's largest ever *debtor,* owing mountains of dollars. The monthly trade deficit of the USA in 1999 was about $24 billion. By now it is a multiple of that, and our accumulated foreign debt is in the trillions.

Another way of seeing what is under way is to note that the United States now absorbs well over two-thirds of the entire world's savings: thus, as Greider puts it, the United States is the "world's buyer of last resort." Insofar as that buying is a major element of what keeps the world economy from softening—which would entail a withdrawal of funds—that alone is a source for great concern.

When it is additionally understood that what keeps the U.S. stock market rising is itself dependent upon business, financial, and consumer borrowing and that the gains from the stock market—along with household debt—are in turn a major part of what keeps consumption high and rising, it may be seen that the present U.S. and world economies are more precariously situated today than ever before in history.

Such concerns are scarcely lessened when it is understood that an unknowably high percentage of stock and other purchases has been financed by borrowing against mortgages. It is obvious that unless the already extraordinarily high and still rising levels of debt are adequately secured in rising incomes and productive assets, the metaphor of *bomb* is in no sense an exaggeration. That takes us back to a further look at consumers and what has happened to the U.S. economy in recent decades.

THE ADDICTED CONSUMER

Consumerism may be seen as an addiction; but as with drug addiction there are two categories: (1) those who sniff high-priced cocaine with diverse ways of protecting themselves (at least for a while), and (2) the largely poor who are addicted to crack cocaine, and who are driven, finally, into desperation—and prison. So

it is with consumer markets for goods and services and for debts. Like the distribution of income, they are highly unequal.

Generally speaking, and whatever may have been true in earlier years, nowadays the bottom 80 percent of the population goes always more deeply into debt in order to maintain its level of consumption—or to slow its fall. On the other hand, the top 20 percent and, even more clearly, the top 10 percent, buy and borrow in another world—to speculate, to buy luxury goods, to go on a world cruise...We look first at the bottom rungs of the ladder.

Consumerism has required middle- and low-income families to adapt to two wage-earners and to borrow always more. Credit cards are not only easy to obtain, they have become in some sense difficult to turn down. Virtually none require certification of financial abilities. This helps us to understand how it is that

> the poorer half of the U.S. population "which collects only about 20 percent of all income, was responsible for 30 percent of the debt in 1995, and over 35 percent of the growth in credit card debt between 1989 and 1995." The average annual payment on credit-card debt is about 16 percent. Household debt (excluding mortgages) as a percentage of after-tax income in 1982 was about 45 percent; by 1998 the percentage had more than doubled. Unsurprisingly, the number of bankruptcies in 1982–1998 rose from 2.8 to about 5 per 1000 persons, and rises ever more steeply. (Henwood, *Left Business Observer)*

It is the largest part of the middle class whose incomes stagnated after 1973—but whose addiction to consumption nonetheless continued to deepen, tempted always more by the seductions of advertising.

But let us also look at the comfortable to very rich residents at the top of the heap. These are the families whose annual incomes range from $100,000 into the millions. Their debt is seldom incurred from necessity, but rather because of perceived opportunities to become richer, more prestigious, or—something. They are successful in business, as doctors, lawyers, engineers and, among others, those in finance; and they constitute the great majority of individuals who participate in the stock market. In order to do so, they also constitute the major participants in the residential mortgage market—a market in which, already in 1999, *Business Week* called a "massive" increase over the preceding year: $400 billion.

> [P]roceeds from mortgage refinancing and home equity loans—over and above the amount used for home purchases and renovations—were used to pay off $34 billion in credit-card debt in 1998....Owners' equity as a percentage

> of residential real estate now stands at 56%, down from 66% in 1989....Even more dangerous is the quadrupling of margin debt—borrowing to fund stock purchases...[which] has tripled in only five years....If the market plunges, much of that debt will immediately have to be paid back.

And so? Putting together all the foregoing elements—those comprising speculation and the several mountains of debt, what seems to lie ahead? Using the analytical framework of the late and much respected post-Keynesian Hyman Minsky, the economist James Cypher argues that

> [A]ny substantial change in either the interest rate (+), the value of equities (-), or the growth of sales (-), in the context of a credit-driven expansion will reveal widespread financial fragility. (Cypher, 1998)

It is generally agreed that an upward shift of interest rates is not a matter of whether but when, and that this alone will push stock prices down. That ecline is more likely to be drastic than moderate, working against high and rising consumption, and working against low unemployment.

Nor is it of minor concern that both directly and indirectly the percentages of the population both deeply in debt and vulnerable to a stock market decline is considerably higher than ever. Earlier we saw that household debt as a percentage of after-tax income had reached 98 percent; and it is reliably estimated that one in two families now own securities.

Item After having been kept low for many years, interest rates began a slow but steady rise in 2005, such that by mid-2006 they had doubled. And the stock market, after what was called a "delicious boom" of about two years had, by late spring 2006, began a decline.

WHAT'S NEXT?

Nobody knows the future. What has been discussed and described about the economy in the foregoing pages could be seen as *a world losing its senses.* It would be more accurate to say that we have allowed ourselves to be *bewitched,* that our good sense has been lured away from us, teaching us (to quote Paul Baran yet again) "to want what we don't need, and not to want to what we do."

That has been achieved by an always more ingenious and aggressive and highly financed *consciousness industry* (Ensenzberger), to which we now turn.