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Challenges in a Time of Austerity

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But a growing belief in a libertarian socialist alternative to capitalism isn't going to happen as an automatic result of either worsening life circumstances or a higher level of struggle and resistance.

We can see this if we compare the upsurge in strikes and socialist consciousness in the working class in the period between 1900 and 1920 to the mass working class upsurge of the '30s. The earlier period saw large numbers of explicitly socialist newspapers – even dailies – and much popular education for socialist alternatives to capitalism, and popular acceptance by many militant workers of the vision of “workers managing the industries.” Despite the even greater mass upsurge of the '30s, however, there wasn't the same kind of growth in socialist education and socialist consciousness, especially not after the Communist Party's “Popular Front” turn in 1935 which represented a capitulation to liberalism and the Democratic Party.

This is why it is important for there to be an organized, visible libertarian socialist movement that can provide plausible answers and a plausible vision of a libertarian socialist alternative to capitalism and a path forward. Moreover, this movement has to figure out how to be an active part of the mass organizations and struggles that do develop.

and encourages a fatalistic acceptance of what is. When people do not see much real solidarity in practice by working class people, they will tend to believe “You’re on your own” – a lesson that the system tends to drum into us every day.

On the other hand, in periods when strikes and mass protest become more common, this heightened resistance can also lead to more social power to bend the will of employers and the government. This is especially true when workers develop forms of organization and struggle that they control. As working class social power increases through higher levels of solidarity and participation in struggle, this will tend to change the prevailing mindset among many working people because people will learn from their experiences and be more open to the idea they can change things. This is especially so if they work out forms of organization and struggle where the rank and file are in control. Controlling your own organizations can encourage people in the belief that maybe working people can control the society.

Mass organizations also provide a venue where revolutionaries who have a more ambitious vision of social change can connect to the discontent of ordinary people. Thus a strategy of developing mass organizations and struggles “self-managed” by working people is a “bridge” towards a libertarian socialist transformation of society.

To be able to mount an effective counter-attack against the employers in the current crisis and fight the elite’s drive for greater austerity, large scale mass participation and mass struggles are necessary.

An important part of greater working class social power is a growing critique of capitalism and belief in a viable alternative. To the extent there is a growing belief in a self-managed socialism that working people can build to replace capitalism, this will tend to bolster the confidence of working people in fighting the employers at present because a belief in the righteousness of their fight sustains the struggle.

American capitalism faces multiple worsening crises. Vast unemployment, huge numbers of home foreclosures, and cuts to public services are symptoms of an economic system in crisis. The role of the USA as world cop to protect corporate exploitation of labor and resources throughout the world creates human casualties – as in the endless war in Afghanistan – and also shifts resources away from social services that would benefit the working class population. Capitalism profits off the domination and exploitation of labor but also from plunder of the earth’s resources and shifting costs onto others through pollution. The threat posed by climate change is a clear and present danger and evidence that capitalism is not ecologically sustainable.

Radical economists usually distinguish two kinds of economic downturns. First, there are the recessions that are part of the normal business cycle. And then there are less frequent “structural” crises that reflect more deep-seated problems. The present epic recession seems to be a severe structural crisis.

The present economic crisis does not give any sign of ending any time soon. Huge numbers of people have been out of work now for record lengths of time. There are six unemployed for every job opening. The real unemployment rate is somewhere between 16 and 19 percent and much higher in African-American communities. More houses continue to fall into foreclosure. 140 banks collapsed last year and 110 so far this year. The FDIC has another 829 banks on its endangered list. Although the big banks sit on a cash hoard of \$1 trillion, the IMF estimates their bad assets at \$2 trillion.¹ Lending to small to medium-sized businesses has dried up.

As happened in the ’30s depression, the economic crisis will tend to discredit capitalism – especially the “free market” neoliberal variety – in the eyes of many people. Pundits have long heralded American capitalism as the system that provides “prosperity.”

¹ Jack Rasmus, “An Economic Crisis Balance Sheet”, Z, July 2010 (<https://znetwork.org/contents/170703>)

Now it can't deliver. This discredit and increasing austerity — declining ability to earn an adequate living, worsening working conditions, sharp cuts to government supports — provide a motivation to increased struggle by working people.

This situation will provide us an opening for anti-capitalist popular education. People will be more open to hearing about a libertarian socialist alternative to the present system.

People will be looking for an overall perspective or explanation for what is going on. For this reason, we should study the various theories or explanations of the economic crisis. We need to be informed so we can provide a plausible “big picture” view of the situation.

An effective working class response to the crisis will require a massive increase in struggle and numbers of people involved. But it would be way too mechanistic or deterministic to suppose that either an upsurge of mass struggle or an increase in support for libertarian socialism will happen as some sort of automatic response to increasing deprivation.

Shrinking state budgets can also generate internal conflict in the working class as people fight over scraps. “Immigrants take our jobs” is a complaint that leads to further division, as immigrants are scapegoated for problems not of their making. These kinds of internal divisions are a danger in the present period.

Capitalism today is a zero-sum game between labor and capital. When business taxes are increased to sustain social services, this cuts into profits. When workers raise their wages or benefits, this also reduces profits. When companies increase their profits, they use these funds to move operations to lower wage zones, hire more managers to enforce a harsher work regime, and re-organize work to reduce jobs and speed-up the jobs that remain.

But the union bureaucracy and a variety of liberals and socialists often argue that “win-win” solutions are possible where both capitalists and workers will benefit. The labor bureaucracy try to sell “partnership” to the employers by using arguments of this sort.

ever, people should study the various theories to help them become more informed about the crisis.

5. The Crisis of the Working Class

The working class faces the dire circumstances of high unemployment, precarious income, and attacks on social services at a time when the level of collective self-organization and collective struggle by the class is at low ebb. Many of the organizations that do exist — trade unions and non-profit community organizations — tend to act as “service agencies” with decision-making authority concentrated into hierarchies of paid leaders, executives and professional staff. Even when their members or constituents are mobilized, decisions are often controlled by the staff bureaucracy, not the rank and file. No matter how often members are encouraged to chant “The workers are the union,” it will ring hollow if workers don't make the decisions.

The virtual disappearance of strikes since the '70s is a symptom of the problem. The strike is a fundamental way in which workers exercise some social power by bringing production to a halt.

The present crisis in the working class is itself the result of a protracted process that goes back decades, to events in the '30s and '40s that led to the consolidation of the conservative business union bureaucracy, for example. And this crisis is not likely to be overcome except through a protracted process of struggles, organizing, popular education and change in the mindset of increasing numbers of people.

When there is a low level of resistance, strikes, mass protest and only sporadic mass participation here and there, this will tend to reinforce the sense among working class people that “You can't fight city hall”. The role of workers in the economy, where we are subject to a regime at work where bosses and high-end professionals steer the ship, tends to reinforce a feeling of having no power

ment can't reduce the profit rate.⁹ Robin Hahnel, who follows the Sraffian view, tends to see the basis of the current crisis in features of the neo-liberal era – rising inequality, deregulation of business and finance and, especially, the emergence of an over-leveraged financial system.

In recent years a number of Marxists who have returned to the original works of Marx have tried to refute the arguments of the Sraffians.¹⁰ I'm not convinced by either the arguments of the “fundamentalist” Marxists or the Sraffians.

I think it is problematic to propose an “always acting” tendency that is inherent to capitalism as such, irrespective of time and place and particular institutional structures or balance of social forces, as the explanation of a structural crisis. A structural crisis always occurs in a particular time, and in a period characterized by particular institutions and balance of forces. If the tendency – either falling rate of profit or under-consumption – is always acting and inherent to any era in the life of the capitalist system, we will have to also invoke various other factors to explain why the actual structural crisis emerges in a particular time and context.

I don't believe that we have to agree on a particular theory of the present economic crisis in order to do popular education or work in helping to develop a fight back against employer attacks or cuts to social services or other manifestations of the economic crisis. A theory itself does not commit us to a particular strategy for resistance and organizing activity. For each of the various radical theories I've referred to, there are both revolutionaries and reformist socialists or social-democrats who have advocated it. How-

⁹ For a good exposition of the Sraffian view, see Michael Albert and Robin Hahnel, *Unorthodox Marxism* and Robin Hahnel, *The ABCs of Political Economy*.

¹⁰ See for example: Chris Harman, “Not all Marxism is dogmatism: A reply to Michael Hudson,” *International Socialism* (<http://www.isj.org.uk/?id=600>) and Andrew Kliman, “The Okishio Theorem” (<http://libcom.org/library/okishio-theorem-obituary-marxist-humanism>).

But productivity since the late '60s has risen by about three-fourths but wages have been stagnant. This means the employers can scarf up all the gains as profit – this is the big reason for the increases in corporate profits since the '70s. The employers believe that the best way for them to win is to avoid unions.

Ironically the one reform that might have benefitted American employers would have been single-payer health insurance, which would cut the health insurance premium costs of employers by increasing the efficiency of health insurance provision. But the capitalist elite generally do not like any program that converts some area of the economy into a purely nonprofit operation because this shrinks the total set of areas where profits can be made. And so the health insurance capitalists were powerful enough to keep single-payer off the table.

There are those on the Left now who talk about a “new New Deal”, which they envision will come about through coalitions of bureaucratic business unions, the bureaucratic 501-c-3 nonprofits and liberal Democratic party politicians. We need to be able to argue convincingly that this reformist path is unrealistic.

1. Origin of the Present Economic Crisis: A Class Power Analysis

To understand the present crisis, it's helpful to look at the two previous structural economic crises, in the '30s and '70s.

The Roaring '20s exhibited many trends similar to the neo-liberal era of the past 30 years. An aggressive employer offensive began in 1919 with the smashing of the big steel strike, breaking of the 1922 railroad strike, passing of criminal syndicalism laws and imprisonment of hundreds of wobblies. Union membership declined throughout the '20s and income inequality increased. Just as in the past 30 years, the plutocracy increased their share of national income. The income of the wealthiest 1 percent of the

population in the USA rose from 11.8 percent of national income in 1920 to 19.1 percent of national income in 1929. "Rugged individualism" became the dominant ideology during the Roaring '20s boom. The '20s also saw the capitalist elite overcome the attempts at restrictions on predatory corporate practices by the populist, labor and "Progressive" movements of the 1890-1920 era. For example, the various regulatory bodies that had been created (Interstate Commerce Commission, state Public Utility Commissions) fell "captive" to corporate interests.

The free-wheeling, unregulated financial system of the '20s spawned various asset bubbles, in stocks and real estate, which grew towards the end of the '20s boom. Asset bubbles tend to pump up consumer demand because people use the increased paper value of their assets as a basis for increased consumer spending. The '20s also saw the development of modern systems of consumer credit. In October 1929 the bubble burst and eventually the entire banking system collapsed in 1933. Because of the major expansion in investment during the '20s boom, capitalists faced an over-capacity or over-investment crisis in the '30s: Too much capacity relative to the depressed purchasing power of the population. Thus investment in fixed equipment never completely revived during the '30s. By 1939 investment in fixed equipment was still only 57.7 percent of the level of 1929.²

But after a few years the working class fought back against the austerity imposed by capitalism in crisis. During the '30s in the USA there was an unprecedented mass working class rebellion, from the Hormel sit-down strike of 1933, through the city-wide general strikes of 1934, to the more than 500 workplace occupations that occurred in the wake of the successful GM sit-down strike at Flint, Michigan in 1936. Membership in unions in 1940 was

² David Kotz, "Marxist Crisis Theory and the Severity of the Current Economic Crisis", December 2009 (http://people.umass.edu/dmkotz/Marxist_Cr_Th_09_12.pdf)

The labor theory of value has a number of other weaknesses. It assumes that the only relevant inequality of bargaining power in the economy is the difference between capital owners and sellers of labor power. But in corporate capitalism there is a bureaucratic control layer – managers and high-end professionals – that sucks down a significant income. This class has continued to grow in size and income in the neo-liberal era. As bosses or people who control other workers, they have an antagonistic relationship to the working class. Their high incomes reflect their participation in the exploitation of labor...despite the fact they are sellers of labor power. There are also inequalities of bargaining power within the working class due to worker self-organization, histories of struggle, skills or education, and racial and sexual inequality.

Another defect of the labor theory of value was that it couldn't account for prices in general since, as Marx recognized, land and minerals and other natural resources are not produced by labor. We also do not need the labor theory of value to have a theory of labor exploitation. Due to their monopoly on ownership of capital assets, capital owners are able to suck down property income off the labor of the working class only because the working class is an oppressed group. Their class monopoly enables the capital owner class to suppress wages to the point that profits are possible. Oppression of another group in order to obtain benefits off their work is a fundamental form of injustice.

Sraffa's theory of prices unified the treatment of labor-produced commodities and raw materials. According to the Sraffians, prices are set on the basis of cost-plus markups on the prices of all the factors of production. Hence there is no tendency to a lower profit rate due to investment in labor-saving equipment. A Japanese Marxist, Nabuo Okishio, who was a follower of Sraffa, produced an argument that purports to show that investment in labor-saving equip-

Marxists argue that this means there will be a tendency for the rate of profit to fall since there is declining amount of “living labor” “embodied” in commodities, and “living labor” is seen as the source of value, and thus of profits.

On the falling rate of profit theory, a crisis generated by the tendency to a falling rate of profit will take the form of an over-capacity or over-investment crisis. But this happens because the falling profit rate dries up investment and people are laid off, thus undermining aggregate demand.⁸

In the '60s this theory was attacked by economists using the theory of prices developed by Piero Sraffa. For one thing, Marx acknowledged that competition equalizes the profit rate between different firms, irrespective of how capital intensive they are. But Marxists haven't identified the mechanism by which profit is supposed to flow from more labor-intensive to more capital-intensive industries, if the profit rate is to be equalized.

Also, capitalists do not generate profit only by investing in equipment that lowers the number of worker hours required per unit of output. They also make profits through systematic cost shifting. For example, intensifying the pace of work is a form of cost-shifting due to adverse impacts on worker health. Hours of work is thus not sufficient as a measure of social cost of production because it ignores intensity of labor.

Capitalists also shift costs onto workers when they subject them to unsafe conditions or expose them to toxic chemicals. The capitalists benefit when they don't have to pay for changes in worksites to enhance worker safety or avoid toxic pollution. Similarly, capitalists also profit through shifting costs onto communities through air and water pollution. And, finally, they also profit through sheer plunder of natural resources, as when they push indigenous communities off land to obtain forest products or extract minerals.

⁸ Charlie Post provides a useful overview of the various radical theories of crisis. See note (4).

four times what it had been in 1933. Additional mass self-activity occurred during World War 2 with millions participating in sit-down strikes in violation of the war-time “no strike” pledge. Even before the creation of the CIO in 1935, large numbers of independent unions (such as autonomous “federal locals”) came into being through collective worker action.

This working class rebellion greatly increased working class social power and shifted the balance of power in society. The capitalist elite were forced to make major accommodations, through concessions to unions on the job and through various changes to laws and new state programs. This included Social Security, unemployment insurance, Aid to Families with Dependent Children and the creation of the legal minimum wage, time and a half for overtime, and legal rights to organize on the job. By the early '50s about 35 percent of workers in the USA belonged to unions (but the south wasn't penetrated by unionism to any significant extent). There were also programs set up to create jobs in a direct way – the Civilian Conservation Corps, the Works Progress Administration. To prevent the financial system from becoming over-leveraged again, a new regime of finance industry regulation was created.

Capitalists were under pressure during the '30s-'40s era in other ways. Anti-capitalist revolutions in Russia and China and the creation of the world Communist movement posed a challenge to the very existence of the system. The era from World War 1 to the 1940s was an era of revolution, war and social upheaval which posed a serious threat to capitalism itself. The '30s had discredited the laissez faire brand of capitalism in the USA and growth of socialist ideas within the working classes in Europe all tended to put the capitalist elite on the defensive.

Thus at the end of World War 2 the working class emerged with enhanced bargaining power in relation to capital. This was reflected in high union membership rates in industrialized countries, systems of pattern bargaining, laws mandating legal

minimum wages and the various programs of the so-called welfare state.

2. The Post-War Boom and Its Crisis

At the end of World War 2 the stage was set for a vast expansion of capitalist production. Europe and Japan were in ruins and in need of rebuilding. After the collapse of the U.S. building industry, a new regime for the housing industry was created in the USA, spawning a huge housing boom in the wake of a 1940s housing shortage. In the '20s, mortgages were typically only for 7 years. At the end of that time, a homeowner faced a balloon payment and the need to find a new mortgage. This system created a huge foreclosures crisis in the '30s. From the late '30s on, the federal government rebuilt the housing regime on a new basis. The FHA sponsored a new system of 30 year mortgages, and the government provided subsidies to buyers in the form of the interest deduction on income taxes. However, the FHA worked on the basis of a racist redlining scheme. So this new regime mainly worked to the benefit of the white working and "middle" classes. With rising real working class wages during the post-World War 2 boom, a majority of households in the USA were able to afford to buy houses for the first time. The new housing regime, on top of huge subsidies to highway construction, spawned a huge suburbanization boom. The growth in auto ownership and home ownership also beefed up the market for gasoline, consumer appliances and other products.

Throughout the post-World War 2 boom capitalists were making high profits and re-invested in new equipment and work organization which increased labor productivity. But throughout that era workers had a strong enough bargaining power to ensure that their wages rose with productivity. On the other hand, the bureaucratic business unions tended to concede control in the workplace to the bosses. The accommodations forced on capital in the '30s/

elite. From their point of view, it seemed to be a success. And elite circles do not show any inclination to change course.

4. Other Theories

Marxists traditionally argued that capitalism has "internal contradictions" that set the system up for crisis and will lead to its demise. There are two different theories of an "inherent" tendency in capitalism to generate a structural crisis that can find support in the writings of Marx. Marx predicted that crises would occur because of the tendency of capitalists to drive down wages as a means to increase their profits and beat their competitors. The idea is that declining working class wages will diminish the effective demand for the commodities that capitalist firms sell, thus leading to stagnation. This theory is called *under-consumptionism*, and was historically popular with the Communist Party and many other socialists as well as liberals. This theory is used as an argument for Keynesian policies to sustain purchasing power.

But the under-consumptionist argument forgets that capitalists don't just produce the consumer goods consumed by the working class. They also produce equipment – producer's goods. If profits can be made through investment, capitalists will buy equipment to beat their competitors, and this will enhance aggregate demand.

Another Marxist theory sees the source of crisis in an inherent tendency towards a falling rate of profit. The argument is that competition forces capitalists to invest in equipment that lowers the per unit labor costs of production. The theory is rooted in the labor theory of value. Since profit is based on time workers spend beyond the time it takes to reproduce their ability to work, according to Marx's labor time accounting, profit depends on the proportion of "living labor" that is embodied in production of commodities. As investment in equipment creates a more capital-intensive industry, the amount of capital invested in fixed assets per worker increases.

on capital that had come into being as concessions in previous periods of mass protest.

The working class uprising of the '30s-'40s era, and the further worker militancy and social movements of the '60s, tended to increase the bargaining power and social leverage of the working class and oppressed. This was reflected in the growth of the welfare state and various accommodations by capital, in state policies as well as collective bargaining. This tended to squeeze profits, generating the structural crisis of the '70s. Thus I would see each structural crisis as emerging out of the institutions and conditions and balance of social forces of the preceding period.⁶ I think this sort of analysis is congenial to a libertarian socialist outlook because of the emphasis on the role of collective self-activity and social power of the working class as a factor in the overall dynamics of capitalist economic history.

Some Marxists argue that the present crisis is just a continuation of the structural crisis of the '70s.⁷ They will point to the fact that the rate of growth of GDP in the '80s and '90s was not greater than the '70s. In fact the American economy has never recovered its high growth level of the immediate post-World War 2 decades. During the '80s and '90s the average annual rate of growth has been about 3 percent in the USA. According to David Harvey in *Enigma of Capital*, this has been the normal rate of growth of industrial capitalism since the Industrial Revolution. The higher growth rate of the post-World War 2 boom stands out as exceptional in the history of capitalism.

And why should a capitalist care about the system's overall growth rate? What the capitalist is interested in is his profit rate and his income. And the neo-liberal era did see a huge revival in corporate profits and a big shift of national income to the capitalist

⁶ My "class power" analysis of structural crisis owes a lot to David Kotz. See note (2).

⁷ For example, this piece by Loren Goldner: <http://home.earthlink.net/~lr-goldner/fitch.html>.

'40s period which beefed up labor's bargaining power had a tendency to generate a "profits squeeze" at the high point of each post-World War 2 expansion.³

During the '70s business profits fell to a much lower level than they had been during the post-World War 2 boom years. There are two reasons for this.

First, the intense social conflict and working class rebellion of the '30s/'40s era had created accommodations between labor and capital, such as widespread collective bargaining in a variety of industries. This accommodation was also reflected in the post-war political consensus that supported at least some welfare state programs...although this tended to be stingier in the USA than in Europe. The legal minimum wage continued to rise during the '60s. Low unemployment during most of the '50s and '60s tended to heighten bargaining power of workers. There was a significant rise in spending for Medicaid (health insurance for the poor) and Aid to Families with Dependent Children by the mid-'70s. The '60s and early '70s also saw the passage of various environmental laws such as the Clean Air Act and the passage of OSHA seemed to promise a safer workplace. The mass auto ownership boom of the post-war years helped to bolster industrial production but also undermined the public transit industry. By the '70s the public transit industry was under public ownership and new subsidies for transit services and fares added further to the social wage.

This post-war accommodation to labor became more of a problem for the business class when they began to face a situation of increasing competition for the world market in the '70s.

The end of World War 2 marked the end of an era in the particular form of imperialism of the dominant industrialized capitalist

³ David Kotz, "Economic Crisis and Institutional Structures: A Comparison of Regulated and Neoliberal Capitalism in the U.S." in *Heterodox Macroeconomics: Keynes, Marx and Globalization*, Jonathan P. Goldstein and Michael G. Hillard, eds., 2009. Kotz is part of a group of Marxist economists known as the Social Structures of Accumulation school.

countries. Prior to World War 2, the elites of the dominant capitalist countries were committed to various forms of colonialist or mercantilist schemes. Each country would try to carve out colonies and spheres of economic control where capitalists rooted in the home country would have a preferential access to labor, resources and markets.

The more typically American form of imperialism was expansion of the home country itself, through the displacement of the American Indians, and absorption of Mexican territory and Hawaii into the home country. The capitalist elite in the USA built their big companies through the emergence of a huge national market by the end of the 19th century. The particular form of “home country preference” pursued by the American capitalists consisted of building a very high tariff wall (44 percent in 1913) to carve off the American market from foreign competitors. The “Monroe Doctrine” and various military incursions in Latin America and the Caribbean also aimed to rope off that region as an area of American dominance. On the other hand, the American elite only got into the colonies game in a small way with the Spanish-American War of 1898.

At the end of World War 2, however, American capitalists saw the opportunity to operate on a global scale. Thus the dominant American foreign policy aim of the post-World War 2 era has been breaking down nationalist barriers to exploitation of labor and resources in all countries around the world. This meant the British “dominion” preference system had to go. The USA was strong enough at the end of World War 2 to force the dissolution of colonialist or mercantilist schemes, through the formation of various institutions such as GATT which provided a framework for American access to global markets.

But the “free market” framework preferred by American capitalists also provided access to the global market for European and Japanese capitalists as these countries were rebuilt. American capitalists by the ‘60s thus faced growing competition from firms in

ket prices of assets such as stocks and houses. First there was the dotcom stock bubble of the late ‘90s, with major speculative capital flows to companies with barely plausible business plans. This had a tendency to pump up employment in the late ‘90s, which led to rising wages for a few years. And then there was the housing bubble of 1997 to 2007. As the paper value of people’s houses increased, people re-financed or took out home equity loans to help to sustain their consumer spending or pay necessary bills. About a third of the increase in consumer spending in the early 2000s was due to mortgage equity borrowing.⁵ Right-wing pundits like to talk about how people were “irresponsible” in their borrowing without looking at things like stagnant or declining wages and rising health care costs and rising personal bankruptcies due to medical bills.

The debt-inflated consumer purchasing power of the period from the late ‘80s to the early 2000s encouraged capitalist firms to invest in greater production capacity. Now that the housing bubble has crashed and exposed a dangerously over-leveraged financial system, the capitalists are now confronted with an actual over-capacity or over-investment crisis. In this situation we are likely to see a lower level of investment in new capacity for producing goods and services.

The analysis that I’ve presented here tends to see structural crises over the past century as rooted in shifts in class power between labor and capital. The capitalist offensives of the ‘20s and of the neo-liberal era generated a more free-wheeling, deregulated system, speculative asset bubbles, and increasing inequality as income was shifted from labor to capital due to capital’s increased social power. In both the ‘20s and the neo-liberal era, the shift to a more deregulated, laissez faire capitalism reflected the intent of the capitalists to secure greater profits by diminishing worker bargaining power and removing social controls (through state regulation)

⁵ “Austerity in the Face of Weakness”, interview with Doug Henwood (<https://znetwork.org/austerity-in-the-face-of-weakness-by-doug-henwood>)

The failure of state socialism also contributed to the crisis in the working class. By the late '30s Leninism had become the dominant form of radical politics. From the '30s on many radicals had become apologists for Communist regimes where a bureaucratic class had replaced the capitalists as exploiters of labor. The more liberatory vision of revolutionary syndicalism, of "workers managing the industries," had lost ground and become nearly invisible. The capitalist elite used the continued existence of civil liberties and elections – so-called "democracy" – in the industrialized capitalist countries as a basis of superiority to socialism which they identified with the Communist regimes.

Now, the overall effect of this capitalist offensive has been to undermine worker bargaining power, increase profits and shift more of the national income to the capitalists. But a major decline in worker income also poses a danger for the system. If the aggressive class war of the plutocracy lowers purchasing power in the hands of the mass of the population, then they may face an over-capacity crisis, that is, a situation where they find themselves with capacity to produce far more than people have the ability to buy.

In the Third World, the attack on the social wage and bargaining power of the masses of the population took the form of Structural Adjustment Programs, under the auspices of the International Monetary Fund and World Bank, set up under American tutelage after World War 2. The increase in world oil prices in the '70s led to severe indebtedness by various third world and eastern European countries. This indebtedness to the financial sector of the dominant capitalist countries then became the basis for turning down the screws on these economies, forcing cuts to social subsidies, privatization of government enterprises, and breaking down nationalist barriers to direct exploitation of labor and resources by foreign capital.

Until the 2007-2009 crash, an over-capacity or over-investment crisis was prevented during the neo-liberal era mainly due to rising household debt and asset bubbles...unsustainable increases in mar-

Europe and Japan and also from newly industrializing countries such as Brazil, Taiwan and South Korea.

These circumstances brought about a significant drop in profits during the decade of the '70s.

Some Marxists have argued that a "profits squeeze" can't explain the profits crisis of the '70s because bargaining power tends to concentrate in particular sectors where there are strong unions, pockets of militancy, or strong growth of employment.⁴ There is an element of truth to this. Working class militancy in the '60s and early '70s can't explain the overall drop in profits in the '70s because it was too episodic and limited, far below the level of the '30s/'40s working class rebellion.

On the other hand, why did the "War on Poverty" happen? Why was there an increase in social welfare spending in the early '70s? Why were OSHA and the Mine Safety and Health Act and the Clean Water Act passed? We can't explain these things without looking at the upsurge in social movements in the '60s...the black freedom struggle, ghetto rebellions, the emergence of the women's, gay, and environmental movements, and also some significant areas of worker militancy...such as the national wildcat strikes in the early '70s in trucking, railways and the post office. The wildcat strike in the post office won a 14 percent wage increase for postal workers...a concession extracted from the Nixon administration.

Moreover, the various accommodations to labor that came out of the '30s/'40s era did entail significant costs for the capitalists. In the post-World War 2 years taxes on business profits and on high incomes were at higher rates than they are today. The legal minimum wage reached its all-time high in the late '60s. This helped bolster wages not only among the lowest paid workers but also among workers who make above minimum. Many employers want to keep a significant differential between their wage offering and

⁴ See <http://www.marxsite.com/Charles%20PostA%20crisis%20theory.html>.

the legal minimum. As the minimum wage increases, they are under pressure to also raise their wage.

3. Into the Neo-liberal Era

In the '70s the capitalist elite responded to their declining profits by funding think-tanks and elite commissions, hiring lobbyists, and buying politicians. A new program emerged whose purpose was to solve the bosses' profits crisis. The new program was justified by a return to "free market" capitalist ideology. An aggressive capitalist offensive sought to solve their problem in various ways:

- Shift the tax burden. From Reagan to G. W. Bush at the federal level, and at the state level as well, the capitalist elite have been able to reduce the taxes on their personal income, business income and on capitalist property.
- Avoid and eliminate unions. A billion dollar industry of anti-union consultants has come into existence to help companies avoid unionization. Aggressive action by managers has spawned a surge of Unfair Labor Practice complaints to the NLRB for people victimized for union activity. Union density has shrunk from about 35 percent in the early '50s to only about 7 percent in the private sector. A feature of the '60s was a big increase in public sector unionism. Attacks on teachers unions right now are an example of how the anti-union offensive has moved into the public sector.
- More employment insecurity. The "lean production" regime that has emerged as the new form of Taylorism since the '80s includes a much higher use of contracting out, temps, part-timers and multi-tiered wage schemes, which all tend to reduce the leverage of workers.

- Undermine the legal minimum wage. Through their more active intervention in politics, the capitalist elite have been able to keep the legal minimum wage from rising with inflation. As a result the value of the minimum wage fell by 35 percent from 1969 to 1998. During this same period, the profits of the restaurant industry increased by 25 percent.
- Move manufacturing to low-wage havens. Since the late '80s, the capitalists have increasingly invested in new manufacturing capacity in a handful of third world countries, especially China but also including Mexico, Brazil, Malaysia, and the Indian subcontinent. The "free trade" pacts of the '90s were designed to create a pro-corporate regulatory regime to protect this vast investment. This also required a vast investment in information technology to manage the new global production chains.

What explains the onset of the employers' offensive in the '70s/'80s period? Marxists seem to assume that the drop in capitalist profits in the '70s is sufficient to explain the new capitalist offensive. But what if the working class was highly mobilized and strikes and struggles were at a high level? What if socialist ideas were becoming widespread in the class? Would the employers have launched this offensive then?

During the years after World War 2 the labor movement had become politically conservative and had no critique of capitalism to offer. The union bureaucracy had solidified its hold, and the unions worked as "service agencies" that tended to demobilize the membership. The low levels of struggle and participation in struggle, and the timid, bureaucratic character of the labor organizations, in fact reflected growing weakness...what I call the crisis of the working class (more on this below). The capitalists began their new offensive in the '70s precisely because this weakness made the working class vulnerable to a capitalist class offensive that would shift the balance of forces in society to their favor.