The U.S. Economic Crisis

A Marxian Analysis

Richard D. Wolff

The U.S. economy's high-tech sector (internet, computers, telecommunications, etc.) burst its classic speculative bubble in 2000. The Nasdaq stock market lost 40 per cent of its value during the year and lost another 20 per cent in the first quarter of 2001. The Nasdaq dragged down most other stock market indicators in the U.S. Trillions of dollars in U.S. wealth vanished. The wealthiest citizens turned away from the stock market as rapid losses replaced the absurdly high gains of 1999. Other U.S. citizens watched in horror as their recent expansions of securities holdings rapidly shrank in value (also confronting many with vanished savings and reduced retirement benefits since their pensions were invested in 'history's greatest boom'). See Appendix 5 for the details on U.S. stock ownership patterns. Industries began to scale back their investment programs as rapid growth shifted to slow growth and recession loomed. The majority of workers slowed their spending and their accumulation of debt because of falling stock prices and because they fear a recession's impact on wages, benefits, and job security. All these negative developments are continuing into 2001.

Capitalism proved yet again how staggering is the inherent instability which it cannot prevent. Global society awaits the awful consequences of so massive and sudden a creation and then destruction of wealth. Economists and politicians debate whether there will be a 'soft' or a 'hard' landing – the sanitised jargon for differentiating 'socially manageable' mass suffering from more dangerous losses of social control as economic recession aggravates already serious political, cultural, and psychological problems. Capitalism's cycle has returned yet again to mock the notions of a 'new economy' advanced by U.S. capitalism's hypnotised promoters, from sleazy stockbrokers to Alan Greenspan.

As has happened countless times before, neither private capitalist enterprises nor individuals grasped or undertook the steps to prevent the bubble or its bursting. Politicians did no better. And the economic experts – those charged with advising the economic powers and

Theoria, June 2001

This content downloaded from 149.10.125.20 on Fri, 29 Nov 2019 17:11:06 UTC
All use subject to https://about.jstor.org/terms

implementing the state's monetary and fiscal policies – were equally unable to understand or manage capitalism's grotesque instability. Predictably, in the U.S., Republicans and Democrats alike celebrated the bubble as it swelled and pointed to each other when it burst. Thus they played their assigned role of keeping the public's eyes and minds on government policy rather than on the capitalist structure of production and the market structure of distribution. Bush the conservative thus managed to blame on Gore the liberal the fact that the bubble had left so many workers wondering why they had never managed to join in what was portrayed as 'everyone's' prosperity.

Of course, the bubble was restricted to a particular set of industries and enterprises, their suppliers, and those who owned or dealt in their stocks and bonds. Yet the media, more than ever absorbed as subsidiaries into multinational conglomerate capitalist enterprises, endorsed the promises of a 'new economy' by becoming purveyors of the myth of a new and endless prosperity. They did not inquire into which sectors of the economy found themselves unable to prosper at all or only by taking on a level of personal debt without historical precedent or only by sending ever more family members out to work more hours in multiple jobs. Without knowing it, they counted on the U.S. individualist cultural ethos to make sure that the millions who could not participate in the 'universal' prosperity blamed bad luck or themselves or both. It was never suggested that the capitalist structure of production might have anything to do with their exclusion from the 'universal' prosperity. That left those few unwilling to blame themselves or their luck with the traditional alternative of blaming whichever political apparatus was in power. These few shifted from Gore to Bush and so gave him just enough votes to allow his brother and the conservatives on the Supreme Court to 'steal' the election.

As usual, the Bush administration will deploy the conventional monetary and fiscal policies – interest rate reductions, tax cuts, and so on – to try to manage the unfolding recession and its social consequences. Bush will do this in ways carefully designed to benefit his main supporters: big and small capitalist enterprises, the wealthiest families, and the fundamentalist/religious right. The Democrats will protest, but only marginally. Despite their support in the lower income groups and many trade unions, most of their chief financial backers are much like those of the Republicans. The Democrats thus entertain no alternative to the convention of monetary and fiscal policy stimulants taken by the Republicans. They will protest the favouritism granted Bush supporters, while Bush will defend his policies because

This content downloaded from 149.10.125.20 on Fri, 29 Nov 2019 17:11:06 UTC
All use subject to https://about.jstor.org/terms

they 'address the problem of recession'. Neither Republicans nor Democrats will even discuss the possibility that leaving untouched the capitalist structure of production and the market structure of distribution precludes any lasting solution to capitalism's instability. Critiques of the recent U.S. economy such as the following will be given a hearing and become politically effective only if and when they inform new political movements.

The U.S. 'Boom' in the 1990s

Whether or not a 'boom' of prosperity has existed in the U.S. during the 1990s depends on what one measures. For example, supporters of the 'boom' thesis point to profits of capitalist enterprises that have been very high. These high profits provoked even higher – speculative – peaks in stock market prices. Likewise, unemployment fell to historically low levels (under 5 per cent late in the decade, a rarity in recent U.S. history). Finally, industrial capacity utilisation was high and economic growth measured by the gross domestic product was robust. These phenomena fueled a rapid rise in the building of expensive private residences and likewise a speculative growth of industrial and commercial construction. Mass consumption of privately produced commodities also 'boomed'. Thus a 'boom' or 'bubble' cycle emerged: an economic upswing, stock market upswing, economic upswing in a mutually reinforcing upward spiral increasingly out of touch with other underlying economic realities that can also be measured.

With different measures, a very different picture emerges. Real wages over the 1980s and 1990s trended downwards. Indeed, the falling wages combined with the labour-saving technical changes – the 'computer revolution' phase of classic automation – to produce many of the 'boom' levels of corporate profits. Consider one telling example of how the 'boom' was experienced by millions of citizens. In the city of New York, from 1975 to 2000, the average real median income of apartment renters rose a mere 3 per cent, while the average real median rent for such apartments rose 33 per cent. Thus, one in four city households now spends over half its income on rent payments (*New York Times*, 9 July 2000).

Confronted with falling real wages, most Americans responded in two ways over the last 20 years. First, the three quarters of all U.S. families holding debt took on added personal indebtedness beyond anything experienced by any economy ever across human history.

This content downloaded from 149.10.125.20 on Fri, 29 Nov 2019 17:11:06 UTC
All use subject to https://about.jstor.org/terms

Housing (mortgage) debt, automobile debt, and credit card debt are all at historical highs, having risen much faster than income, profits, and even stock prices (see Appendix 1). Second, U.S. families responded to falling real wages by sending more family members out to work for more time. According to the Economic Policy Institute's annual statistical analysis, *The State of Working America, 1998-1999*, the average U.S. family's annual income rose, from 1979 to 1996 (in current dollars), by $97 from husbands' increased earnings as compared with a rise of $7,300 from wives' increased earnings. The shift of women out of the household and into wage labour accelerated over recent decades; children took jobs sooner; elderly persons postponed retirement or returned to work; adult women and men took second and third jobs. Everyone added work hours.

While extra work plus extra debt enabled U.S. families to sustain real consumption levels despite falling real wages, the social cost was a massive breakdown of family and personal relationships. Formal and informal divorces and separations grew. Parenting as an activity shrank in terms of the time, energy and psychological commitments of the parents, and substitutes for parents were hired (their qualities often depending on the parents' finances). A generation of children more alienated than ever from their parents emerged. Thus, intra-family violence exploded – between and among spouses, parents, children, and the elderly. According to the U.S. Department of Health and Human Services, between 1990 and 1995, 26 per cent of high school teenagers in the U.S. in grades 9-12 reported seriously considering suicide, and 9 per cent had actually made the attempt. The many recent school shootings across the U.S. and the reactions to them attest to the deepening seriousness of and hysteria around family problems in the U.S. The National Center for Policy Analysis, in its *Crime and Punishment in America*, calculated that during their lifetimes, men have an 89 per cent probability of being the victim of a violent crime attempt, while women have a 73 per cent probability. The U.S. prison population will very soon reach 2 million. Such numbers far exceed any in Europe. Divorce, drug abuse, and psychological dysfunctionality in the U.S. are likewise the highest in the world. The short and long-term effects of the breakdown of intimate/family life in the U.S. – on labour productivity, on crime, on urban public services, and on the school systems – are unknown but likely massive. Thus, what kind of 'boom' were the 1990s?

Consider these two examples. First, the educational system of the U.S. has deteriorated seriously over the last two decades. Fewer stu-

This content downloaded from 149.10.125.20 on Fri, 29 Nov 2019 17:11:06 UTC
All use subject to https://about.jstor.org/terms

dents attend higher education. Class sizes in colleges and universities increased while the number of courses offered fell. Student performance *at all levels of schooling* has dropped. Second, civic participation in local and national politics, in unions, even in churches – or indeed in any community or collective activity – dropped to historically low levels.

As U.S. families are exhausted by the increased work schedules, they also find themselves – *more than ever before* – in a 'culture of prosperity' that celebrates maximum money-making and maximum private-individual consumption as the ultimate human activity and the ultimate human achievement. Thus there is neither time nor interest in politics or civic affairs – and they become – *more than ever before* – secondary and subservient adjuncts to money-making. As politicians serve the dollar holders more than ever, they sink ever deeper in terms of public disinterest and hostility. The deteriorated educational system and political campaign finance became the two major issues in the 2000 Presidential campaign, although neither Party went beyond rhetorical gestures to address these issues in substantive ways.

What are the present and future economic consequences of a declining educational system and a deteriorated public/civic space? What kind of 'boom' was this?

With the weakness of the left and of the trade unions (fewer workers are in U.S. unions than at any time since the 1950s), there is little effective opposition to the corporate culture of prosperity. Sustained criticism either of capitalism's performance or of capitalism itself is rare. No socially significant movement for an alternative to capitalism has yet appeared. There was certainly a 'boom' in the self-confidence and self-assurance of corporate capitalism. What manifested itself in the public discourses – of politicians, media, and academics – was much more a celebration of U.S. capitalism's self-confidence than any balanced assessment of the actual economy. The 'boom' in the U.S. was a part of the story of the 1990s – but a part that was (and remains) heavily 'advertised' – inside the U.S. and also globally – as if it were the 'whole story'.

The 'Boom' Resulted from Unique and Temporary Historical Conditions; No New Capitalism Emerged Capable of Eternal Growth and Prosperity

The U.S. economy of the 1990s needs to be understood in relation to economic developments elsewhere in the increasingly global econ-

This content downloaded from 149.10.125.20 on Fri, 29 Nov 2019 17:11:06 UTC
All use subject to https://about.jstor.org/terms

omy. This relationship may be sketched in terms of several connected questions. First, is the U.S. economy of the 1990s repeating the experience of the Japanese economy in the 1970s and 1980s? Japan's historically unprecedented economic prosperity across those two decades – its globally praised 'miracle' – produced a collapse and then a depression which has now lasted over a decade. Might the U.S. economy in 2000 be repeating the Japanese experience? During the late 1990s, a major short-term crisis severely impacted large parts of Asia, while a long-term crisis destroyed many African economies. In Japan, most of the rest of Asia, and all of Africa, it has been capitalist economies that have suffered all sorts of difficulties. Is there any reason to believe that U.S. capitalism has somehow acquired immunity from the difficulties besetting capitalisms in Asia and Africa?

Previous 'booms' in the U.S. – in the nineteenth century and again in the 1920s and again in the 1960s – all eventually collapsed into major recessions or depressions. Is there any reason to believe that something now exists that prevents the same thing from happening again?

In Europe, the realisation of the EU took a form (à la Maastricht) that aimed to remake Europe in the image of U.S. capitalism. This was and is an attack on the social welfare regimes – capitalisms with a 'human face' – that Europe's states and large capitalists were forced to institute after World War II. The simultaneous collapse of Eastern Europe delivered vast quantities of cheap means of production and cheap, highly skilled and experienced labour power to the private capitalisms of the West and their protégés in the post-1990 East. Together, these two events *might* have enabled a unified Europe to challenge or even replace the U.S. as the site of the most dynamic capitalism. But that did not happen in the 1990s. Europe's social welfare regimes, while reduced, still proved resistant to being dismantled. In the current conditions of the global economy, that blocked both the economies and the stock markets of Europe from growing as dramatically as they did in the U.S.

The difficulties of European and Japanese capitalisms, coupled with the difficulties of many other Asian, African, and Latin American capitalisms, led wealthy firms and families around the world to pour capital into the U.S. economy and its stock market. This capital inflow was a crucial component of the U.S. boom. It also prompted growing European investments in and mergers with U.S. enterprises (Daimler builds Mercedes cars in the U.S. and buys Chrysler; Allianz buys U.S. insurance companies, Dresdner buys Kleinworth Benson,

This content downloaded from 149.10.125.20 on Fri, 29 Nov 2019 17:11:06 UTC
All use subject to https://about.jstor.org/terms

Ahold buys U.S. supermarkets, Credit Suisse buys First Boston, and so on) that may well have aided the U.S. at Europe's expense.

The serious difficulties of capitalisms elsewhere across the globe during the 1990s show (a) how specific conditions transformed capitalism into an engine of crises, depression, and economic disaster, (b) that U.S. prosperity was itself partly a product of the difficulties of capitalisms elsewhere, and (c) that the U.S. boom drained capital from the rest of the world and thereby offset many of the benefits from the world's exports to the U.S.

Changing global conditions made the centre of capitalist growth shift away from Japan and Asia to the United States across the later 1980s. Is there any reason to doubt that further changes can shift that centre again, this time away from the U.S.?

Historical Causes of the U.S. Capitalist 'Boom'

As Marx taught, capitalism is cyclical: highly unstable as an economic system. Typically, its prosperous times collapse into recessions and depressions, while depressions eventually give way to economic upswings. The post-World War II boom came to an end in the serious economic downturn of the mid-1970s. The initial hegemony of the U.S. gave way to the rise of Japanese and European capitalisms that became temporarily more profitable than their U.S. counterparts. By the 1970s, a crisis of capitalist enterprise faced the U.S.

To deal with this crisis, private U.S. capitalists confronted the U.S. state with a choice. If the state did nothing to solve the crisis of profitability for U.S. capitalists, they would move massively out of the U.S. and undertake production elsewhere. Such a move would depress the U.S., driving down wages and social conditions until they were at levels that might compete with production conditions elsewhere in the world. This would mean decades of dangerous economic and social decline – especially dangerous in the Cold War context. Neither the corporations nor the U.S. state favoured such a move, although many corporations undertook limited steps in that direction.

But there was an alternative. A different choice was both possible and preferred by capitalist corporations and by the U.S. state. This choice required several steps. First, the welfare state created by Roosevelt to deal with the Great Depression had to be dismantled. By providing steadily fewer services and supports to the mass of people, the U.S. state could lower taxes and hire fewer people. Reagan, Bush,

This content downloaded from 149.10.125.20 on Fri, 29 Nov 2019 17:11:06 UTC
All use subject to https://about.jstor.org/terms

and Clinton – each in his distinctive way – carried forward this policy choice. Taxes on capitalist corporations were reduced leaving them with much more profit to use for private corporate purposes such as computerisation and cost-reducing mega-mergers. According to the Economic Policy Institute's *The State of Working America, 1998-1999*, corporate profits taxes (levied by the federal, state, and local governments combined) fell from 3.3 per cent of GDP in 1967 to 2.0 per cent in 1997. Fewer taxes meant that the state in the U.S. hired fewer people than it had in the early decades after World War II. The people not hired by the state had then to compete for private sector jobs and thereby drove down private sector wages. Such falling wages yielded rising profits to corporate employers. At the same time, computerisation replaced workers with machines, while mega-mergers enabled employee downsizing. This further depressed workers' wages and raised corporate profits (see Appendix 2). The entrance of ever more family members into the workforce – supplemented by sizeable immigrations – also contributed to reducing real wages.

In short, the U.S. state undertook policies that *increased* capitalist profits while at the same time *decreasing* the portion of those profits taken by taxes. This policy 'succeeded' in reversing the decline of profitability for U.S. corporations and thereby established the basis for the boom of the 1990s, especially in the stock market, the institution best positioned to record the process. U.S. corporations used their enlarged profits and tax savings to (1) computerise to save on labour costs and to competitively defeat non-U.S. capitalists, (2) increase the dividends paid out to shareholders, and (3) purchase/merge with other companies to create the savings and competitive advantages of large size.

The specific social and historical conditions of capitalists in other societies prevented them from undertaking the same policies to the same extent and at the same time. U.S. corporations enjoyed a temporary, conditional competitive advantage.

The Contradictions of the U.S. Capitalist Boom

However, the state policies of the U.S. also produced the collapse of the family and of state services, the decline of education, the rise of crime and prisons, the proliferation of drugs, widespread psychological dysfunctionality, and the degradation of civic and political life. The crisis of corporate profitability was 'solved' by *shifting* the crisis, by displacing it onto the family, the household, the prison, and per-

This content downloaded from 149.10.125.20 on Fri, 29 Nov 2019 17:11:06 UTC
All use subject to https://about.jstor.org/terms

sonal life. The level of anger, frustration, violence, and resentment rose across the population – exacerbating ethnic tensions, anti-immigration agitation, racism, workplace violence, new phenomena such as 'road rage', and so on.

At the same time, the rapid U.S. stock market wealth creation of the 1990s – as the peak expression of these 'crisis-resolved-crisis-displaced' policies – yielded two contradictory and dangerous results. First, the gap between rich and poor became much more severe than it had been since the beginning of the century (see Appendices 3 and 4). The potential for violent social conflict – especially within a culture that celebrated 'equality of opportunity' and 'everyone's participation in the middle class' – grew with the widening gap between rich and poor. Second, the rapidity of the growth of wealth of the richest citizens produced in them and among those seeking to join them a speculative stock market fever. As paper wealth rose, so did consumer and business spending in a self-expanding cycle increasingly disconnected from underlying economic realities. Increasingly, a crisis of overproduction or inflation or both loomed in the U.S. Economic and political leaders worried that a collapse of the stock market and/or of production would be especially dangerous because of the huge overhang of personal and corporate debt. Because the widened gap between rich and poor would be the social context of any collapse, it seemed to them especially dangerous. Yet nothing substantial was done. The leaders instead indulged in fantasies of a 'new economy' that had somehow finally overcome the capitalist business cycle.

Corporate debt mushroomed in the second half of the 1990s as the stock market bubble provoked and enabled ever riskier corporate borrowing. According to a recent report by Moody's Investors Service – the premier institution evaluating corporate debt in the United States – it was a time of 'exceptional risk tolerance on the part of investors' ('Credit Losses Near High Water Mark in 1999', 16 July 2000, published on the website moodys.com). Moody's report found that the rate of corporate debt default in 1999 was the highest since 1991, but was more serious this time because so many borrowers were defaulting within the first two years after borrowing (as against the traditional pattern of default only after three to five years). As we know from many past capitalist crises, overextended credit markets and defaults can often react back to undermine the bubbles that overextended them.

The risks and dangers of U.S. capitalism were masked in part by the many industrialists, politicians, and academics who promoted the

This content downloaded from 149.10.125.20 on Fri, 29 Nov 2019 17:11:06 UTC
All use subject to https://about.jstor.org/terms

notion that 'a new economy' had arrived. It was, they insisted, free of the instabilities of the 'old' capitalism. As had happened during many previous speculative investment bubbles, such groups once again claimed that the latest technological changes had 'utterly revolutionised' the economy. Therefore, this latest bubble would not burst like all the others before it. Computers and the internet would magically erase capitalism's violently cyclical history and make the twenty-first century a new age of permanent prosperity.

Yet behind the mask, certain facts of economic growth suggested otherwise. In the 1960s, according to the U.S. Department of Commerce's National Income and Product Accounts, the annual average GDP growth approached 4.5 per cent, whereas in the 1970s, 1980s, and 1990s, the annual average growth rates fell to and remained at just under 3 per cent. There simply was no explosion of technological magic. Capitalism's long history of technical changes punctuated by occasional breakthroughs (such as railroads, electricity, chemical processing, automobiles and tractors, and nuclear energy) never eradicated its cyclical instabilities. There was neither a presumption nor evidence to suggest that the arrival of computers and contemporary telecommunications would eliminate cycles. The 2000 crash of the Nasdaq stock market, where most technology issues are traded, and the parallel fall of computer and telecommunications issues on the New York Stock Exchange remind everyone that capitalism remains as volatile as ever.

At the beginning of 2001, the economic issue in the U.S. is again, for its business and political leaders, one of damage control. How can the stock market crash be limited in its recession-inducing effects? If recession happens despite the U.S. state's lowered interest rates and reduced taxes, how can the recession's effects be controlled or defused? The goal, as always, is to keep the capitalist economy from the kind of deterioration that might interact dangerously with political and cultural developments. The economic hegemony of the capitalist system and the political hegemony of the U.S. must be globally assured.

The Attempts to Control the U.S. Capitalist 'Boom' Situation

The U.S. Federal Reserve manipulates interest rates hoping thereby both to prevent inflation and guide the falling stock market to the so-called 'soft landing'. The new Bush administration will continue the Clinton administration's efforts to control the increasing poor and to

This content downloaded from 149.10.125.20 on Fri, 29 Nov 2019 17:11:06 UTC
All use subject to https://about.jstor.org/terms

manage the collapse of the family (endless special programs for disintegrating families in cooperation with churches, etc.) by maintaining a 'safety net' of minimal social services – backed up by a massive increase in police and prisons. The ideological state apparatuses – the schools, media, churches, and families – will mostly accommodate the Bush administration's programme of blaming individuals for the poverty, joblessness, loneliness, violence, and psychological dysfunctionality of daily life. Once the blame is affixed in this way, the apparatuses will offer 'special programs' to 'help' individuals to overcome their individual weaknesses.

Liberals (in the U.S. meaning of that word) and social democrats will battle conservatives as always. The liberals and social democrats will seek to expand state social services to enable capitalism's victims to survive without turning violent or anti-capitalist. The conservatives will insist that state social services are unnecessary, expensive, and counterproductive. Their argument will be the same: the capitalist economy's very instability provides the optimum mechanism of incentives and disincentives that will induce the masses into continued acceptance of and compliance with capitalism's needs.

During the 1990s, the dire predictions of the liberals and social democrats never materialised. They had warned that dismantling the welfare state at a time of widening gaps between rich and poor would provoke revolution and/or social collapse. The conservatives mocked them and won dominance in both major parties as leading capitalists warmed to the idea that they could enjoy falling real wages, deregulation, and rising profits indefinitely. Conservatives promised that neither an economic crisis nor a social revolt would happen. Even the early months of economic downturn after March 2000, did little to destroy the conservative consensus. As the downturn worsens into 2001 that consensus will be tested much more seriously than at any time during the 1990s. Liberals and social democrats, mostly linked to the Democratic Party, will likely repeat again their dire warnings and predictions. Bush conservatives will repeat – and execute – their programmatic alternative: facilitating the business cycle's own mechanisms for compelling mass accommodation to capitalism's instability. As the people try to cope with the profound consequences and ramifications of the instability, they will be bombarded with the conventional liberal versus conservative analyses and proposals. As recent elections suggest, most of the people will ignore the bombardments and concentrate exclusively on their own, immediate circumstances. They will hope that the 'hard times' don't last too long or sink too far.

This content downloaded from 149.10.125.20 on Fri, 29 Nov 2019 17:11:06 UTC
All use subject to https://about.jstor.org/terms

A Marxist Alternative

Capitalism has always been cyclical. Its prosperities – in every country and throughout its history – have always slid or crashed into recessions or depressions. The resulting mass suffering often provoked questions about and challenges to capitalism as a way of organising production and the economy. Capitalism's supporters then faced a crisis: how could they preserve capitalism when it performed so badly? They proposed various measures – regulating markets or deregulating them, privatising enterprises or having the state control or even own them, labour reforms, monetary policies, fiscal policies, foreign trade changes, and so on – designed to relieve the suffering and overcome the crisis. However, these measures never basically changed (i.e., they preserved) the basic structure of capitalist production. By 'structure of capitalist production', Marxists mean who produces the surplus in society, who gets that surplus, and how it is distributed and used to shape the economy and the society.

For example, consider a *private* capitalism. There, private individuals own and manage capitalist productive enterprises in which a mass of workers produce goods and services that the enterprises then sell as commodities. In this production process, the workers add value to the raw materials they work up into commodities. The total value added by their labour exceeds the portion of that value returned to them as wages. The difference between the value added by the workers and what they get back is the surplus value. The private capitalists appropriate that surplus value – which includes that portion they call 'profit' – and use it to maintain or enlarge their capitalist enterprises. In other words, the mass of workers produce a surplus value that they themselves do not get and so do not distribute. When this system works to yield profits that the capitalists choose to spend on hiring more workers and increasing output, a private capitalist 'prosperity' is said to result. However, wherever and whenever this has occurred, within a few years – rarely as much as a decade or two – an economic crash occurs. This happens when capitalists choose to cut back production and fire workers because their profits have shrunk or for any other reason they find compelling.

If and when the crash or its social consequences threatens such a private capitalism, its supporters sooner or later turn to the state. They want the state to intervene in the economy to manage the crisis. This means, first of all, to return private capitalists to profitability. The state's secondary task is to relieve mass distress. Sometimes the state

This content downloaded from 149.10.125.20 on Fri, 29 Nov 2019 17:11:06 UTC
All use subject to https://about.jstor.org/terms

manages this by regulating markets, organising subsidies, and sometimes even establishing state control or even ownership of enterprises (replacing private capitalist corporations' boards of directors). These kinds of state intervention – included in the term 'state capitalism' – do not change the basic capitalist structure of production. The workers still produce a surplus that they do not themselves appropriate and distribute. All that has changed is the identity of those who do appropriate the surplus from the workers: instead of a private board of directors it has become a set of state officials. From a Marxist perspective, private capitalism's crisis has been managed by a shift to a state capitalism.

Historically, state capitalisms have ranged from the moderate to the extreme. Moderate forms of state capitalism involved minimal state regulation, social welfare programs, and so on. Extreme state capitalisms – required when private capitalism faced extreme crises – were quite different. Then the state either required private capitalists to conform to a state recovery plan, directly controlled part or all of their profits, or replaced the private capitalists with state functionaries who ran their factories and offices as state capitalist enterprises. The Great Depression of the 1930s, as a major international crash of private capitalisms, provoked many shifts from private to state capitalisms. In the U.S. and the U.K., a moderate state capitalism sufficed. In Germany a more extreme form, Nazism, merged state and private capitalists into a tightly state-controlled kind of capitalism. In other countries, other crises of their private capitalisms forced other shifts to state capitalisms of various kinds. The social context of each country's state capitalism determined how well or poorly it provided for its people's material well-being, civil rights, and so forth.

State capitalisms, however, display chronic instability (business cycles) similar to those of private capitalisms. After a period of state capitalist prosperity, the inevitable crash comes. The reasons are the same: state capitalist enterprises do not get enough surplus from their workers – or they do not use the surpluses they do get – to maintain employment, production, and standards of living. State capitalist crashes may be more or less severe than private capitalist crashes. That depends on the specific circumstances of time and place. In any case, when suffering mounts under a faltering state capitalism, those who want to preserve capitalism begin to push for a shift from state to private capitalism. Then the cry goes up: 'liberate' enterprises from the state's heavy hand that has made a mess of the economy and society. This is the perfect opposite of the cry during and after the private capitalist crash of the 1930s: 'liberate' enterprises from the private

This content downloaded from 149.10.125.20 on Fri, 29 Nov 2019 17:11:06 UTC
All use subject to https://about.jstor.org/terms

individuals who have made a mess of the economy and society. The 1980s and 1990s exhibited exactly this sort of response to state capitalism's difficulties in many countries.

Marxists differ from liberals, social democrats, and conservatives in regard to these crisis-induced shifts between private and state capitalism. For Marxists, the solution to either kind of capitalism's crises is to organise the economy and society in a non-capitalist way. The Marxist idea and plan begins with a change in the way production is organised. No longer will a mass of workers produce a surplus and deliver it to others (private or state capitalists) who will then use it to maintain a capitalist class structure of production. Instead, the workers will produce a surplus but it will be the workers themselves who will collectively appropriate and distribute that surplus. There will no longer be a 'class division' between the producers and the appropriators of the surplus. Factories and offices will be places where communities of workers produce not only goods and services but also collectively appropriate and distribute their surpluses. That is, they will be enterprises exhibiting a communist rather than a capitalist class structure. Of course, most Marxists also seek many other social changes focused on equality, democracy, and justice. These values, once institutionalised, must guide the interactions among the interdependent enterprises with their communist class structures. But what most sharply distinguishes Marxists is their insistence on linking those progressive values and social goals to the collective appropriation of the surplus by the workers who produce it. In a sense, Marxists extend those goals to the economic part of society: a just, democratic, and egalitarian appropriation and distribution of the surplus produced by workers.

A concluding Marxist parable: Once, long ago, it was thought that individual human beings could not be entrusted with making individual decisions about their own lives (where they work, what they do, whom they marry, and so on). It was argued that kings and priests had to order everyone's behavior to avoid chaos and secure the benefits of civilisation and progress. But those kings and priests were eventually deprived of their authority and neither chaos nor the decline of civilisation resulted. Today, it is likewise believed that workers cannot be entrusted with collectively disposing of the surpluses and profits their labour produces – that only hierarchical capitalist corporations and/or leading bureaucrats must do that to avoid chaos and secure civilisation. Marxism in the twenty-first century represents the contemporary demand for another major (and long-overdue) step forward in social rights and social organisation.

This content downloaded from 149.10.125.20 on Fri, 29 Nov 2019 17:11:06 UTC
All use subject to https://about.jstor.org/terms

The Marxian response to recent crashes – whether in Japan, southeast Asia, or in the U.S. in 2001 – whether of private or state capitalisms – is clearly to reject repeats of the oscillations of the past. No more solving the crisis of one kind of capitalism by merely shifting to the other. The Marxist response instead should have three basic parts. First, Marxists should expose how the so-called 'booms' depended on the surpluses produced and taken from the workers. Second, Marxists should expose the costly history of capitalism's oscillations between state and private forms and the failure of social democrats to go beyond advocacy of the state form. Thirdly, Marxists should begin now to organise the demand to respond to capitalism's crashes and pre-crash booms with a left agenda that includes a change to a communist organisation of production.

APPENDICES:

(Rana Modarres assisted in the research that produced these appendices)

1. U.S. Consumer Debt

	1989	1992	1995	1998
Median family income (all families, before taxes, in thousands of 1998 dollars)	32.8	30.4	32.7	33.3
Median family debt (all families in thousands of 1998 dollars)	19.2	19.9	23.4	33.4

Source: U.S. Federal Reserve, Survey of Consumer Finances.

2. Productivity and wages:

United States, 1973 – 1996:
Productivity / hour + 26.4%
Real hourly wages + 1.8%

Source: Lawrence Mishel, Jared Bernstein, and John Schmitt, *The State of Working America, 1998-1999.* Ithaca: Cornell University Press, 1999, p. 123.

This content downloaded from 149.10.125.20 on Fri, 29 Nov 2019 17:11:06 UTC
All use subject to https://about.jstor.org/terms

3. The distribution of income in the U.S.:

	1976	1996
Average U.S. household income: (all households)	$ 39,416	$ 47,123
Average income of poorest 20% of U.S. households	8,672	8,596
Average income of richest 5 % of U.S. households	126,131	201,684

Source: Andrew Hacker, *Money: Who Has How Much and Why*. New York: Simon and Schuster, 1997, page 11.

4. The distribution of total wealth in the U.S.:

Share owned by top 1 % of households:

1928	45 %
1950	30
1970	20
1980	31
1990	36
1999	45 (estimate)

Share owned by three different groups in 1989:

Top 1 %	39 %
Next 19 %	46 %
Bottom 80 %	15 %

Source: Edward N. Wolff, *Top Heavy: A Study of the Increasing Inequality of Wealth in America,* New York: Twentieth Century Fund, 1995, pages 8 and 11.

This content downloaded from 149.10.125.20 on Fri, 29 Nov 2019 17:11:06 UTC
All use subject to https://about.jstor.org/terms

5. Percent of Individuals (1955-1960) or of Families (1989-1995) Owning Stock in Publicly Traded Firms, Directly or Indirectly.[1]

Income Quintile	1955	1960[2]	1989	1992	1995
1st (lowest)	4%	5%	3.3%	6.8%	6.2%
2nd	5%	7%	13.0%	18.7%	23.2%
3rd	9%	13%	32.2%	40.8%	47.3%
4th	16%	22%	52.4%	63.4%	67.3%
5th	35%	56%	81.8%	78.5%	81.1%

Sources: 1955 Individual stock ownership data taken from *Statistical Abstract 1956 (77th Edition)* Table 559. Data for 1960 on individual stock ownership in sixths taken from *Statistical Abstract 1962 (83rd Edition)* Table 627. Data for 1989-1995 taken from *Statistical Abstract 1999* (119th Edition) Table 846. Washington, DC, 1999.

NOTES

1. The U.S. Census has twice altered the way that it reports these numbers, providing percentage data for the period 1955-1960 and then again in the late 1990s. During the intervening period only raw numbers of stock ownership for different income groups are reported.
2. In 1960 stock ownership by income was reported in sixths and I have omitted the fifth sixth, in a rudimentary attempt at uniformity of reporting.

This content downloaded from 149.10.125.20 on Fri, 29 Nov 2019 17:11:06 UTC
All use subject to https://about.jstor.org/terms