

## Economic Conference presentation: The Public Sector and the Crisis

### **I. Introduction**

What I want to discuss in this presentation is why we are entering into an age of *pervasive public* austerity. In this I will be basing my presentation on the essay posted on the website and which will appear in the upcoming Winter 2011 issue of *New Politics*. I qualify my discussion by limiting my remarks about public austerity to western capitalism, because it is here that significant concessions had been previously extracted from the ruling class often at the epoch costs of struggle and blood. It is the fruits of these past victories that are now under assault by capitalism. In Europe, austerity is being imposed by the EU and the IMF. But this imposition has been met by a mobilized working class, in Greece, Spain, Belgium and France, hell bent on defending their livelihoods and social advances. Where this attack on the public sector takes a notably American cast, as distinct from Europe, is that the American ruling class has captured the political narrative and enlisted a huge swath of its own workforce as a battering ram against these gains. The Tea Party is the extreme ramification of this narrative and its sentiments resonate within broad sections of the white working class.

I want to first examine the economic background to the current crisis and investigate how we, as socialists, can approach the problems of capital accumulation to understand the laws that govern capital formation; and why this particular crisis has come to signal a comprehensive employers' offensive against the last remnants of the welfare state safety net and the public sector workers, largely unionized, who administer these programs.

Finally I want to suggest a few proposals for what I believe to be a realistic program outline for working class resistance that address the immediate needs of the working class, without descending into a fantasy world in which the American working class is seething with revolutionary passions held only---and I emphasize the word "only"---in check by reactionary union bureaucracies and the Democratic Party. This is not to deny that unions, as they are presently constituted and the Democratic Party are major impediments to socialism, to independent working class struggle. But it is the lack of a distinct working class consciousness, a failure to make the elementary distinction between them and us, of income derived from work and income derived from property ownership---that is the distinctive hallmark of the American working class. It is this failing, to simplify

broadly, that permits it to succumb so readily to capitalist political leadership. Building a revolutionary movement requires first raising a perspective of real working class solidarity and helping to shape a program relentlessly around that perspective. This is the precondition, in my opinion, to moving the discussion to the left because it is a standpoint that introduces a momentum fundamentally inconsistent with working class subordination to capitalist politics.

## **II. Laws of Accumulation**

The approach outlined here derives from Marx, who insisted that “all economy is finally reducible to the economy of time.” All class relations in the end constitute varying means of expropriating the material surpluses of the productive classes by those who possess a monopoly over the conditions or means of work. That is, all class societies are based on the division of the working day between that needed to replenish the capacity to work (necessary labor time) and that over and above necessary labor time, which can be appropriated by the socially dominant class (or surplus labor time). Where that line is drawn under capitalism is determined not physiologically but sociologically through the interaction of parameters created by productivity change and class struggle. Value theory is an instrument for the analysis of capital accumulation that centers social conflict in terms of exploitation. Changes in productivity---in output per unit of labor time---make possible in turn changes in time relations between the labor required to sustain and reproduce workers and the surplus labor time that falls to capital in the form of additional exchange value realized in profits. But changes in productivity require investment decisions that necessitate plowing back capitalized surplus value (profit) into the system as labor saving innovations. The material connections that regulate the accumulation process derive from this.

At the most basic level this process is fraught with difficulties insofar as increasing labor productivity requires producing more commodities with less labor per unit of capital invested, of substituting in other words---capital for labor. The rate of profit tends to fall because ever less living labor---which is the source of profits---comes to be activated by each additional unit of capital. The mass of profits emanating from the relative decline of living labor can therefore only increase if capital accumulates at a sufficient pace to offset that reduction. Because the falling rate of profit is a developmental tendency immanent to capitalism it situates both business expansion as well

as crises in terms of the rate of accumulation. As long as a rapid pace of accumulation is sustainable, the crisis tendencies of the law can be neutralized by the expansion of profits. This is not a negation of the law itself, but an expression of how the crisis tendencies of the law are kept in abeyance preventing the relative overproduction of capital from turning into an absolute overproduction.

And indeed, there is a close fit between this raw theory and the actual trends in the American economy. According to the May 2006 Survey of Current Business, the rate of profit for nonfinancial capital averaged 11.8% from 1960-9; 8.8% from 1970-79; 8.1% from 1980-89. There was some improvement in the decade of the 90s to 9.1%, but a resumption of decline--- even before onset of the current crisis-- from 2000-2005 to 8.4%. And if the remainder of the decade were averaged in this would surely trend much lower.

The end of business expansion results only when social conditions exclude a sufficient increase of surplus-value for a further expansion of capital or--- when the expansion of capital has reached a point beyond which any further accumulation would lead to the same or less surplus value than before..

This leads to the convulsive process through which the temporary barriers to renewed accumulation can be removed. Mass unemployment places downward pressure on wages. Portions of capital are demobilized, permitting capital values to be written off as a precursor to a more efficient, leaner structural reorganization. Massive political pressure is exerted against public spending in order to reclaim profits otherwise earmarked for taxation and thereby sacrificed to the accumulation process. Conversely, there is virtually no pressure exerted *by capital* against military spending, law enforcement or intelligence gathering because these costs are accepted as a needed sacrifice to maintain a domestic and international framework favorable to private investment.

While unemployment forcibly drives down living standards below the value of labor power, it also ramps up the intensity of work. A diminished activated working class is forced to generate output previously produced by a larger complement of labor. This has the dual impact of increasing the unpaid portion of the working day while increasing the amount of exchange value generated in that unpaid portion, insofar as the increase in the intensity of work is uncompensated by a proportionate rise in real wages.

There is no such thing as a “generic” capitalist crisis. If we wish to analyze the concrete form of this crisis, through which the general tendency to crisis asserts itself, we need to examine the disturbances in the reproduction process that the hypertrophic growth of the financial sector has imposed on the system. For this structural departure drives the relation of capital formation with surplus value in a new and debilitating direction that mainstream ideologues are blind to. The much discussed, but in my opinion, little understood, financialization of capitalism signifies capital’s attempt to flee from the perils of productive investment, from which there is in fact no real escape. A capitalism without accumulation is unsustainable. Yet this period has been characterized by banking, insurance, and futures trading becoming *the* growth industries. Endless portfolio rebalancing came to preoccupy the wizards of Wall Street..From 1973 to 1985, the financial sector never earned more than 16 percent of domestic corporate profits. In 1986, that figure reached 19 percent. In the 1990s, it oscillated between 21 percent and 30 percent, higher than it had ever been in the postwar period. This decade, it reached 41 percent. And this growth coincided with a relative shrinking of the industrial base and its rate of growth, coincided that is as cause coincides with effect. This is not a casino economy, but a fundamentally risk averse capitalism. What financialization did was to transform the relationship between Wall Street and the real economy from symbiotic to parasitic. Instead of recycling idle balances of surplus value back to those sectors of the real economy where profit potential was identified, the financial system neutralized these balances by transforming these surpluses into ever new financial instruments for additional risk aversion. It first created junk bonds to cannibalize firms, it securitized mortgages to diffuse risk, it created new forms of risk hedging, it created financial insurance policies, etc. This internal recycling of capital within the financial sector---continuously leeching first from the productive sector---permitted a growth in asset values, not justified by a parallel increase in surplus value. Wall Street had—like Bialystock and Blum--- massively over-issued claims on future profits that were simply unsustainable in light of the flagging rate of accumulation and productivity growth, which the financialization of the economy itself massively contributed to. This was all papered over by a frenzy of unsustainable credit bloated consumption, which again sucked profits out of production and channeled them into the financial sector.

By bailing out the financial sector thru the TARP program, the state placed a floor under the value of these over-issued claims securing investors at

taxpayers expense. Equally important, this resurrection failed to rebalance capitalism and return the financial system to its proper role as an adjunct to the process of capital---rather than asset---accumulation, asset deflation being a precursor to and precondition of industrial restructuring. It therefore left the system vulnerable to additional bouts of crises caused by a deficiency in the rate of accumulation arising from this very disproportionality. Restructuring now would require an industrial program, that the ruling class will simply not impose upon itself. The urgent search for new sources of capital accumulation therefore increasingly depends on dismantling the state sector, whose costs---as I will elaborate---are seen as uniquely reclaimable because of their political vulnerability.

The upshot of this is that any real program for the defense of working class living standards can only operate *against* reestablishing the conditions of capitalist recovery. To attain the massive cuts in state spending and working class living standards necessary to restore profit rates, the ruling class needs to face a divided working class and to break those remaining pockets of working class resistance that offer a fighting alternative. This is always an issue in economic recovery, ramified however by the very depth of this, the worst recession in 75 years.

Liberal economists deny this. They point out that deficit spending---the borrowing of unused liquidity to prime the pump of economic activity---has a multiplier effect on income, which can reverse an economic downturn and change the shape of capitalist crises. Paul Krugman and others attribute the anemic showing of the Obama program not to a fault in the theory, but to the insufficiency of the undertaking. *But unless profit expansion resulting from the economic stimulus can be shown to exceed the input of funds withdrawn from the private sector, the entire undertaking makes no sense from the point of view of capital accumulation, whatever the scale of the operation.*

Incomes and employment can expand and capitalism can be stabilized, but only within the context of a state that has grown at the *expense* of the private sector. This is precisely what the business community fears. For them, this would be a pseudo-prosperity. Today, the government sector accounts for almost 45% of the GDP, up 33% from just a decade ago with most of the gains coming on the heels of the stimulus package. But only that recovery driven by the resumption of profitability, in which the expansion of demand is driven, not by state purchases, but by the process of actual renewed capital

formation ---only that type of recovery is a recovery that capitalism can have confidence in. And that is precisely what the state cannot offer.

### **III The Public Sector**

In the current crisis, it has become increasingly obvious where the larger fault lines are beginning to break. *The New York Times* (August 7, 2010) breathlessly intones of nothing less than a “class war over public pensions” fomented by the private sector to enlist their employees against public workers. Unlike past battles against government workers, this is taking a forthright bipartisan tone. Andrew Cuomo, for all his liberal pretensions, promises to engage against public workers much like his New Jersey neighbor, Chris Christie. As Minnesota Governor and GOP Presidential hopeful, Tim Pawlenty told POLITICO, “If you inform the public and workers in the private sector about the inflated compensation packages of public employees, and then you remind the taxpayers that they’re footing the bill---they get on the reform train pretty quickly.”

Behind this assault is the very real recognition that public sector now has the highest concentration of unionized workers in the American economy. Public sector unions are the de facto face of the labor movement today and the last bastions of union power. They are effectively the frontline against dismantling state services, including the return flow of services that constitutes the safety net. The payment of unemployment insurance, food stamps, disability pensions, housing subsidies and social security/medicare--that is, “entitlements”--- for those who capital has thrown out of work, sickened, marginalized or has no further use --- are themselves the victorious fruits of past labor struggles. They are the use-values that democracy created. These victories have always been subject to slander by rightwing demagogues maliciously playing off the employed against the forcibly idled. Welfare has already been transformed---under the previous Democratic Administration---from an entitlement to a time-limited, forced-work program.

By public workers or state workers, I simply mean government workers. State and local workers comprise about 17 million of 20 million civilian government workers; the rest are federal employees. State and local budget crises are largely attributed to excesses in worker pay and benefits. On the federal level, the public “debt” crisis is not a crisis of pay and benefits, but of “entitlements”. That is on the federal level, the cost of maintaining a

working class as it ages out of employment or otherwise sheds its commodity character---that is, has lost its usefulness to capital---is considered the source of the projected crisis. The difference in character of the so-called crisis between the two sectors of government---state/local and federal---is one between the operating costs and the program costs. The combination of the two is what is meant by runaway government spending.

There are nevertheless fundamental differences between private and public sector workers that the right also seeks to exploit. Public sector workers do not, for the most part, produce marketable products and therefore do not create exchange value for the system. State workers are indeed exploited, because they---like all other workers-- are paid not for their entire expenditure of labor-time, but for their socially established reproduction costs alone. But as a cost item, the outlay on their wages and benefits represent a portion of the unpaid labor time of the private sector's total exchange value that cannot be accumulated.

In good economic times, this sacrifice can be tolerated for social peace, just as long, that is, as there are sufficient profits to expand both the public and the private spheres. In bad times, there is an opportunity for capital to make common cause with its own working class---a working class, hard pressed by the threat of unemployment, declining wages, home foreclosures and debt peonage--- to shrink the scope of the state, whose tax burden is a supplemental source of working class distress.

Moreover, the types of jobs that the private sector is poised to create, to the extent that it is poised to create any, are increasingly taking the shape of part-time, free-lance and contract work with no union protection, job security or benefits. As employment becomes more provisional, workers who manage to hold on to the remaining full-time jobs will begin to seem like a privileged elite, much as government workers now appear. The dismantling of state services and elimination of government jobs will simply channel the unemployed towards this work, hastening the process of working class stratification and immiseration and plowing the ground for the next wave of divide and conquer.

Middle class liberal leadership---the traditional conduit between the working class and the ruling class --- has long discredited itself as a political and social blind-alley for realistic working class politics. Middle class privileges may be palpably threatened by the scope of the crisis; working class

incomes, working class security, have come under active siege. The crisis cannot and will not be resolved on the backs of the middle class. Their conditions of existence provide no steady source of social discontent and therefore no continuous source of struggle from which a larger political program of resistance can emerge. It has become increasingly clear that a middle class liberalism that participated in the elimination of welfare, industrial deregulation and that encouraged the export industrial jobs as well as the continued bail out of Wall Street is not available as a springboard for working class discontent.

Because of this confidence in the two party system to address the crises has dramatically eroded and an opening for independent politics just as dramatically now presents itself. According to a recent Wall Street Journal poll, America is entering an age of “unprecedented unstable political attitudes” (8/13/10) The popularity of both parties is sinking simultaneously. In the 1930s this frustration was captured by the left and diffused only by liberal concessions; now it is the thunder on the right which is capturing the imagination of broad sections of the working class. Liberalism is no longer a factor. This can be turned around, but only if the left is willing to take the initiative to define and clarify the true dimensions of the crisis. It can only do this by means of a clear class struggle program that places these dimensions in proper context. In this there are lessons to be learned from the scapegoating of public sector workers.

First, the working class needs immediate and significant relief from taxation.

When the right raises this demand, it is being both demagogic and self-serving.. Their real purpose in raising this demand is not tax relief for workers. It is to reinforce the “every man for himself” mindset---of social atomization---that reaction thrives on. In so doing, the ruling class hopes to increase their accumulation fund without sacrificing the extravagant personal consumption that has become their unchallenged class entitlement. It is only by capitalizing on the desperation of hard pressed working people, a desperation borne in the first instance by capitalism itself, that the demand for tax relief becomes an exercise in misdirection.

The left needs to make the demand that working class taxes be phased out. From an *economic* standpoint this is not impossible. Nearly half of working class families don't pay federal taxes now, either because their incomes are too low or because they have sufficient credits and deductions to erase their



tax liabilities. The top 10% of income earners paid about 73% of the federal income taxes and they accomplished this at effective rates of taxation that are under 18% for the wealthiest 400 households. A modest increase here should do the trick. But if that fails to keep pace with the “growing burden” of working class “entitlements”(paid separately by Social Security and Medicare/Medicaid taxes), consider this. Of financial *wealth owners* the top 1% as of 2007 controlled almost 43% of the entire American pie; the bottom 80%---roughly the working class---, held exactly 7%. In recognition of this, income taxes on the wealthy should be supplemented with a demand for a wealth tax. And socialists might further raise the demand that every percentage increase in productivity that capital extracts from the working class be matched by an appropriate increase in wealth taxes needed to ensure a proper and orderly expansion of working class benefits. It might further be proposed that a phasing out of working class contributions to these funds be financed not only through a wealth tax, but through levying a tax on stock market and currency transactions, the type of taxes least able to be passed back indirectly to the working class.

Second, socialists might turn the attack on public sector workers inside out. The left should resurrect the demand that the government act as the employer of last resort, that any worker should be eligible to participate in the advantages---such as they are---of public employment. Why restrict these jobs, as liberals are so fond of doing, to shovel-ready jobs, or even green job? This is simply too restrictive. Such qualifications preclude from public employment those who cannot perform heavy labor or are otherwise unfit for industrial employment. But more important, this restriction overlooks the vast inventory of unmet social needs that extends beyond the physical infrastructure, neglected by a system long characterized as one of public squalor. Such needs are readily identifiable: community and housing services; childcare; public health care, legal advocacy, public transportation, and educational services. These enhancements to the *social* infrastructure have an immediate impact on the quality of working class community life. This necessarily requires deficit spending and massive revenue sharing with the states where most government jobs are. But it drives this need, not in terms of “saving capitalism”, but in terms of concrete programs of working class communal amelioration.

Its political significance is that it subordinates the necessity of deficit spending to working class struggle and cohesion without assuming direct responsibility for the capitalist crisis. To take responsibility is to cap the

movement at its knees. It invariably translates into a labor movement ideologically susceptible to the need for additional sacrifice, as long as it retains consultative rights on the conditions and dimensions of its surrender. The UAW role in the auto bailout is a case study. The point is to demand that people be put to work in socially meaningful capacities, regardless of its effect on accumulation and profitability. It is a demand that raises the issues of social responsibility above that of private property. The radical left should raise this demand in full knowledge that a growing public sector without democratic control from below, even if practically realizable, would further contribute to the bureaucratization of capitalism. This would nevertheless still be a qualified victory insofar as it entails a compromise forced upon capitalism by a working class gaining in confidence and social vision under circumstances most conducive to further unionization. It carries within it the momentum to drive the logic of labor's own existence beyond the confines imposed on it by the profit system.

But these are not socialist demands. The working class as it is presently constituted is not receptive to socialist demands. The point is to change the conversation by introducing a left voice and in so doing raise a perspective that cannot and will not be raised by the existing political parties. It is the perspective of real working class solidarity. This requires, at a minimum in my opinion, lashing together the demands for the elimination of working class taxes and the transformation of government into an employer of last resort.

Neither is this a question of calling for a new political party of the left. A party of the left can only be built from a gathering movement of struggle. It cannot be conjured forth on the basis of programmatic merit. But where there is evidence of fight back, of social resistance---among rank and filers, the 99ers, where businesses or shops face closure, among beleaguered government workers--- the thrust of the struggle is fundamentally progressive and workers can be receptive to radical agitation. Building a movement with a boisterous radical agenda, even when still short of becoming an organized political presence, can still contribute mightily to shifting politics to the left.

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This crisis has signaled a global employers' offensive against these last remnants of the welfare state safety net and the public sector workers,

largely unionized, who administer these programs. For public workers this is an immediate issue of job security, but the ruling class cannot dismantle the remaining vestiges of the welfare state without decimating the unions that stand in the way of its larger political and social ambitions. So for better or worse, public workers are the incidental last bulwarks of labor resistance. This explains why they have been subject to an unprecedented level of propagandistic venom from the business press, ginning up a near lynch mob reaction against these "privileged" workers, who "live off the taxes of ordinary struggling Americans."

The trend line of the rate of profit has been falling since the early 1970s, despite more than three decades of wage stagnation and relative and near absolute working class immiseration. That only sufficed to keep the system barely humming. The business class is now sitting on an ocean of cash, having largely liquidated their inventories and cut costs to the bone during this recession. They will not resume investment until they are convinced of the prospects for enhanced returns. Wages have fallen, now it is time--- according to capitalist reckoning--- to minimize government overhead.

Capital has shown little interest in parting with its liquidity and restoring momentum to the economy before imposing an historic defeat on the working class. Socialists should advocate that the working class look to its own program---its own inherent strengths--- and make capital part with that liquidity and jump start the economy on an entirely different set of terms.