WHAT'S AHEAD ?...

The U.S. Economy

by Edward Boorstein

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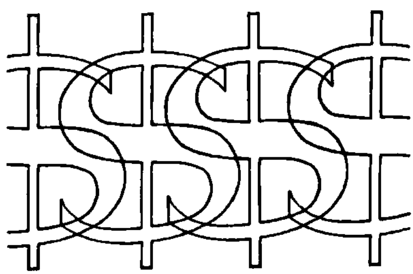

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The U.S. Economy

PREVIOUS BOOKS BY EDWARD BOORSTEIN

Allende's Chile

The Economic Transformation of Cuba

To my wife Reggie

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1

The Capitalist System

Over the last fifteen years nothing in the U.S. economy has worked right. We have suffered from worsening "stagflation," a combination of severe recessions, high unemployment, and inflation. Periodically, the value of the dollar has plummeted in the international markets. Shortages of oil and natural gas have struck us several times, disrupting the whole economy.

A wave of plant closings has been sweeping over our industry, causing countless workers to lose their jobs, devastating communities, and bringing decline to entire regions. Several major industries—steel, auto, and others—are sick, with hundreds of thousands of workers thrown permanently out of their jobs.

Our cities are in decay. Large stretches of some of them look like bombed-out Berlin just after World War II. Our infrastructure—roads, bridges, water supply systems, etc.—is crumbling. The social security system has passed through several financial crunches. The health care system is in crisis.

All this has hit our people hard. The quality of life for the great majority has worsened. The working class, besides being ravaged by unemployment, has seen its real wages go down. The Afro-American, Hispanic and other oppressed minorities have suffered the most.[1] The snail-like progress that they previously were making toward closing the big economic gap between themselves and the white majority has not only halted but reversed. Many of our youth, especially minority youth, are cut off from the economy with no chance of a job.

Many specific causes help to produce these phenomena. We must try to understand these causes concretely, the way a good mechanic understands the workings of a car. But these phenomena are not separate and independent; they are interrelated. Together, they constitute a *comprehensive crisis* afflicting the whole U.S. economy. Basically, this crisis expresses a process of decay in U.S. capitalism.

If we wish to understand the crisis well, not just partially and superficially, we must begin with a preliminary discussion of fundamentals. What is capitalism? Under what phase of capitalism's development are we now living and how does this affect the workings of the economy? How have the enormous U.S. military expenditures helped produce the process of decay?

LENIN GIVES A clear, simple definition of capitalism:

> Capitalism is the name given to that social system under which the land, factories, implements, etc. belong to a small number of landed proprietors and capitalists, while the mass of the people possesses no property, or very little property, and is compelled to hire itself out as workers. The landowners and factory owners hire workers and make them produce wares of this or that kind which they sell on the market.[2]

This very nature of capitalism gives rise to contradictions. The most fundamental, the one which most broadly explains the workings of capitalism, is the contradiction between the social nature of production and the private form of ownership.

Production under capitalism is social. The goods we use (food, clothing, autos, etc.) are not the product of individuals, but social products, the result of the collaboration of countless workers. People work together in large enterprises, using materials and equipment produced by others, and producing goods for use by others. The economy is marked by an extensive and complex division of labor.

But the means of production are privately owned. The process of production is privately controlled, and the products of production are privately appropriated—they belong to the capitalists.

Why are social production and private ownership contradictory? Because each has its own logic and requirements which are incompatible with those of the other; because a process of production that is social cannot be properly managed and controlled under a system of ownership that is private.

For example: An economy with a developed division of labor requires a central plan to mesh its different parts and ensure that various types of goods are produced according to social need and in the right proportions to one another. Privately-owned companies, however, don't operate according to a central plan, but anarchically, according to what will give them the greatest profits.

This contradiction, the combination of social production with private ownership, hasn't always existed. In the Middle Ages ownership was private but production was small-scale and individual, not social. What the medieval artisan owned was not a large enterprise employing many people, but the tools he worked with himself. Capitalism turned the medieval workshops into giant factories and produced an extensive division of labor. It created the contradiction by socializing production.

As capitalism develops, it socializes production more and more. Science and technology open up activities which can be carried on only through the collaboration of large numbers of people. Enterprises grow ever bigger. The division of labor becomes ever more extensive. Yet ownership remains private, so that the contradiction not only continues, but becomes increasingly acute.

THE GOAL OF THE capitalist is profits. As a chairman of U.S. Steel, Edgar Speer, once put it, the business of the steel industry is not to make steel, but to make money.

The pursuit of profits is not so much a matter of the individual capitalist as of the system. It is part of the basic dynamics of capitalism: the use of capital to make profits and the conversion of profits into capital to make still more profits. Corporations must make profits or die. Those that make profits grow ever larger and make still more profits. Those that fail to make profits go out of business. The stockholders of a corporation will forgive its managers almost anything except the failure to make profits. The making and accumulation of profits is a holy law for capitalism. Or, as Marx put it, "Accumulate, accumulate. That is Moses and the prophets!"[3]

The basic capitalist standard is: *How will profits be affected?* The profits standard governs corporate action on wages, hours of work and productivity, as well as health, safety and pollution. Directly or indirectly, it governs corporate action on everything.

As Lenin wrote:

> It is understandable that the employers always try to reduce wages; the less they give the workers, the greater their profit. The workers try

> to get the highest possible wage in order to provide their families with sufficient and wholesome food, to live in good homes, and to dress as other people do. . . . A constant struggle is, therefore, going on between employers and workers over wages.[4]

For the same reason that they fight to keep wages down, the capitalists also fight to keep the working day long. It took a long, stubborn struggle by the working class to reduce the working day to what it is today. But the pressure of the capitalists never ends. It can be seen in the system of forced overtime that has grown up in the United States since the 1950s after the labor movement was weakened by McCarthyism. The corporations calculate costs and their effects on profits very carefully. They can often make more money if, instead of hiring new workers, they force already employed workers to work overtime. Thus they save on training costs, social security taxes, workers' compensation, hospital insurance, pensions, and vacation pay.

The capitalists also maintain an incessant drive to increase productivity, to squeeze the maximum output out of each hour of work. They tighten discipline and carry out crackdowns to speed up workers. They introduce new, more automated equipment and robots. Often they take advantage of the new machinery to lay off workers by the thousands.

In their concentration on profits, the capitalists respect nothing, not even the health and lives of the workers. Health and safety standards cost money, so the corporations resist them. They resist the measures necessary to give workers adequate protection against mine accidents, explosions, and Black Lung in the coal industry; cancer-causing coke oven fumes in the steel industry; Brown Lung in the textile industry. They gamble with the health and lives of the workers in the chemical industry with its innumerable dangerous substances and processes.

Just as the capitalists don't respect workers, they also don't respect the environment. Left free to do so, they pollute and destroy. They release poisonous chemicals into our air and water and establish dangerous toxic waste dumps. When the government, under pressure from the people, proposes or institutes controls, the companies resist. The chemical companies of New Jersey fight proposals to reduce emissions of known carcinogens from their plants. The American Iron and Steel Institute lobbies for an extension of the deadline for reducing the discharge of toxic substances into waterways by the iron and steel companies. General Motors presses for easing the Clean Air Act governing auto emissions.

The corporations apply the profits standard to countless other things besides their immediate operations. Every proposed law or government action of significance, the material that appears on television and radio or in newspapers, what takes place in our schools and universities—the companies examine all through the prism of profits and act accordingly. The effect of the capitalist profits standard pervades all corners of our society.

With the private appropriation of profits, the capitalist system inherently involves the exploitation of the working class by the capitalist class. Workers' labor creates all wealth. It creates the profits which the capitalists accumulate, the capital which results from the accumulation. Like serfs before them, wage workers under capitalism work only part of the time for themselves, the rest for someone else—in their case the capitalists.[5]

A CAPITALIST economy is an anarchic economy. It consists of a multitude of separate, private enterprises, each producing what it thinks will give the greatest profits. There is planning within the enterprise—for maximum profits—but the economy as a whole is not run according to plan, and anarchy prevails.

Capitalist economists deny that capitalism is anarchic. For example Paul Samuelson, a Nobel prize winner, writes in his best-selling textbook *Economics* that the system is not one of "anarchy. . . . A competitive system is an elaborate mechanism for unconscious coordination through a system of prices and markets. . . ."[6]

Milton Friedman (another Nobel prize winner) and his wife Rose offer an example to explain how the market does its work:

> Suppose that for whatever reason, there is an increased demand for lead pencils—perhaps because a baby boom increases school enrollment. Retail stores will find that they are selling more pencils. They will order more pencils from their wholesalers. The wholesalers will order more pencils from the manufacturers. The manufacturers will order more wood, more brass, more graphite—all the varied products used to make a pencil. In order to induce their suppliers to produce more of these items, they will have to offer higher prices for them. The higher prices will induce the suppliers to increase their work force to be able to meet the higher demand. To get more workers they will have to offer higher wages or better working conditions.[7]

Capitalist economic theory from its beginning is full of explanations, ranging from this kind of example to "elegant" mathematical formulations, of how capitalism "coordinates." The market (some call it the price mechanism or the competitive system) "regulates." It "allocates resources" according to what is required. It determines what will be produced, how much, and for whom. If too little of something is produced, the price will rise, this will attract "resources," and bring about an increase in production. If too much is produced, the price will fall, this will cause "resources" to flow elsewhere and again bring about the necessary adjustment.

Differences about the market exist among capitalist economists. The Friedmans hold that our economic problems are due to "interference" with the market, and that "the government is the major source of interference. . . ."[8] Paul Samuelson, after explaining how "unconscious coordination" takes place through "prices and markets," cautions his readers not to go to an "extreme and become enamored of the beauty of the pricing mechanism, regarding it as perfection itself, the essence of providential harmony and beyond the touch of human hands."[9] Such differences can be of great practical significance; they reflect differences among various groups of capitalists concerning the proper role of government in the face of economic problems. Nevertheless, for both Friedman and Samuelson, as well as almost all other capitalist economists, the market is the great coordinator which prevents capitalism from being anarchic.

Whether a capitalist economy is anarchic, however, can only be settled by looking at reality, by seeing how capitalism actually works, not by becoming enmeshed in the abstract logic of capitalist economists. What does a look at reality tell us?

It tells us, to begin with, that capitalism is beset by the business cycle; that it suffers from periodic crises of overproduction followed by declines in output and large-scale layoffs of workers. If the market is such a great coordinator, why doesn't it coordinate away the crises and the unemployment?

The examples given by capitalist economists require scrutiny. The Friedman example is pretty. Demand rises, companies have to employ more workers and pay higher wages, and everyone lives happily. But let's vary the example. Let's suppose that the item isn't pencils, but autos and that demand isn't rising, but falling because we are in the downswing of the business cycle. What does the great coordinator—the market—do then? It throws more than a million auto, steel, and other workers out of their jobs.

THE BUSINESS CYCLE is a disease of capitalism. Many specific factors such as fluctuations in investment, production and profits, help shape business cycles, but fundamentally they flow from the nature of capitalism; from the contradiction between social production with its division of labor and private ownership.

If either half of this contradiction is missing, there is no business cycle. There was no business cycle before capitalism because production wasn't social. There is no business cycle under socialism; ownership is no longer private.

Before capitalism, there could be no business cycle because there was no developed division of labor. Producers operated independently of one another, turning out goods for separate local markets. What happened to a blacksmith or flax weaver in one locality had no effect on blacksmiths and flax weavers in other localities. The different parts of the economy were not interdependent. A stimulus or disturbance in one part couldn't spread by a chain reaction to others and eventually cause the whole economy to move up or down. Natural calamities occurred, such as droughts or floods, but they were not the same as the periodic crises of the business cycle with their overproduction, layoffs, etc.

Under industrial capitalism with its division of labor, each enterprise, each part of the economy, is one element in the broad process of social production. Each enterprise depends on the prosperity of its customers who, in turn, depend on the prosperity of theirs. A supplier to steel companies depends on their prosperity; they in turn depend on the prosperity of metalworking companies; the different parts of the economy are interdependent. A disturbance in one part can start a chain reaction which spreads to all of it.

Capitalism systematically produces disturbances in such a way as to generate the business cycle. As Marx pointed out, for an economy with a developed division of labor to work smoothly, its different parts have to mesh with one another; proper proportions among them must be maintained. For example, the total value of consumer goods must be in proper proportion to the purchasing power of the people who are to buy them; if more goods are produced than people can pay for, part of them will be left unsold. Investment in productive capacity must be in proper proportion to the value of consumption; if it is too high, excess capacity will appear. Capitalism, with its limitless drive for profits and its anarchy, generates a systematic upsetting of the proper proportions.

Marx explained how. There is a limit to how fast consumption can grow; the income that people receive imposes a limit. But the capitalists don't gear production to consumption. Driven by the need to make profits or die in the competitive struggle, they anarchically expand production without limit. Production increases faster than consumption can grow. After a while, an overproduction of goods develops as part of what is produced cannot be sold. This causes the rate of profit to decline. Since profits are the goal of the capitalists, they must take corrective action to stem the decline. They cut production and lay off workers. "Crises," said Marx, "are forcible solutions of the . . . contradictions. . . ."[10]

The movement of auto inventories provides an illustration of the dynamics of the business cycle. When auto sales are rising, the manufacturers and the dealers attached to each of them push up inventories much faster than sales, which means that production is rising much faster than sales. The manufacturers and dealers push up inventories as part of the competitive pursuit of profits. The greater the variety and number of cars a dealer has, the greater the sales and profits; failure to have a certain model available for quick delivery can mean a sale lost to competitors. Neither the manufacturers nor the dealers can worry at this point where the process by which inventories are rising faster than sales will ultimately lead; they have to get their profits while the getting is good. But inventories cannot go on increasing faster than sales indefinitely. An inventory sufficient to cover sixty days of sales may be better than a forty- or fifty-day supply; but an eighty- or ninety-day inventory begins to be excessive. Eventually a correction must come. Such a correction is made urgent by the fact that dealers finance their inventories with borrowed money, which is expensive. If a dealer is stuck too long with unsold cars, the financing costs can put him out of business. So when signs appear that sales are flagging, dealers not only stop increasing their inventories, but start reducing them, forcing production to decline sharply. Now there is a new disproportion between production and sales, only this time production is not above, but below sales. This is also a state that cannot be maintained indefinitely; the reduction in inventories lays the basis for the next upturn in production.

The movement of investment in plant and equipment is another example of how the cycle works. In "good times," the individual enterprises press to expand their productive capacity. They gear their actions to calculations of their individual profits. They operate separately, without controlling the overall effects of their actions. The result is to expand capacity more rapidly than consumption and output are expanding. The high plant and equipment expenditures produce a chain reaction on the whole economy; they help push overall economic activity to a high level. But after a while the inevitable result appears: growing excess capacity. With the growth of excess capacity, capacity whose output can't be sold, the rate of profit tends to drop. So the enterprises slash their capital expenditures, and this, again by a chain reaction, helps push the whole economy down. A period of low capital expenditures prepares the economy for the next upturn.

The business cycle is inevitable under capitalism. This is confirmed not only by the way it flows from the very nature of capitalism, but by history. Business cycles have been noted in the United States since the early 19th century. There have been over forty cycles, eight after World War II.

Capitalist economists don't like to face the business cycle and its inevitability under capitalism. Till after World War I, the main capitalist economists practically ignored the business cycle—economic crises were aberrations, flukes, they said. Alfred Marshall, whom both Samuelson and Friedman call a "great economist," published an 850-page *Principles of Economics* in 1890. He devoted two paragraphs to the business cycle:

> The chief cause of the evil is a want of confidence. The greater part of it could be removed almost in an instant if confidence could return, touch all industries with her magic wand, and make them continue their production and their demand for the wares of others.[11]

The Great Depression of the 1930s forced at least some capitalist economists to deal with the problem of the cycle, imposing a dose of realism on their theories. But they still can't face the truth squarely. Samuelson, in the 1967 edition of his *Economics,* admits that some past slumps were "disastrous" and writes:

> Such, in brief, *was* the so-called "business cycle" that used to characterize the industrialized nations of the world for the last century and a half. . . . Nevertheless, now that the tools of income analysis are understood and their use is politically mandatory, the probability of