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The Economic Crisis: A Marxian Interpretation

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Like most capitalist crises, today's challenges economists, journalists, and politicians to explain and to overcome it. The post-1930s struggles between neoclassical and Keynesian economics are rejoined. We show that both proved inadequate to preventing crises and served rather to enable and justify (as "solutions" for crises) what were merely oscillations between two forms of capitalism differentiated according to greater or lesser state economic interventions. Our Marxian economic analysis here proceeds differently. We demonstrate how concrete aspects of U.S. economic history (especially real wage, productivity, and personal indebtedness trends) culminated in this deep and enduring crisis. We offer both a class-based critique of and an alternative to neoclassical and Keynesian analyses, including an alternative solution to capitalist crises.

Key Words: Capitalist Crisis, Exploitation, Keynesian Economics, Neoclassical Economics, Marxian Economics

Two different and contending mainstream theories have explained capitalism's repeated crises over the last century. Each time each theory proposed correspondingly different solutions. Today's crisis is no exception. One theory—called, after one of its founders, "Keynesian economics"—claims that unregulated private markets inevitably yield price movements that react back on the decisions of businesses, workers, and consumers to produce out-of-control price spirals. These periodically push the economy into inflations, recessions, or even depressions. Without intervention from outside, capitalism's private economy may remain depressed or inflated long enough to threaten capitalism itself. Keynesian—or now more generally "macro"—economics identifies the key private economy mechanisms that produce cyclical crises. These range from market imperfections arising from agents' unequal and/or unfair access to information to a plethora of noneconomic causes typically grouped together as "animal spirits."[1] Political fear combines with macroeconomics to organize and enact state interventions aimed at counteracting the unwanted

1. Perhaps Joseph Stiglitz is the most important and best-known macroeconomist arguing that unfettered markets yield cyclical crises. The animal spirits argument first appeared in Keynes (1964, 161); it refers to how the expected yield of business investment in relation to its cost is "determined by the uncontrollable and disobedient psychology of the business world" (317).

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extremes of capitalism's inherent instability. "Regulate, regulate" is the Keynesian prophets' mantra.

The other mainstream theory is associated with Adam Smith, the classical "founder of modern economics" who first celebrated the private capitalist economy (free markets plus private property) as uniquely enabling society to produce the maximum wealth it is capable of. In its evolved form, it has come to be known as "neoclassical" or, more generally, microeconomics. Neoclassical economics continues the project of showing how and why an economy of privately owned means of production and free, competitive markets yields the best ("optimum") of all possible economic outcomes. When, occasionally, a nonoptimal outcome occurs, it likely follows from some market "imperfection" that is, from the neoclassical perspective, probably the result of some perhaps well-intentioned but fundamentally misguided state intervention. The best solution then is to let private markets and private enterprises heal themselves via their internal mechanisms. Neoclassical economists typically denounce Keynesian-inspired state interventions, including their incessant market regulations as inevitably yielding regulators' mistakes, politically manipulated markets, and the resulting inefficiencies including inflation, stagnation, and stagflation. State officials cannot replace, let alone improve upon, the market mechanism that accommodates the infinity of different demands and supplies, communicates the infinity of information far more efficiently than any state could, and generates the incentives leading individual buyers and sellers to correct whatever excesses appear. "Deregulate, deregulate" is the neoclassical economists' mantra.

As today's global capitalist crisis unfolds, Keynesian state interventions are everywhere on the rise after more than thirty years of marginalization. Since the 1970s, neoclassical economists had effectively reversed and suppressed such interventions in a global movement called "neoliberalism." They were reacting against the domination of Keynesians and Keynesian macroeconomics in the aftermath of the Great Depression of the 1930s. The neoclassical economists had always attacked the Keynesian state interventions associated with Franklin Delano Roosevelt's New Deal for seriously constraining and distorting the economy's growth and thereby promoting social conflict (sometimes dubbed "class war"). They sought to reinstitute Smith's grand vision of a growing capitalism: private and competitive markets lifting the real incomes of both labor and capital and thereby avoiding the "class conflicts" associated with insufficient growth.

In the 1970s, neoclassical economics displaced Keynesian economics globally. Market deregulation and privatization became the official and prevailing principles of business, politics, journalism, and academia. Neoclassical economics became once again, as it had been before the Great Depression, *the* modern economics. Its other—Keynesian economics—was banished as a relic of earlier misunderstandings of how economies "really" worked. The dominance of neoclassical microeconomics went so far as to spawn a generation of "new" Keynesians who reformulated their paradigm as an extension/application of neoclassical economics. Unrepentant

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Everything and anything shapes "business psychology," hence the central causal role of "animal spirits" in governing capitalist investment behavior and why it fluctuates. This kind of argument is nicely summarized and extended to today's economic world in Akerlof and Shiller (2009).

Keynesians who refused to become "new" in this way found their professional advances blocked and their careers often ended. Such extreme intolerance of differences between neoclassical and Keynesian economics in the realms of theory, academic discipline, and professional careers replicated the ways both of them had jointly suppressed Marxian economics since the late 1940s.

From the 1970s onward, deregulation of markets yielded, at first, the changed incentives, prices, and growth the neoclassicists had promised. As the years passed however, the economy also exhibited the market swings, uneven income and wealth developments, and eventual economic bubbles in stock markets, real estate, and finance darkly predicted by Keynesian critics. Then the new millennium opened with a stock market crash followed a few years later by a real estate collapse, a liquidity crisis, and now a deep recession threatening to slide into a depression of major proportions. Neoclassical economists are in retreat and the Keynesians are emerging out of their banishment. Paradoxically, the latter find allies (business leaders whose survival suddenly depends on government largesse) among some stalwart former defenders of the market system.

The Keynesian message remains what it always was: the state must save capitalism from itself. It has become, again, today's wisdom. Faced with the current crisis, fewer neoclassical economists still advocate what has become yesterday's wisdom: markets yield prosperity and growth and occasionally heal problems without much, if any, need of state intervention.

However, we have not lost confidence in the ability of neoclassical economics to reemerge again someday to reaffirm their old program of deregulation of markets. Our confidence in their restorative powers rests on the continuation of a capitalism that will give rise to future economic problems and crises, including those fostered by the very Keynesian regulations instituted today. Neoclassical economics had reemerged before in the 1970s when it undid many of the Keynesian interventions that had aimed to overcome the Great Depression of the 1930s and prevent future depressions. We see little compelling evidence not to expect yet another future neoclassical revival if today's crisis results in no more than a Keynesian response.

Indeed, the repeated oscillations between the two theories and their associate policy prescriptions emerge also from a fundamental perspective both sides share. They largely agree that the market system is the best of all known mechanisms to allocate resources efficiently. Many would add that markets also allocate resources equitably. They claim that fully competitive markets enable those who contribute to wealth production to receive rewards (incomes) exactly equal to the size of their contribution. Where the two sides differ is in how to insulate and protect the market system from the criticisms and movements for state economic interventions that flow from citizens who suffer from the economy's recurring recessions and inflations. Against the criticism and movement, one side argues to "leave the market alone so that it can find its way to a new, efficient, and just solution." "No," says the other. "We need state intervention to help guide the market's search for a new and efficient solution." Capitalism—defined as private enterprise and free markets—remains the optimum system for both sides in terms of wealth creation and social welfare.

Both sides thus share a profound conservatism vis-à-vis capitalism, despite holding radically different views on the need for state intervention. The oscillation between

them serves their shared conservatism. It prevents crises *in* capitalism from becoming crises *of* capitalism, when the system itself is placed in question. It does this by shaping and containing the public debate provoked by crisis-caused social suffering. When serious crises hit a deregulated capitalism, the two sides debate whether the solution is regulation or letting the system heal itself. When serious crises hit a regulated capitalism, the two sides debate whether the solution is deregulation or more or different regulation. This effectively keeps from public debate any serious consideration of an alternative solution to capitalism's recurring crises: namely, transition to an economic system other than and different from capitalism.

A Marxian Analysis

An alternative to both neoclassical and Keynesian explanations and solutions for capitalist crises emanates from the Marxian tradition. Its explanation stresses neither what Keynesians focus on (destabilizing maneuvers by self-seeking individual consumers, producers, merchants, and banks facing an inherently uncertain economy and/or possessing asymmetrical information in regard to markets) nor what neoclassicists pinpoint (market-destabilizing concentrations of private power by market participants and/or public power by the state). Rather, Marxian theory pursues the connections between capitalism's crises and its distinctive class structure (its particular juxtaposition of capitalists appropriating and distributing the surpluses workers produce). We propose to show these connections in the rest of this paper. On that basis, Marxian theory reaches very different conclusions from those of the neoclassical and Keynesian economists. Briefly, durable solutions to capitalist crises require, in the Marxian view, transition to a different class structure. That is because capitalism's class structure has so systematically and repeatedly contributed to crises in both the regulated and deregulated forms of capitalism. That is why Marxian theory does not share the fundamental conservatism of both neoclassical and Keynesian economics vis-à-vis capitalism.

Exploitation and U.S. History

Not surprisingly, our Marxian explanation connects the current capitalist crisis in the United States to exploited workers and exploiting capitalists.[2] The failure of U.S. capitalism in 2008–9 has deep class roots in the previous 120 years. From the early 1890s to the late 1970s, two key trends emerged in industry. In one, the real wage of workers in manufacturing rose by about 1.8 percent per year and, in the other, workers' productivity in manufacturing steadily rose at an even higher rate amounting

2. To avoid ambiguity about what we mean by "connect," we do not aim to reduce capitalist crises to an underlying class cause. We reject essentialist explanation of all kinds, Marxian or non-Marxian. Rather, we wish to add class as one of many contributing and interacting causes of economic crisis; in this we are mindful of the exclusion of class from most other analyses of the crisis.

to 2.3 percent per year.[3] Roughly interpreting these two trends in terms of Marxian value theory, we conclude that the rate of surplus value in the United States— the growth of real output per industrial worker relative to the real remuneration per industrial worker—rose steadily for almost ninety years. In Marx's language, that century saw U.S. capitalism deliver a surplus to its capitalists that rose faster than the real wages of workers. Workers were ever more exploited (the excess of the value added by their labor over the value paid for their labor power), but they were also ever better paid. We doubt any other capitalism, then or ever, delivered such results for so long. It drew tens of millions of immigrants and propelled the United States into its global superpower position.

That century was a sustained success for U.S. capitalism. Capitalists' steadily rising surpluses were distributed effectively to expand and enhance the conditions for their class exploitation. Such distributions thereby yielded an ever growing surplus to fund further distributions in the cumulative growth of U.S. capitalism to global hegemony. The diversity of capitalists' different surplus distributions illustrates the socially transformative scope of U.S. capitalist development. Sizeable portions of the surplus went for capital accumulation (machines, factories, infrastructure, etc.) that directly expanded workers' outputs (and hence expanded surpluses). Newly expanded means of production often embodied new technologies that raised labor productivity, lowered unit values of consumer goods, and hence raised the rate of exploitation. Surplus devoted to cover research and development expenses created a flood of new industries and their new commodities embodying ever more surpluses. The uses of surpluses to fund growing corporate bureaucracies (investing in the "intangible asset" of management) enabled them to extract increased surpluses from their workers.[4] The portion of the surplus paid to merchants (usually in the form of discounts on capitalist commodities sold to them) was less than what capitalists had had to pay their own sales staffs. Effectively economizing on the costs of selling, and thereby generating a major wholesale and retail trade system, capitalists had that much more surplus to distribute elsewhere. The portion of their appropriated surpluses that industrial capitalists paid to banks as interest gave them access to the savings of others used for additional productive investment, research and development, and expanded and improved corporate bureaucracies and thus more surplus. Likewise, surplus paid out as dividends to share owners enabled capitalist corporations to tap yet another source of money for investment by selling such shares publicly. Finally, the portion of capitalists' surplus paid as taxes enabled and pressured federal, state, and local governments to provide the infrastructure (laws, road systems, education, health services, the military, new research and its yield of new products and technology, and so on) that lowered capitalists' costs and facilitated rising surplus production.

3. These are average annual growth rates calculated from the data described in the note on sources. The growth of real wages and productivity is calculated from 1890 to 1978.
4. The term "intangible asset" is taken from Teece, Pisano, and Shuen (1997, 521). The authors present a view of the importance of corporate management—in our Marxian terms, a subsumed class of corporate managers—in shaping (overdetermining) the present and future profitability (surplus value) of enterprises.

The genius of U.S. capitalism before the 1970s consisted in the combination of rising real wages, surpluses rising faster, and surplus distributions that reacted back to reinforce the pattern of rising wages and faster-rising surpluses. The possibility of such a capitalism was articulated in Marx's *Capital,* as were the contradictions. In volume 1, Marx identifies, locates, and analyzes workers' production of the surplus value appropriated by their capitalist employers. In volumes 2 and 3, Marx elaborates capitalists' distribution of the surplus value they have appropriated *to secure the conditions of their positions atop a growing capitalist system*. Although repeatedly punctuated by crises, the century of U.S. capitalism ending in the 1970s exemplified the self-expansion possible if and when sufficient surpluses were appropriated (the argument of volume 1) and effectively distributed (the argument of volumes 2 and 3).

However, Marxian theory also stresses the contradictions in every system. Capitalism's particular contradictions were also illustrated in U.S. history as the system's success coexisted with its failure. The other side of the workers' rising real wages was deepening exploitation. The ever louder nationalist celebration *of a merely formal* democracy and equality thus coexisted with—and served ideologically to obscure—an ever widening *real* divide between a growing mass of exploited workers and an ever more concentrated elite of multinational corporate capitalists and their various "hangers on."

Yet few among the surplus producers and fewer still among those who lived off surplus distributions acknowledged the social costs and miseries arising from the relative disparity growing across U.S. history. Most public debate missed the connections between capitalist exploitation and social problems such as urban decay, corruption, crime, family disintegration, personal and civic alienation, and wars. The notion of poverty as linked to capitalists' refusal to employ workers (because of their profit considerations, cyclical crises, etc.) was widely repressed in favor of blame-the-victim alternatives (for example, unemployed workers lacked requisite qualifications or preferred leisure to paid work). The recurring capitalist crises themselves were rarely connected to capitalist exploitation and its underlying class structure; rather, they were caused by the "greed" of a few "bad apples," inappropriate government action or criminal misbehavior, animal spirits haunting individual and group decisions, or unintended consequences arising from market imperfections. Because of the neglected connection of the capitalist class structure to economic crises, we focus here on that connection to the current crisis.

Rising Exploitation with Rising Real Wages

From the last decade of the nineteenth century to the last third of the twentieth century, rising workers' real wages allowed rising consumption levels. Over those decades, new meanings came to be deeply attached to workers consuming more goods and services. Personal consumption became the standard by which workers measured personal success in life: their own and almost everyone else's. More consumption, quantitative and/or qualitative, was equated with more pleasure derived therefrom. Career choices and marriages were undertaken with a growing focus on their prospects for rising consumption. Parents defined their suitability as

such in terms of enabling their children to consume more and hence live better lives. Education promised better-paying jobs and higher levels of consumption. What you consume merged into what you are.

Perhaps no great surprise should arise then at the origin, explosive growth, and central place of advertising in American life. Its social function was and is to persuade individuals to buy as much as possible of what advertisers' clients sell. Advertising accelerated transformation of the simple acts of buying and consuming into essential strategies for achieving the American dream. Show others who you really are by consuming accordingly. Fool others by cleverly buying and consuming cheap imitations of more costly goods and services. Faced with widespread social acceptance of consumption as the key standard of personal success and achievement, dissenting religious leaders, politicians, writers, and others have sometimes reacted with critical denunciations of "materialism." Their recurring reactions are another index of the social power, influence, and celebration of consumption in the United States, henceforth referred to as consumerism.

Consumerism stands in a special relationship to U.S. workers' lack of awareness of their class exploitation. Consumerism conceptualized rising wages and consumption levels as *the full and appropriate compensation* for workers' wage labor. By stressing that capitalism recognized and rewarded workers appropriately, even generously, consumerism effectively displaced Marxian concepts of workers' exploitation. Indeed, the very term "exploited" was redefined to mean that minority of workers temporarily and perhaps unfairly denied the wages and consumption standards capitalism normally delivered to all workers. Consumerism affirmed that rising consumption proved that (1) capitalism could and would "deliver the goods," and (2) high and rising individual consumption levels in capitalist societies reflected their superiority to any socialist alternative. Of course, consumerism alone did not suppress Marxian explanations; government repression and procapitalist ideological campaigns waged by business, religious, and other groups also contributed. So, too, did the relentless association of personal liberties with private enterprise and free markets against oppressive government intrusion associated (when not simply equated) with socialism. However, consumerism helped leverage U.S. capitalism's successful growth from 1890 to 1970 into a profound mass disinclination to confront class exploitation, its social costs, or its root in the capitalist class structure, as argued in Marxian explanations.

Rising Exploitation with Constant Real Wages

Starting in the late 1970s and continuing thereafter, real wages of industrial workers in the United States stopped rising. This was a profound change from the record of the previous ninety years. While manufacturing productivity continued to rise (at a rate of 3.26 percent per year from 1978 to 2007), real wages paid workers in manufacturing remained more or less constant and even fell a bit from then to today (declining slightly at a rate of −0.37 per year between 1978 and 2007). We present these two series in Figure 1, based on the data sources described below. Employers kept getting more and more output per worker (the productivity line), but

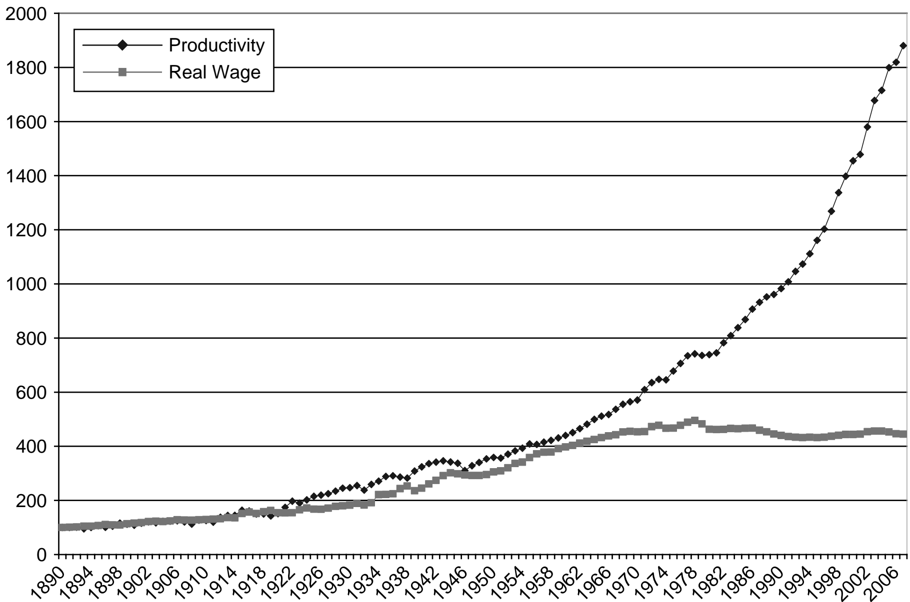

Figure 1 Indexes of Output and Real Wages per Hour, Manufacturing, 1890–2007. Index 1890 = 100.

no longer had to pay the workers more (the real wage line). Workers no longer shared in productivity gains; the latter thus raised surpluses even faster than before. In Marxian terms, the rate of exploitation (the ratio of surplus value to the value of labor power) rose steadily to possibly unprecedented heights. The social divide between producers and appropriators of the surplus surged as well. Most important, the end of rising real wages closed an era. The impact on the United States cannot be overstated; a capitalism that had come to define, celebrate, and defend itself by reference to rising consumption enabled by rising wages for its workers could no longer do so. The impact was all the greater because no public debate about the meaning and implications of the change occurred. Workers experienced and reacted to the change as a personal and individual matter rather than as a sweeping social change.

The post-1970s explosion of surplus value production transformed U.S. capitalism. Wealth poured into capitalists' accounts as they appropriated ever more surpluses from workers who no longer needed to be paid rising real wages. Since most capitalist enterprise in the United States is corporate, the results were a stunning expansion of corporate wealth, power, and influence over all of society. Corporate boards of directors distributed most of the exploding surpluses partly to themselves (as skyrocketing top managerial salaries, stock options, and bonuses) and partly to lower-level managers (as their remuneration and operating budgets), bankers (interest and fees), merchants (discounted wholesale and retail prices), share owners (dividends), and owners of land and technology (rents). These groups prospered while the vast mass of workers found life increasingly difficult, as we explore below.

Why Real Wages Stopped Rising

By the late 1970s, a severe problem confronted US capitalists: they were appropriating ever larger surpluses, but new demands for distributions of those surpluses were rising even faster. Corporate managers demanded more of the surplus to undertake capital accumulation and improved technologies to compete more effectively with foreign competition. The special period after World War II, when no serious competitors confronted U.S. capitalists, had ended. Western European and Japanese capitalists had rebuilt their industrial capacities with an effective eye to outcompete the dominant Americans.[5] At the same time, government officials demanded huge distributions of the surplus, chiefly in the form of corporate taxes, not only to finance the continued postwar dominance of America, but also to fund a host of social programs directed at the increasingly restive poor, the newly rediscovered "other America." Labor unions continued to use their state-sanctioned monopoly power to press for ever more of the surplus to go back to workers in the form of higher wages and health and pension benefits. Corporations took the lead in devising strategies to cope with the disjunction between appropriated surplus and distributional demands upon it.

By the end of the decade, a new president was elected who identified the state and unions as special interest groups that threatened all Americans. With compliant legislators and public opinion makers, he attacked unions, reduced chiefly corporate taxes and individual taxes on the rich, and deregulated. Ronald Reagan's new policy conformed to the neoclassicist strategy of eliminating the concentrations of power in society believed to thwart the otherwise smooth operation of an unfettered market system. With reduced tax collections, the state could do less (especially in terms of public employment) and/or became ever more dependent on buyers of government debt (chiefly corporations and the rich). Unions lost what legal and moral support the state once provided. Their eroded bargaining power undercut workers' abilities to win rising real wages and eventually benefits, too. The combination of flat real wages, reduced corporate taxes, and deregulated markets provided many capitalists with a "solution" to the immediate pressures on their surpluses. Neoclassical theory warranted these policies as good economics.

In Marxian terms, Reagan's policies enabled capitalists (1) to hire more labor power and make it more productive without raising wages and (2) to secure the state's services to business for lower tax payments. More surplus value was thereby produced and more was freed (by lower corporate tax obligations) to be redirected to expand capital accumulation, research and development budgets, and the costly shift of production facilities outside the United States where wages and other costs were far lower. A substantial and sustained entry of women into the labor force, partly a result of the long struggle of women to gain more control over their lives and partly due to the need to supplement pinched family incomes, only added to the downward

5. In Marxian terms, U.S. industrial enterprises (in steel, autos, rubber products, and electronics) were losing superprofits to foreign competitors. This reduced available supplies of surpluses to capitalists in these industries while surplus demands rose.

pressure on real wages. Computerization of most workplaces across the country, starting in the 1970s, also changed the supply and demand conditions in labor markets to the detriment of real wages. Massive immigration in search of jobs and the American dream, actively abetted and abused by countless employers, likewise operated to undermine real wage increases. In these multiple ways, U.S. capitalists sought to compete more successfully on the increasingly contested terrain of the emerging world economy. However, this preferred solution for capitalists produced new problems for U.S. workers and the state. Capitalists' responses to their gains, together with workers' and the state's responses to their losses, eventually converged to become U.S. capitalism's gravest crisis since the 1930s.

Workers' Response to the End of Rising Real Wages

The end of rising real wages confronted workers' families with a deep crisis. Would they forgo rising consumption since they lacked the rising wages to afford it? Given the significance of rising consumption and consumerism in U.S. history, workers' answer proved to be a resounding no. Rising consumption was the realization of personal hopes, the sign of social success, the return on education, and the promise to one's children that one *had* to keep. With rising wages no longer available (nor any organized, social response by unions or social movements that had been seriously weakened since the 1960s), workers and their families responded individually.

First of all, in reaction to stagnating real hourly wages, workers' households sent more of their members to do more hours of labor. Husbands took second and even third jobs and/or worked additional hours at first jobs, teenagers took jobs after school, retirees returned to part- or full-time work, and most important, millions of housewives and mothers entered the labor markets. While these responses helped raise additional family income, the increased supply of labor further undermined any chance for real wages to resume rising, which reinforced the exodus of labor from households.

Increased paid labor by more members of workers' households imposed enormous personal costs and thereby social costs. Women increasingly held two full-time jobs, one outside and one inside households. Housework and childcare remained largely women's obligations even when they performed full-time paid labor. The added stress of this double shift altered and strained household relationships. The divorce rate rose as did signs of alienation (drug dependency and intrafamily abuse). The added costs of women's wage labor (in childcare, women's work clothes, transportation, purchased meals, cleaning expenses, drugs, counseling services, etc.) largely negated the net contribution that paid labor could make to resuming a trend toward rising consumption. Thus, another source of funds for that purpose had to be tapped.

That source was household debt. The Federal Reserve records a total household debt in 1975 of $734 *billion*. By 2006, it had risen to $12.817 *trillion*. This thirty-year debt explosion, mostly based on mortgages (what collateral workers possess, if any, is the home), had no precedent. Workers largely stopped saving and millions took on debt levels at or above what they could reasonably expect to sustain. Native-born and immigrants were determined to aim at the American dream no matter the risks and

costs; so had the nation's history prepared them. By the new millennium, U.S. workers were exhausted by their long labor hours, emotionally stressed by the disintegration of families and households, and extremely anxious about unprecedented debt levels.

In Marxian terms, the combination of roughly constant real wages with rising labor productivity in the production of wage goods meant that the value of labor power fell. More and more of the total value added by U.S. workers took the form of surplus value appropriated by capitalist employers. What the mass of workers no longer got comprised the unprecedented gains of the relatively small group of surplus-appropriating capitalists and those favored by their enlarged distributions of those gains.

The Capitalists' Responses

The other side of the post-1970s squeezing of the American worker has been the expansion of the American capitalist. Over the last thirty years, the rate of exploitation outperformed its historic upward trend. As suggested by the widening gap between the productivity and real wage lines in our chart, it literally took off. Indeed, the remarkable shift in income distribution over these decades, favoring the very top income earners in the United States, reflects this rise in exploitation (Saez 2009).[6] Capitalists were drowning in fast-growing revenue inflows initially deposited (chiefly by the corporations who account for most sales) in banks and other financial institutions. From there, corporate boards of directors allocated the net (after replenishing used-up inputs and paying "nonsupervisory" employees) revenues in increasingly spectacular forms.

They enlarged the budgets, salaries, and bonuses of top corporate managers to produce a new "gilded" age for them. Their gaudy celebration of personal wealth became the object of media adulation that cultivated mass envy. This pattern replicated at the end of the twentieth century what John D. Rockefeller et al. had arranged at the end of the previous century. One difference was that then they were called "captains of industry" by some, but also "robber barons" by many others. Today, the softer "new corporate super-rich" seems to prevail; we now live, after all, in a postideological time.

6. It is worth quoting in some detail the findings for the changing U.S. income distribution from 1917 to 2007: "The overall pattern of the top decile share over the century is U-shaped. The share of the top decile is around 45 percent from the mid-1920s to 1940. It declines substantially to just above 32.5 percent in four years during World War II and stays fairly stable around 33 percent until the 1970s . . . After decades of stability in the post-war period, the top decile share has increased dramatically over the last twenty-five years and has now regained its pre-war level. Indeed, the top decile in 2007 is equal to 49.7 percent, a level higher than any other year since 1917 and even surpasses 1928, the peak of the stock market bubble in the 'roaring' twenties" (Saez 2009, 2). Income is measured as the sum of all market incomes, including realized capital gains and gross of income taxes. "Top decile" refers to families with an income of more than $109,600.

Especially since the 1970s, corporate boards of directors have also spent lavishly on computerization, on research and development, and on moving production facilities abroad: all to advance their competitive positions in the world economy.[7] They generously lubricated politicians to reinforce many of the conditions that generated the exploding revenue inflows. Likewise, enlarged payments of dividends to share owners, rents to owners of land and technology, fees to merchants, interest and other fees to banks, and fees to armies of high-priced specialists and consultants (lawyers, advertisers, public relations firms, and so on) became the norm.

Exploding wealth concentrated in relatively few hands led to very rapid growth in enterprises specializing in managing such wealth: investment banks, hedge funds, and so on. Wealth management slid seamlessly into speculation, as happened in past run-ups to capitalist crises. Thus, financial enterprises competed ever more intensely for deposits from the surplus-appropriating capitalists and those they favored with surplus distributions. To this end they "found" and often created new financial instruments ("special investment vehicles," "collateralized debt obligations," "credit default swaps," and so on) that would yield better returns. They went ever further—in terms of geography (drawing deposits globally and investing globally), legality (skirting around financial regulations and expanding unregulated financial activities), and prudence (making ever riskier investments). So long as the flood of surplus into the financial sector continued, that sector grew much faster than any other part of the U.S. economy. It fattened fast from the huge fees and commissions it drew from handling and circulating that flood. A generation of college graduates forsook other careers for quick wealth on Wall Street or elsewhere "in finance."

Contradiction and Crisis

Marxian theory focuses on contradiction. Thus, it centers attention on the nexus connecting, on the one hand, workers squeezed by the end of rising real wages, and, on the other, capitalists raking in the resulting explosion of surplus value. That nexus was debt. The financial industry in the United States invented and proliferated the requisite mechanisms. They enabled capitalists with rising surpluses to lend a good portion of them to workers. The latter borrowed chiefly because they had no other way to realize the American dream once real wages stopped rising, and secondarily because countless reassurances were made that borrowing was safe, appropriate, and itself very American. The workers' demand for credit was an effect of rising exploitation in the United States over the last thirty years. Bankers were flush with the deposits of expanded surplus value from that rising exploitation. Competition among them drove all to seek newer, more profitable outlets for loans. Whereas in earlier centuries bankers had lent to needy feudal lords and kings, now they lent to workers whose real wages stopped rising and to a government that cut taxes. To charge that borrowing workers were stupid or irresponsible, or that bank and other lenders were particularly devious or greedy, substitutes moral denunciations for

7. That is, in Marxian terms, not only to arrest the drain of surpluses to foreign competitors but also to go on the offensive and gain superprofits from them.

social analysis. Our Marxian approach aims instead to understand how and why the economic, political, and cultural (including various moral failings as well) conditions of capitalism generated the contradictory post-1970s development that culminated in its second global collapse in seventy-five years.

Key to the debt nexus between workers and capitalists was debt securitization. Because the only collateral workers could ever offer were their homes, mortgages soared after the 1970s and with them securities comprised of/backed by bundles of mortgages. Across the country, banks and bank agents ("mortgage brokers") pushed mortgages and quickly resold them to the bundlers/securitizers who then resold them to "investors" (including those with the mushrooming surplus value–based incomes). Because mortgage originators earned their fees and immediately resold mortgages, they had every incentive *not* to ascertain whether the borrowing families could reasonably afford such mortgages. Given the intense competition in the financial industry, corruption inevitably bloomed. It eventually sparked the larger financial crisis when default rates on the least affordable ("subprime") mortgages undermined the values of securities into which such mortgages had been bundled. Of course, once the subprime mortgage securities market collapsed, the crisis spread to the rest of the mortgage-backed securities market and the credit markets more broadly and, from there, to all the other interconnected markets. Since capitalist markets interconnect different parts of the economy, transmitting change in one part to all others, they, too, contributed to the system's current crisis.

Capitalists could and did exult after the 1970s as the system accumulated income and wealth for them on an unprecedented scale. They had, although without acknowledging the fact, substituted rising loans to their workers in place of the rising real wages their workers had enjoyed for the previous century. This was little short of a capitalist fantasy come true. They preferred to believe instead that the efficiency-driven mechanisms of private enterprise and free markets accounted for their good fortune, "benefited everyone," and thereby proved private, unregulated capitalism's superiority to any conceivable alternative system. While the good times for capitalists rolled, the worlds of politics, media, and academia affirmed such beliefs only too eagerly. The ideas that the end of rising real wages was the hard reality that dissolved the magic, and that the capitalists' gains were the workers' losses, were unacceptable and therefore generally ignored. Only when the resulting mass worker exhaustion, stress, and debt collapsed the system did that "other side" of capitalist euphoria—that contradiction that Marxian analysis had earlier found and elaborated—begin to become more generally visible.

A Marxian Solution

If, as we would argue, a steadily rising rate of exploitation propelled workers first into debt and from there to default, one solution (or part of a solution) would logically follow: eliminate class exploitation. The Marxian policy of pursuing such a solution would sharply distinguish it from today's Keynesian or yesterday's neoclassical policies. A Marxian approach of the sort we recommend would not aim to reform capitalism by either increasing or decreasing state economic intervention, by

regulating or deregulating credit and perhaps other markets. Instead, we would aim to eliminate capitalism in the precise sense of fundamentally changing the class structure in production. That, for us, is the key change which could be achieved together with more or less state intervention or regulation as people might prefer.

The change we advocate would put workers inside each industrial enterprise in the position of first receivers of the surplus value they produced in that enterprise. That would, of course, also position them as the first distributors of that received surplus value. The surplus-producing workers would become in effect their own board of directors, displacing traditional corporate boards chosen by and responsible to major shareholders. This is what we mean by eliminating the capitalist class structure. It could be a major first step in a new kind of class democratization of the economy generally and of each productive enterprise.[8] In addition to this move, all employees in each enterprise might be given equal roles in deciding what, where, and how to produce and how to distribute the enterprise's surpluses. Subsequent steps would entail enlarging economic democracy by including those residential communities interdependent with each enterprise. Workers and residents would share democratic power over the products and surpluses produced in and distributed by each enterprise.

Changing the class structure in this way will not eliminate contradictions or even crises arising in an economy. But postcapitalist crises will be different, will be understood differently, and will be responded to in different ways. And these differences matter. First of all, crises will be less likely to emerge, as the current one did, from a rising rate of surplus appropriation, since workers who are their own board of directors would be far less likely to impose or permit such a rising rate. What crises did arise would be responded to much more humanely and equitably precisely because of the extension of a new kind of class democracy entailed by eliminating capitalist class structures. The costs and pains of crisis response would be equitably shared *in principle,* since that principle is embedded in and follows directly from the postcapitalist class structure. The grotesque capitalist disparities of today—when foreclosure and unemployment stagger millions while others suffer neither, when some collapsing industries receive massive government bailouts and others are left to die, when some municipalities and states continue to provide basic public services and others do not—would far less likely occur on the basis of a post-capitalist class structure.

There is another key difference to consider. Roosevelt's New Deal imposed a mass of regulations upon capitalism with the explicit intention of ending the Great Depression and preventing another such depression in the future. The regulations taxed and otherwise constrained the ways and means for capitalists to pursue their goals. However, those regulations always stopped short of changing the capitalist class

8. Still another and different step might involve surplus producers—wherever located—put into the position of first appropriators and distributors of surpluses wherever produced. In other words, instead of surplus production and appropriation occurring in one space—the individual enterprise—they may occur in different spaces. In more centralized arrangements, surplus labor appropriation could be aggregated across various or all surplus-producing units. In the latter arrangements, the collectivity of workers who produce the surpluses would be the first appropriators and distributors of surpluses aggregated across these operating units. We have worked out the social conditions for these various form of appropriation and distribution in our *Class Theory and History* (Resnick and Wolff 2002, 16–20).

structure. The regulations always left in place the corporate boards of directors running most of the U.S. capitalist economy. Those boards had every incentive—given their responsibilities to shareholders and their own self-interests—to evade, weaken, or undo the New Deal regulations. Moreover, as the first receivers of the surpluses produced inside each enterprise, they also had the resources to evade, weaken, or undo the New Deal regulations. As we know from U.S. history, corporate America responded to their incentives and utilized their resources to undo the New Deal, especially after the 1970s, under the regimes of Reagan, Bush I, Clinton, and Bush II. In a postcapitalist class structure of the sort sketched above, it would be far less likely for enterprise boards to want or to be able to similarly undermine future anticrisis reforms.

A Concluding Parable

Perhaps we might conclude with a parallel parable. For a long time, when crises occurred inside southern U.S. slavery and caused great suffering among the slaves, many demanded government intervention to alleviate that suffering. Governmental responses sometimes entailed greater and sometimes lesser regulations of slavery. After repeated crises, a growing group realized that oscillations between more and less regulation of slavery did not work to prevent crises. They began to move toward the position of those who had already come to oppose slavery on moral, ethical, and other grounds. That is, they began *to see the best solution to slavery's repeated crises in the abolition of slavery itself*. Today, after repeated capitalist crises followed by alternating government regulation, deregulation, and reregulation, it is perhaps time for the victims of capitalist crises to move toward the position of those who have come to oppose capitalism on moral, ethical, and other grounds. That is, the time has come to acknowledge and debate whether *the best solution to capitalist crises might not be the abolition of capitalism itself*.

Note on Data Sources

We are indebted to statistical research by Jason Ricciuti-Borenstein in utilizing and interpreting the data sources below, as indicated.

Sources of Hourly Wage Data

A. Historical Statistics of the United States (HSUS), Series D 765–778, "Average Hours and Average Earnings in Manufacturing," 1890 to 1926
B. HSUS, Series D 845–876, "Average Days in Operation per Year, Average Daily Hours, and Annual and Hourly Earnings, in Manufacturing," 1889 to 1914
C. HSUS, Series D 830–844, "Earnings and Hours of Production Workers in 25 Manufacturing Industries," 1914 to 1948
D. HSUS, Series D 802–810, "Earnings and Hours of Production Workers in Manufacturing," 1909 to 1970

E. U.S. Bureau of Labor Statistics, Current Employment Statistics, "Average Hourly Earnings of Production and Non-supervisory Workers in Manufacturing," 1939 to 2007, http://www.bls.gov/ces/

Sources for the Consumer Price Index

F. HSUS, Series D 735–738, "Average Annual and Daily Earnings of Nonfarm Employees," 1860 to 1900
G. HSUS, Series D 722–727, "Average Annual Earnings of Employees," 1900 to 1970
H. U.S. Bureau of Labor Statistics, http://www.bls.gov/cpi/

The series was constructed first by converting the various hourly wage series into real values of 2007 dollars. Second, in years for which multiple entries of the hourly wage existed, an average was taken such that:

- 1890–1914: average of sources A and B
- 1914–1919: B was the only source
- 1920–1938: average of sources C and D
- 1939–1948: average of sources C, D and E
- 1949–1970: average of sources D and E
- 1970–2007: E was the only source

Next, this hourly real wage series was converted into an index, in which 100 was set equal to the real hourly wage for 1890.

Sources for Productivity Data

A. Historical Statistics of the United States, Series D 683–688, "Indexes of Employee Output," 1869 to 1969
B. U.S. Bureau of Labor Statistics, "Industry analytical ratios for manufacturing, all persons," http://www.bls.gov/lpc/
    - Superseded historical SIC measures for manufacturing, durable manufacturing, and nondurable manufacturing sectors, 1949–2003; ftp://ftp.bls.gov/pub/special.requests/opt/lpr/histmfgsic.zip
C. U.S. Bureau of Labor Statistics, Series Id PRS30006092, http://www.bls.gov/lpc/, 1987 to 2007

The above data sources provide the annual percentage change in the quantity of output per hour for the manufacturing sector. The index was constructed as follows:

- 1890 to 1949, from source A
- 1949 to 1987, from source B
- 1987 to 2007, from source C

Year 1890 was set equal to 100.

Source for Household Debt Data

Board of Governors of the Federal Reserve System, "Federal Reserve Statistical Release, Z.1, Flow of Funds Accounts of the United States," http://federalreserve.gov/releases/z1/; table D2, Borrowing by Sector, and table D3, Debt Outstanding by Sector

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