

The Economic Crisis as Class Warfare



by **Robert Chernomas**

In a rather remarkable article for the *Globe and Mail* last year Peter J. Nicholson observes it is “not so much the rich are getting richer; it’s the very, very rich.”

Statistics Canada reported the earned income of the “average” Canadian – the so-called median income – was the same in 2004 as in 1982. It turns out that median income, before taxes, did not rise at all over 22 years of Conservative and Liberal governments. Yet during that same time the Canadian economy grew, in real per capita terms, by more than half. But only the very well paid – those above the 90th percentile of the income distribution – saw any significant increase in earned income; and the higher up the earnings ladder, the greater the growth.

An explanation for this phenomenon begins long, long ago in the hearts and minds of political leaders and the class of voters they represented. Profits had been falling in the U.S., Canada and the U.K., and the capitalist class in each country responded in the 1980s with a new set of policies with the idea of improving profitability. These policies, as we are seeing now, brought us to this new point of financial crisis.

How did this happen?

WAGES

In the U.K., Alan Budd, professor of economics at the London Business School and chief economic advisor to Margaret Thatcher, describes what occurred during the 1980s in astonishingly candid terms. He says conservative monetary and fiscal policy was seen by the Thatcher government as “a very good way to raise unemployment. And raising unemployment was an extremely desirable way of reducing the strength of the working classes...” What was engineered, in Marxist terms, he explains, was “a crisis of capitalism which re-created the reserve army of labour, and has allowed the capitalist to make high profits ever since.”

The state deliberately created unemployment so that the 80 per cent or so of the population could not defend their wages because of the threat of being replaced by those unemployed. And it worked.

GOVERNMENT TAXES AND SPENDING

The Organisation for Economic Co-operation and Development (OECD) attributes the widening gap between the rich and not-rich in part to the Canadian government’s spending policies.

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“Canada spends less on cash benefits such as unemployment benefits and family benefits than most OECD countries,” reports the OECD. “Partly as a result, taxes and transfers do not reduce inequality by as much as in many other countries. Furthermore, their effect on inequality has been declining over time.”

TRADE AGREEMENTS

Trade agreements also helped in this class warfare. Competing with cheap overseas labour helps the bottom line for employers, but not for workers who compete for jobs. The effect of these trade agreements for American workers, according to Josh Bivens, an economist with the Economic Policy Institute, is that the annual loss for a full-time median-wage earner in 2006 was approximately \$1,400. For a typical household with two earners, the loss was more than \$2,500.

“FINANCIALIZATION” AND THE FINANCIAL CRISIS

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Capitalists increased profits by providing access to debt and spreading the risk

(toxic assets) to anyone who would be willing to play the game. This process is called “financialization.” Credit card debt, sub-prime mortgages and speculation on food and oil prices are all ways of increasing profits. It’s not about producing more, but about making us pay more for what is produced.

The problem is that as household debts rise faster than household incomes, the ability to pay off these debts declines. A recent *Globe and Mail* article suggested the number of “vulnerable households” could double by the end of next year under the central bank’s scenario of a deepening economic slowdown. That, in turn, would cause “significant” losses in the banking sector.

The report painted a picture of a negative feedback loop where banks become reluctant to lend, businesses cut costs, layoffs result and consumers stop spending – a vicious circle that creates loan losses for banks and makes them more cautious about lending. We’re already seeing that in a significant way in the U.S., but we’re starting to see it in Canada as well.

What can be said of the likely outcome of these political economic events? As some economic pundits have pointed out, there is a curious absence of class struggle. We need to be aware and cautious. Lenin probably said it best: capitalists can buy themselves out of any crisis, as long as they can make the workers pay. It is up to us to make sure that doesn’t happen.

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