CAPITAL-LABOR STRUGGLE: THE UNSPOKEN CAUSES OF THE CRISES

Vicente Navarro

The literature on the causes of the current financial and economic crises often fails to consider both the causal role of the conflict between capital and labor, and this conflict's continued effect. This article analyzes the evolution of the conflict and its implications for the distribution of income during the post-World War II period. Especially emphasizing the relationship between the U.S. and European economies, it examines the genesis and development of the governing structures of the Eurozone as determining factors in the increasing gap between capital and labor. The history of the European economic trajectory and the current German financial leadership provide important context for the analysis. Evidence is provided that this conflict between capital and labor is at the roots of the current financial and economic crisis, a thesis has been dramatically underexposed in the current scientific literature.

In the extensive bibliography that exists on causes of the current crises, very few authors have centered their analysis on the conflict between capital and labor and its determinant role in the genesis and reproduction of the crises. One possible reason for this lack of attention is the focus of most studies on the financial crisis as the major or even the only cause of the sorry state of the economy, usually referred to as the "Great Recession." This focus has diverted attention from the political and economic context that did determine and shape the current financial and economic crises, as well as the political and social crises. It is impossible, however, to understand each one of them and how they are interrelated without referring to this political and economic context, in which the capital-labor conflict is central. As Karl Marx indicated, "The history of

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humanity is the history of class struggle," and the current crises are a clear example of this historical dictum.

During the post-World War II period, the capital-labor conflict was regulated by a Social Pact, in which labor accepted private property of the means of production and capital allowed the growth of wages, including social wages (with an expansion in social protections, based on the establishment of the welfare state). This growth of wages and public social expenditures increased parallel to the increase of productivity, the side of the bargain that capital had called for in the pact with labor, which led to what is referred to as "the golden era of capitalism." At the end of that period (in the late 1970s), labor income as a percentage of national income reached their highest levels on both sides of the North Atlantic: 70 percent in the United States; 72.9 percent as the average in the countries that would later become the EU-15; 70.4 percent in Germany; 74.3 percent in France; 72.2 percent in Italy; 74.3 percent in the United Kingdom; and 72.4 percent in Spain (ECFIN, Economic and Financial Affairs, European Commission Statistical Annex Table 32, Autumn 2011).

Beginning in the 1980s, however, the Social Pact was broken as a result of capital's reaction to the considerable advantages that labor had achieved during the "golden period of capitalism." Capital's response was to develop a series of public policies (known as neoliberalism) aimed at weakening labor (David Harvey, *Brief History of Neoliberalism*, Oxford University Press, 2005). From there on, the growth of productivity benefited capital more than labor and, consequently, labor's income as a percentage of national income declined in the majority of countries on both sides of the North Atlantic. Between 1981 and 2012, labor's compensation diminished 5.5 percent in the United States, 6.9 percent in the EU-15, 5.4 percent in Germany, 8.5 percent in France, 7.1 percent in Italy, 1.9 percent in the United Kingdom, and 14.6 percent in Spain (ECFIN, European Commission Statistical Annex, Table 32, Autumn 2012).

Such neoliberal policies were initiated by Prime Minister Margaret Thatcher in 1979 and by President Ronald Reagan in 1980. Lesser known is that these policies were also implemented in 1983 by President Francoise Mitterrand in France and by President Felipe Gonzales in Spain. These two social democratic presidents abandoned the politics of expansion they had included in their electoral platforms, arguing that the Keynesian policies they had touted in the platforms that won them office (Mitterrand in 1981 and Gonzales in 1982) could not be carried out due to the Europeanization and globalization of the economy. From then on, this position was widely held by the majority of social democratic governing politicians belonging to the approach known as "The Third Way." In this tradition, neoliberalization became socioliberalism, and the objective of economic policy was to facilitate the economic European integration within a globalized world. A key element in that integration was to increase competition in order to augment exports by reducing domestic demand, which required the reduction of wages.

A consequence of these policies is that the increase of productivity translated to an increase of capital's income more than labor's. A key strategy to accomplish that goal was to discipline labor by increasing unemployment. In all these countries, unemployment increased significantly, with the largest increase in the countries unkindly referred to as PIGS countries (Portugal, Ireland, Greece, and Spain), where labor was weaker and capital was stronger. Spain and Greece unemployment reached 27 percent and 28 percent, and youth unemployment reached 52 percent and 54 percent, respectively. As a result of these neoliberal policies, labor's income as a percentage of national income in 2012 reached the lowest levels ever: in the United States, 63.6 percent; in the EU-15, 66.5 percent; in Germany, 65.2 percent; in France, 68.2 percent; in Italy, 64.4 percent; in the United Kingdom, 72.7 percent; and in Spain, 58.4 percent.

It is this polarization of income, with the increase of capital's income at the cost of labor's income, that is at the root of the economic and financial crises. The reduction of labor's compensation contributed to an enormous scarcity of private demand. This scarcity, however, did not translate into a reduction of economic activity and growth due to two major events. One of them included the German reunification in 1990 and the large expansion of public expenditures that accompanied it to integrate East Germany into the federal German state. The public account of the German federal state went from a surplus of 0.1 percent of the gross domestic product in 1984 to a deficit of -3.4 percent in 1996. The German governments followed expansionist policies that clearly stimulated Germany's economy and, due to its centrality in the Eurozone, the European economy as well.

PRIVATE INDEBTEDNESS: THE RESULT OF LABOR'S INCOME DECLINE

The second event that occurred to mask the slowing down of the economy (as a consequence of the decline of labor's income) was the enormous growth of indebtedness of families and of small and midsized employers. Private debt increased dramatically, which simultaneously expanded the financial sector of the economy. Indeed, the unprecedented growth of financial capital was the result of the decline of labor's income and the need to compensate that decline with income obtained from credit, allowing people to maintain their ability to consume. This is the reason why domestic demand did not decline and the economy did not slow down, even though labor's income declined.

In Europe, this private indebtedness was facilitated by the establishment of the euro, which made credit cheaper and more widely available to all countries in the Eurozone, particularly the peripheral countries, or PIGS. The establishment of the euro meant the reduction of interest rates in these countries. The substitution of these countries' currencies with the euro meant, in some degree, the Germanization of their interests. Never before was it easier in the PIGS countries

to obtain credit, which, side by side with the decline of labor's income, led to huge indebtedness among families and small to midsized employers, indebtedness that maintained the economy based on a huge amount of private debt.

On the other side of the coin, the decline of labor's income meant the growth of capital's income. Since the 1980s, the majority of value (resulting from growth in productivity) went to capital rather than labor. That growth, however, did not lead to an increase of investment in the productive economy, since the profitability of these investments was low (a result of the scarcity of domestic demand). Instead, these developments led to considerable growth of speculative investments where profitability and risk were much higher than in the productive economy. This was indeed the genesis of the *casino economy*, that is, capitalism based on speculation, leading the economy from bubble to bubble, the largest being the real estate bubble in the United States.

THE ORIGIN OF THE FINANCIAL CRISIS

When the U.S. real estate bubble occurred, the European political and media establishments thought the financial crisis had been generated in the United States and would limit its impacts to the U.S. economy. It was believed that the crisis would not affect the European financial community because the collapse of the Lehman Brothers would limit itself to the U.S. banking system. In an interesting article by one of the best macroeconomists in the United States (albeit barely known in Europe), Thomas Palley, it is mentioned that none other than the German Minister of Finance, the socialist Peer Steinbrück (candidate of the Social Democratic Party in the September 22, 2013, elections) had indicated that the collapse of the U.S. financial system could mean the end of the dollar as the main worldwide currency, which would benefit the euro as a result ("Europe's crisis without end: The consequences of neoliberalism run amok," Macroeconomic Policy Institute, March 2013, p. 18).

The large irony of this prediction is that, as Thomas Palley indicates, the collapse of the U.S. financial system would have inevitably meant the end of the German financial system as well, due to the massive integration of the latter into the former. The German banks were profoundly intoxicated with the toxic product of the U.S. banks. Important German banks Sachsen LB, IKB Deutsche Industriebank, Deutsche Bank, Commerzbank, Dresdner Bank, Hypo Real Estate Bank, BayernLB, WestLB, and DZ Bank were in deep crisis between 2007 and 2009 and needed to be saved from collapse by none other than the U.S. Federal Reserve Board. The export-oriented nature of the German economy had meant the export of financial capital to the United States (becoming heavily contaminated in the process) and to the PIGS countries (GIPSIs, with the inclusion of Italy), stimulating and financing the real estate bubble in Spain. As a consequence, the German and European financial capital was as much, if not more, in trouble than the financial capital of the United States.

It is because of this situation that, when German financial capital froze after the collapse of Lehman Brothers, among others, the bubbles created by German financial investments exploded and the scarcity of demand appeared in all its clarity and transparency. Side by side with the scarcity of demand appeared the enormous private debt. The response of banking to this situation was to stop giving credit, thus hastening the Great Recession. It is important to underline that the onset of the enormous indebtedness was a result of the reduction of labor's income, and the cause of the collapse of financial capital was the speculative nature of its investments and the limited profitability of the productive economy (a result also of the scarcity of demand, side by side with the exuberant growth of capital).

REASONS FOR THE STAGNATION OF THE ECONOMY

Considering that the root of the problem of the Great Recession is scarcity of private demand, the solution would have been to create and expand public demand side by side with the recuperation in the provision of credit and an increase of labor's compensation. However, the architecture of the system of governance of the euro, characterized by the dominance of the banking industry, in particular the German banking establishment, makes that possibility nil. The design of such a system of governance responds to a neoliberal conceptualization that establishes an institution, the European Central Bank (ECB), that in reality is not a Central Bank, but rather a lobby for banking, with German banking constituting a major force: the ECB does not lend money to the states of the Eurozone and does not protect them from speculation by the financial markets. The states of the GIPSIs are completely unprotected from financial speculation, forcing them to pay scandalously high interest rates for their public debt. The ECB is not the U.S. Federal Reserve Board, which protects the U.S. federal state and its 50 states by buying public bonds and lending states money. California recently had problems with the public debt similar to those in Greece, but its situation was never as desperate as Greece, because the United States has a federal state and a central bank. That is not the case in the Eurozone, a situation that results from the enormous dominance of financial capital over the system of governance of the Eurozone and of the euro.

THE FALSITY OF NEOLIBERAL EXPLANATIONS

The explanation offered by the European establishment, that the PIGS countries created the problem of public debt due to excessive public expenses, is not credible. Actually, Spain and Ireland earned surpluses in their state accounts throughout 2005 to 2007 (a period in which Germany carried a public deficit).

It was not these countries' supposed lack of fiscal discipline that created this situation, but rather the lack of a Central Bank that would support their public debt, forcing them instead to pay high interest for their public debt that

exclusively benefitted the buyers of those bonds. Actually, the dramatic cuts in public expenditures (which brought about the dismantling of their welfare states) were designed with the objective of paying interest to the banks, including in the first place the German banks. These banking establishments have lent 700,000 million euros to the PIGS (200,000 million to Spain) and want it back. The "help" to the states and to the Spanish banks is, in reality, helping only to pay interest to the German banks.

Meanwhile, the ECB does lend money to private banks at a very low interest rate (less than 1%). With that money, private banks do not provide credit, but rather buy public bonds at rates of 6 percent, 7 percent, or 12 percent. It is an obscene arrangement that is being conducted at the cost of dismantling these countries' welfare states.

Another explanation given by the "conventional wisdom" for the crisis of the GIPSIs is the different degrees of competitiveness between the core (Germany) and the peripheral countries (GIPSIs) of the Eurozone. This competitiveness differential explains the positive balance of payments of the first and the negative balance of payments of the second. This explanation continues on to propose that in order to increase the competitiveness of the GIPSIs, there is a consequent need to reduce wages.

However, this explanation has serious problems. Neither Ireland nor Spain, for example, had a negative balance of payments when the crisis started. Instead, what is really taking place is that the export-orientation of the German economic model is based on the reduction of both German wages and domestic demand. The inability to devalue their currencies forces these GIPSIs to reduce their own salaries, creating a cycle of wage reduction in the whole Eurozone.

To resolve this problem, the opposite measures would need to be taken: that is, the growth of wages in both Germany and the GIPSIs to stimulate the entire European economy with expansionist public policies. These policies would be resisted by the European establishment (since such steps would reduce capital's benefits), as it is clearly influenced by capital. Marx, after all, was right. The capital-labor conflict is at the root of today's problem: capital has been winning, and labor has been losing. That is the question.

Direct reprint requests to:

Dr. Vicente Navarro
Johns Hopkins University
624 North Broadway, Suite 448
Baltimore, MD 21205

vnavarro@jhspeh.edu