THE GLOBAL CAPITALIST CRISIS: Its Origins, Dynamics and Impact on the United States

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This paper provides an analysis of the current global capitalist crisis and outlines its dynamics and impact on the U.S. economy and society. It shows that the crisis, which originated in the United States during the "great recession" of 2007-2009, and which continues unabated to this day, is characterized by high rates of unemployment, low purchasing power, rising personal and institutional debt, home mortgage foreclosures, personal and corporate bankruptcies, increasing income and wealth inequality, lower living standards, and rising poverty. The paper contends that the source of the current economic crisis is to be found in the growing gap between labor and capital (i.e., between wages and profits) over the past several decades. The rising productivity of labor during this period has not translated into rising incomes. The accelerated globalization of capital and further outsourcing of production, speculative financial markets, mushrooming bank loans, and rising institutional and consumer debt, a dramatic increase in the price of oil, and a consequent decline in consumer spending, have triggered massive layoffs, hence rising unemployment, and led to major disruptions and dislocations in various sectors of the U.S. economy. Given the systemic nature of the crisis, the paper concludes that any long-term solution to the problems of the U.S. and world economy will need to come from a thorough transformation of global capitalism.

Introduction

The global economy is in serious crisis, and the current global recession is the worst economic downturn since the Great Depression of the early twentieth century. As neoliberal economic policies come under mounting criticism and attack in many countries across the world, and as the current deepening global capitalist crisis takes on depression-era characteristics, neoliberalism and neoliberal economic policies have now become thoroughly discredited in countries affected by these policies around the globe. As millions of unemployed people look for a job to pay for basic necessities, governments throughout the world have been spending hundreds of billions of tax dollars to bail out failed commercial and financial institutions, with more than a trillion dollars of economic stimulus program by the United States government alone and several hundreds of billions of dollars by other governments in Europe, China, and elsewhere have been spent to save the global economy from total collapse.

Despite the active role of the state in intervening in the economy to reverse its decline, corporations and banks, ranging from General Motors and Chrysler, to some of the biggest commercial banks, such as Citigroup and Bank of America, to financial and brokerage firms, insurance companies, and real estate underwriters, such as Lehman Brothers, American Insurance Group (AIG), Fannie Mae, and Freddie Mack, have come to a virtual halt and are on the verge of bankruptcy, threatening to take down with them the entire global capitalist system (Chossudovsky and Marshall, 2010; Sherman, 2010). As a result, and with a ripple effect across the U.S. economy, the DOW plunged more than 50 per cent from its highs of 14,000 in late 2007 to below 6,500 in early 2009, with more than a trillion dollars of value lost in the stock market—a development that has shaken markets across the globe and resulted in similar losses in stock markets throughout the capitalist world. Although the Dow rose to around 12,500 a little over two years after its worst decline, the recent turmoil and sharp drops in value of stocks on Wall Street, which pushed the Dow down to the 10,000 level before stabilizing around 11,000 for the time being, could make things worse – a "double-dip recession" turning into a depression, and a "Great" one at that. Clearly, the global economy is going through its deepest crisis since the Great Depression of 1929, and this signals serious challenges for global capital over the next decade, especially the United States (Filger, 2010). The best example of this impact and what is in store for us over the next few years, is what has been happening with the sovereign debt crisis in Greece, Portugal, Spain, Ireland, And Italy, as well as the United States (and with what has happened to the once-powerful great icons of U.S. big business – General Motors, AIG, Citigroup, and other big corporations and banks).

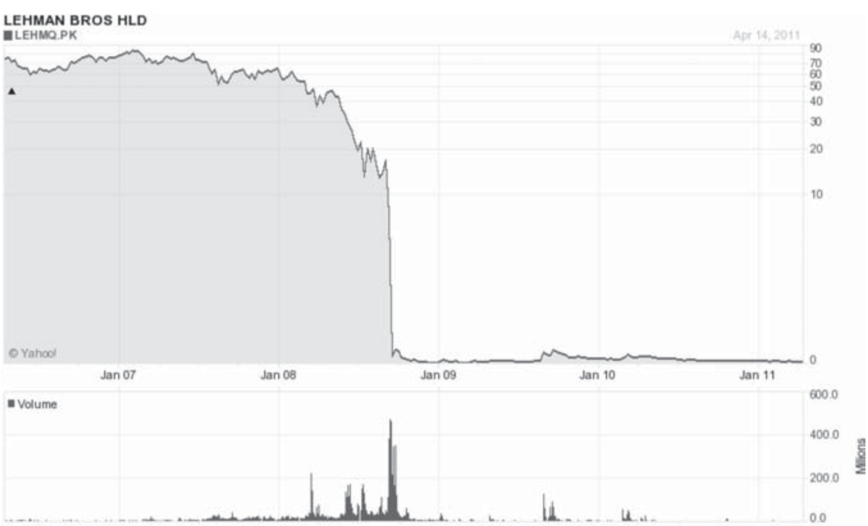
Let's take a closer look at six of these major U.S. corporate and financial institutions to assess the magnitude of the damage.

Figure 1 documents the dramatic collapse of the once-powerful financial icon of Wall Street, Lehman Brothers brokerage house, which in effect triggered the panic that led to the banking and financial crisis in October 2008. Although it was announced that the recession in effect had started in December of 2007, the sharp fall in the stock market, led by the financials, banks, and key industrial corporations, such as General Motors, which declared bankruptcy in June 2009 (see Figure 2 for the collapse and liquidation of General Motors, whose stock stopped trading in March 2011 at the level of 4 cents per share).

Figure 3 shows one dimension of the collapse of the banking system in 2008-2009 in what happened to the Citigroup, which went from a $55 stock to one that traded for 96 cents in February 2009, before it went up some to the $2.80 level (adjusted for a 1-for-10 reverse stock split in May 2011 that artificially made it a $28 stock as of August 2011).

The situation with the American International Group (AIG) was even more dramatic. The once-giant global insurance company went through a near-collapse, with its stock price crashing from around $1,450 a share in mid-2007 down to $63 in October 2008 in little over a year (see Figure 4). Here was a stock that traded around

Figure 1: Lehman Brothers Stock, 2007-2011 (in Dollars and Volume Traded)



Source: Yahoo Finance http://finance.yahoo.com retrieved August 19, 2011

Figure 2: General Motors Corporation Stock, 2007-2011 (in Dollars and Volume Traded)

Source: Yahoo Finance http://finance.yahoo.com retrieved August 19, 2011.

$1,971 in December 2000 that had fallen sharply during the great recession so badly that its similarly reverse stock split like that of the Citigroup could not even lift it above the $23 range in August 2011. And the company was able to avoid bankruptcy only because it was rescued by massive government loans and bailouts to prevent a meltdown of the U.S. economy in the financial crisis of October 2008.

All this, of course, was precipitated by a number of factors, above all the collapse of the real estate and housing market that was, together with the financial and banking crisis, one of the central contributing causes of the great recession of 2007-09. In this context, one need only to review the total devastation of the home mortgage system through decimation of the popularly known Fannie Mae and Freddie Mac. As the stock price of both of these federally-balanced mortgage institutions illustrate, the sharp drop of Fannie Mae stock from the $50 range in mid 2007 to pennies in October 2008, and the similarly devastating drop in value of Freddie Mac stock from the $68 range in mid-2007 to again pennies in October 2008, (see Figures 5 and 6), show the impact of the great recession on the economy, especially the housing and mortgage

Figure 3: Citigroup, Inc. stock 2007-2011 (in Dollars and Volume)

Source: Yahoo Finance *http://finance.yahoo.com* retrieved August 19, 2011.

Figure 4: American International Group Stock, 2007-2011 (in Dollars and Volume Traded)

Source: Yahoo Finance *http://finance.yahoo.com* retrieved August 19, 2011.

industry, which without government intervention would have seen the end of it as we have come to know it. Today, in August 2011, these two stocks are trading around 20 and 31 cents, respectively – a far cry from their heyday not too long ago.

Given the failure of the global economy, and as an extension the capitalist system itself (and given the growing possibility of another recession in the United States, Europe, and elsewhere that may turn into a decade-long depression extending from 2007 to 2017), many are now asking what is in store for the future of the global economy and which direction it will take in the period ahead.

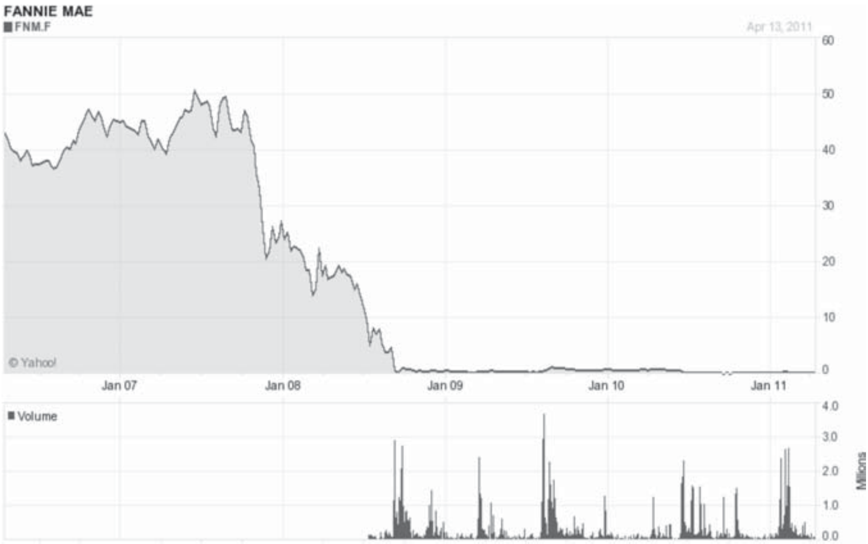
This was the main topic of discussion among the leaders of the world's leading economies at the G-20 meetings in London in April 2009, which resulted in guarded optimism that through substantial reforms in global financial institutions and an active interventionist state that monitors the situation with greater regulation of the economy, the evolving economic situation might provide the basis for a mild recovery and a new global economic order. However, today, more than two years after the 2007-2009 recession had "officially" been declared as "ended", the news about the U.S. and world economy is the possibility of a new and more severe recession that would make the situation worse and sink the global economy into a severe depression.

What the future of the global economy will look like and what role the United States will play in it are questions that remain open and contingent on the solutions adopted at the national and global level, especially in Europe, East Asia (China), and other emerging centers of global economic power (India and Brazil) in the period ahead. But, clearly, we are going through an important period in the history of the world, and what happens in the next decade will determine the future of our planet for a very long time.

Contradictions and Crises of the Global Capitalist Economy

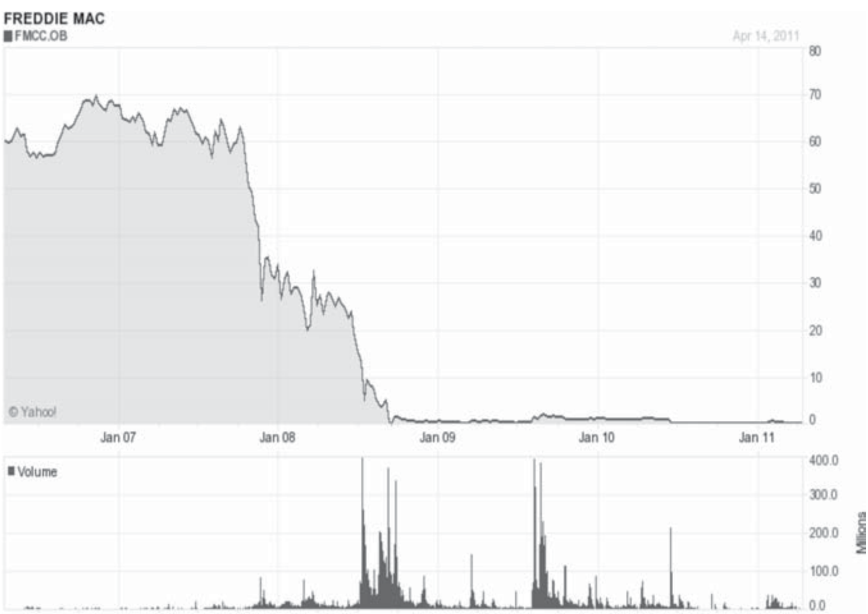
The development of capitalism over the past hundred years has formed and transformed capitalism in a crucial way, one that is characterized by periodic crises resulting from the business cycle that now unfolds at the global level. The current crisis of the global economy is an outcome of the consolidation of economic power that the globalization of capital has secured for the transnational

Figure 5: Fannie Mae Stock, 2007-2011 (in Dollars and Volume Traded)



Source: Yahoo Finance *http://finance.yahoo.com* retrieved August 19, 2011.

Figure 6: Freddie Mac Stock, 2007-2011 (in Dollars and Volume Traded)



Source: Yahoo Finance *http://finance.yahoo.com* retrieved August 19, 2011.

corporations over this period (Sassen, 2009; Sherman 2010). This has led to a string of problems associated with the contradiction between the expanded forces of production (technology) and existing social relations, which manifests in a number of ways, including:

1. The problem of overproduction, resulting from the imbalance created between wages and prices of commodities fueled by low purchasing power;
2. Increasing unemployment and underemployment resulting from outsourcing of production to low-wage sweatshops in export processing zones abroad, compounded by the continued application of technology in production (i.e., automation);
3. Sub-prime mortgage and credit card debt and rising home foreclosures and bankruptcies as the unemployed become unable to pay off their debts;
4. Intensification of the control of labor through expanded production and reproduction of profits by further accumulation of capital on a world scale;
5. Increased polarization of wealth and income at the national and global level between capital and labor and growth in numbers of the poor and marginalized segments of the population throughout the world.

These and other related contradictions and crises of the global economy define the parameters of capitalist globalization and provide us the framework for discussion on the nature and dynamics of this process that has been unfolding for a number of decades.

Given the logic of global capital accumulation in late capitalist society, and the nature of global capitalist expansion on a world scale, it is no accident that the decline of the domestic economy of advanced capitalist countries over the past three decades corresponds to the accelerated export of capital abroad in search of cheap labor, access to raw materials, new markets, and higher rates of profit. The resulting deindustrialization of the domestic economy has had a serious impact on working people and other affected segments of the laboring population and has brought about a major dislocation of national economies (Phillips, 1998;

Berberoglu, 2003; Friedman, Moseley, and Sturr, 2009).[1] This has necessitated increased state intervention on behalf of the large corporations and has heightened the contradictions that led to the global economic crisis in the early twenty-first century.

The widening gap between labor and capital (within a deteriorating national economy and the state's budgetary crisis) has led to the ensuing political crisis within the state apparatus and has sharpened the conflicts in a new political direction. As the crisis of the global economy has brought the state to center stage of economic life and revealed its ties to the corporations, thus exacerbating the state's legitimization crisis, the anger of the working people and the masses in general are becoming directed not merely against capital, but against the state itself.

Global Capitalist Crisis and the Crisis of the State

The crisis of the state on the global scene is a manifestation of the contradictions and crises of the global economy, which in the early twenty-first century has reached a critical stage in its development. The massive flow of U.S. transnational investments throughout the world, especially in Western Europe, Japan, and other advanced capitalist regions, has led to the post–World War II reemergence of rivalry between the major capitalist powers, while fostering antagonisms between them in the scramble for the peripheral regions of the global economy—Latin America, Asia, Africa, and the Middle East (Hart, 1992; Falk, 1999; Halliday, 2001). This has created a situation where the state has become a key player to address and remedy the problems generated by such rivalry in the global economy. The current global economic crisis has made the state's role even more difficult, as the latter comes to confront forces that are increasingly hostile to it.

With the integration of the economies of Western Europe into the European Union (EU) and the emergence of Japan as a powerful economic force in the late twentieth century, the position of the United States in the global economy has declined relative to both its own postwar supremacy in the 1940s and 1950s and to other advanced economies since that time. Despite the fact that U.S. capital continues to control the biggest share of overseas markets and accounts for the largest volume of international investments, its hold on the global economy has recently begun slipping in a manner similar to Britain's in the early twentieth century. This has, in turn, led the U.S. state to play a more aggressive role in foreign policy to protect U.S. corporate interests abroad. Its massive deployment in the Middle East in the early 1990s, which led to the Persian Gulf War of 1991, and subsequently its invasion of Afghanistan in 2001 and war against Iraq in 2003, has resulted in great military expenditures that have placed an enormous burden on the American people, who have come to shoulder the colossal cost of maintaining a global empire whose vast military machine encompasses the world (Berberoglu, 1999, 2003, 2005).

In the current phase of the crisis of the U.S. economy and the state, the problems the state faces are of such magnitude that they threaten the supremacy of the United States in the global political economy and by extension the global capitalist system itself. Internal economic and budgetary problems have been compounded by ever-growing military spending propped up by armed intervention abroad (Iraq, Afghanistan, etc.), while a declining economic base at home manifested in the housing and banking crisis, deindustrialization, and a recessionary economy further complicated by the global rivalry between the major capitalist powers that is not always restricted to the economic field, but has political (and even military) implications that are global in magnitude (Harvey, 2003; see also Panitch and Leys, 2003).

Global Economic Rivalry and Capitalist Crises

The growing prospects of economic rivalry between the major capitalist powers, backed up by their states, are effecting changes in their relations that render the global political economy an increasingly unstable character. Competition between the United States, Japan, and European states, and the emergence of China, Russia, India, Brazil and other rival states, are leading them on a collision course for world supremacy, manifested in struggles for markets, raw materials, and spheres of influence in geopolitical—as well as economic—terms, which may in fact lead to a new balance of forces, and, consequently, alliances that will have serious political implications in global power politics. As the continuing economic ascendance of the major rivals of the United States take their prominent position in the global economy, pressures will build toward the politicization and militarization of these states from within, where the leading forces of world economy will press forward with the necessary political and military corollary of their growing economic power in the global system (Hart, 1992; Falk, 1999), as has been the case with the German, French, Russian, and Chinese opposition to war against Iraq in the U.N. Security Council in 2003.

These developments in global economic and geopolitical shifts in the balance of forces among the major powers will bring to the fore new and yet untested international alliances for world supremacy and domination in the post–cold war era. Such alliances will bring key powers such as Russia and China into play in a new and complicated relationship that holds the key for the success or failure of the new rising centers that will emerge as the decisive forces in the global economic, political, and military equation in the early decades of the twenty-first century (Halliday, 2001; Guthrie, 2006; Stephens, 2009).

The contradictions and conflicts imbedded in relations between the rival states of the globe will again surface as an important component of international relations in the years ahead. And these are part and parcel of the restructuring of the international division of labor and the transfer of production to overseas territories in line with the globalization of capital on a worldwide basis—a process that has serious consequences for the economies of both the advanced and less developed countries. Economic crisis and decline in advanced centers (manifested in plant closings, unemployment, and recession) and super-exploitation of workers in sweatshops abroad (maintained by repressive authoritarian regimes) yield the same combined result that has a singular global logic: profits. It is in this context of the changes that are taking place on a world scale that the state is beginning to confront the current crisis of global capitalism.

Origins and Nature of the Current Global Capitalist Crisis

The periodic crises resulting from the capitalist business cycle now unfolds at the global level, and as a result the current crisis of the global capitalist economy is an outcome of the consolidation of economic power that the globalization of capital has secured for the transnational corporations on a world scale. This has led to a string of problems associated with the financial, banking, real estate, and productive sectors of the economy that have triggered the current global capitalist crisis.

The central problem of the world capitalist system is the recurrent business cycle which is now operating at the global level. It manifests itself in a number of ways, including:

- The problem of overproduction
- Increasing unemployment and underemployment
- Decline in real wages and rise in super-profits
- The sub-prime mortgage and credit card debt
- Speculative corporate financial activities
- Increased polarization of wealth and income

These inherent contradictions of the capitalist system, now operating at the global level, are part and parcel of the capitalist system and are now manifested on a grand scale across the globe. One important outcome of this process that unfolds on a world scale is extreme income and wealth inequality. Thus while half the world's population lives on $2 a day and quarter of the world's population lives on $1 a day, the level of poverty and inequality in the advanced capitalist countries is also quite significant, as some 44 million Americans (1 in 7) live below the poverty line, and that the share of aggregate income received by the lowest and highest fifth of the U.S. population indicate a widening gap that has been persistent throughout much of recent U.S. history.

Table 1, which provides data on the share of aggregate income received by each fifth of households between 1975 and 2008 shows a consistent pattern of income inequality that is a permanent feature of U.S. society that has important implications for the economy and society in the early twenty-first century. A more serious situation exists in the distribution of wealth. Highly concentrated in the top tier of the class structure and the stratification hierarchy, the wealthy owners of capital who have accumulated their fortunes over generations have come to account for the lion's share of the total wealth, such that in 2001 in the United States, the top 1 per cent of the U.S. population owns nearly half of all wealth, and the top 10 per cent of the U.S. population owns nearly 90 per cent of total wealth – a situation that places the United States among nations with the greatest income and wealth inequality in the world (see Table 2).

Table 1
Share of Aggregate Income Received by Each Fifth and Top 5 Per cent of Households, 1975 to 2008 (in percentages)

	Lowest	*Second*	*Third*	*Fourth*	*Highest*	*Top*
Year	20%	20%	20%	20%	20%	5%
1975	4.3	10.4	17.0	24.7	43.6	16.5
1980	4.2	10.2	16.8	24.7	44.1	16.5
1985	3.9	9.8	16.2	24.4	45.6	17.6
1990	3.8	9.6	15.9	24.0	46.6	18.5
1995	3.7	9.1	15.2	23.3	48.7	21.0
2000	3.6	8.6	14.6	23.0	50.4	22.2
2008	3.4	8.6	14.7	23.3	50.0	21.5

Source: U.S. Bureau of the Census, *Current Population Reports*, P60-235, August 2008; *Statistical Abstract of the United States, 2011*, Table 693, p. 454.

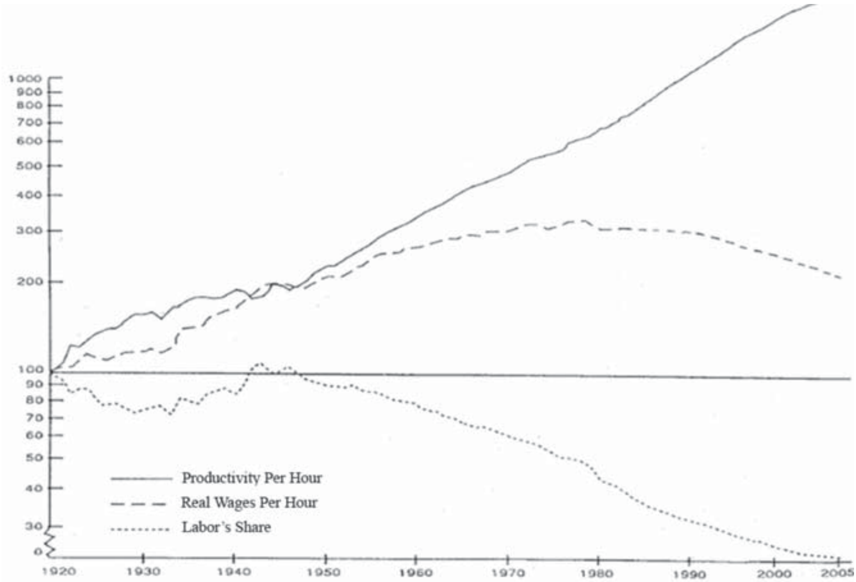
Table 2
Distribution of Wealth in the United States, 2001, by Type of Asset (in percentages)

Investment Assets	*Top 1%*	*Top 10%*	*Bottom 90%*
Stocks and mutual funds	44.1	84.5	15.5
Financial securities	58.0	88.6	11.3
Trusts	46.3	86.7	13.3
Business equity	57.3	89.6	10.4
Non-home real estate	34.9	78.5	21.5
Total for group	47.8	85.5	14.5

Source: Edward N. Wolff, "Changes in Household Wealth in the 1980s and 1990s in the U.S.," *Working Paper No. 407* (May 2004), p. 34.

Focusing on the most recent economic crisis in the United States – the Great Recession of 2007-2009 – Richard D. Wolff (2009), Professor of Economics at the University of Massachusetts at Amherst, points out that, from 1820 to 1970, every decade U.S. workers experienced a rising level of wages; in the 1970s, however, this came to an end, as real wages stopped rising and they have never resumed since. U.S. workers became more productive, but got paid the same; wages began to stagnate and decline, while the profits of the capitalists multiplied many-fold. Thus, the gap between labor and capital grew bigger (Figure 7).

Figure 7: Productivity Per Hour, Real Wages Per Hour, and Labor's Share in U.S. Manufacturing Industries, 1920-2005, Index Numbers (1919 = 100)



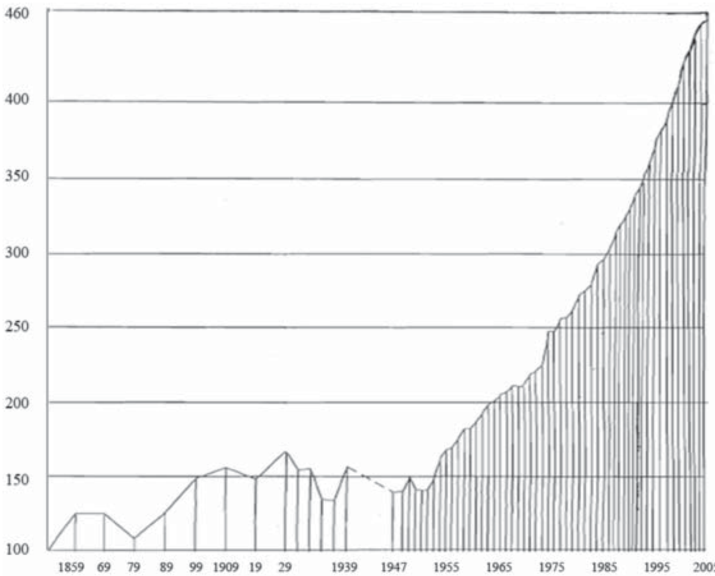
Source: Victor Perlo, *Super Profits and Crises* (New York: International Publishers, 1984), p. 66. Data for 1984-2005 updated by the author.

This translated into a higher rate of surplus value, hence a higher rate of exploitation of labor (see Figures 7 and 8). While during the first half of the twentieth century the rate of surplus value in U.S. manufacturing averaged around 150 per cent, in the postwar period it sharply increased, reaching 458 per cent in 2005 (see Figure 8).

With continuing rise in productivity, and thus higher returns on investment, the situation was the reverse for the workers whose share declined to a mere 18 per cent in 2005 (see Figures 7 and 9).

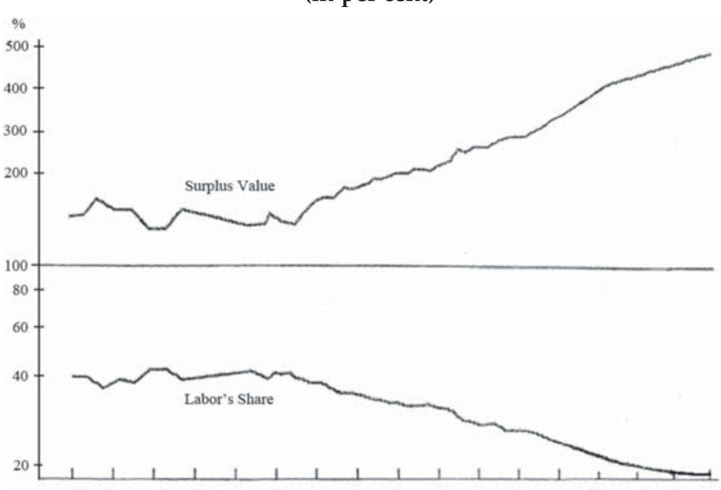
Given this process which favored capital, and capitalists over labor, the large corporations made huge profits and had much money at their disposal. They bought other corporations (through mergers and acquisitions) and they put their money into banks. The banks loaned that money (with interest!) to workers who didn't have money to consume. This was done to raise the workers' purchasing power because their wages weren't enough to buy things. Since employers no longer raised workers' wages, the

Figure 8: Rate of Surplus Value, U.S. Manufacturing Industries, 1859-2005 (in per cent)



Source: Victor Perlo, Super Profits and Crises (New York: International Publishers, 1984), p. 46. Data for 1984-2005 updated by the author.

Figure 9: Surplus Value and Labor's Share in Production, 1925-2005 (in per cent)



Source: Victor Perlo, *Super Profits and Crises* (New York: International Publishers, 1984), p. 43. Data for 1984-2005 updated by the author.

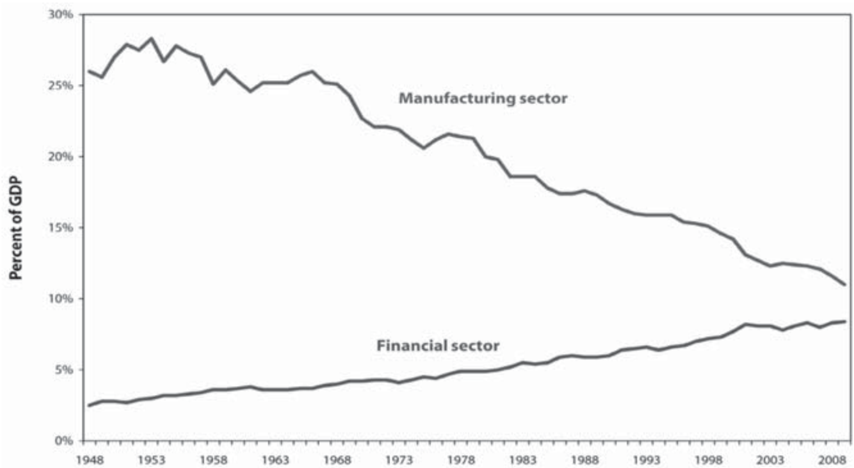
workers had to go into debt to survive. Debt went up and up and things got out of control. As corporations increasingly began to invest abroad (outsourcing production and services), U.S. workers lost their jobs, and this led to greater unemployment and underemployment (Wolfe 2009). Unemployed workers with a lot of debt were unable to make their mortgage and credit card payments, and were forced to go into foreclosures and bankruptcies. This, in turn, led to the collapse of the banking system, necessitating a government bailout of the banks. Wolfe points out that, it is only through the nearly trillion dollar stimulus funds that the U.S. government poured into the economy to save the banks from default, that a financial collapse like that of the Great Depression was averted.

Extent of the Current Capitalist Crisis in the United States

The current global capitalist crisis has been deep and widespread, especially in the United States. In the epicenter of the crisis, in the United States, unemployment increased from 7 million in December 2007 to 16 million in October 2010. Counting the discouraged and part-time workers, the unemployment rate reached 18% in 2010. Foreclosures have been running over 1 million a year. Poverty is on the rise (now 44 million Americans – 1 in 7 – live at or below the poverty line). And this is because of the high rates of unemployment and underemployment that families have to endure during a prolonged period of continuing deep recession that persists, despite the turnaround in the stock market and the enormous profits of the top U.S. corporations that are sitting on a pile of cash and refuse to make the investments necessary to hire workers to turn the economy around.

The decline in manufacturing through shifts in production to overseas territories where cheap labor is employed in sweatshops across east and southeast Asia and the increase in finance capital has resulted in lower levels of employment compared to earlier periods going back to the 1950s to the 1970s (see Figure 10). Gone are the days of the auto and steel industries and the smoke-stacked factories of the industrial age through the twentieth century, replaced by a service industry that is based on low-wage, low-skill, non-union, contingent labor, which enriches wealthy capitalists and impoverishes working men and women in the United States and around the world.

Figure 10: Manufacturing and Finance Sectors as Share of Overall Economy



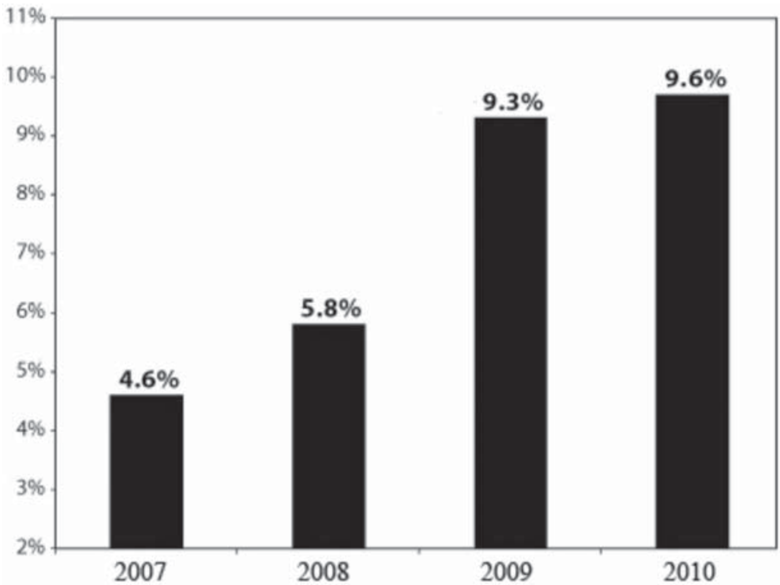
Source: Bureau of Economic Analysis data compiled by the Economic Policy Institute

With the steady decline of the manufacturing sector in the United States through outsourcing of production to cheap labor areas abroad, 2.9 million well-paying manufacturing jobs have disappeared in the period 2005-2008 alone. And that's on top of a loss of more than 3 million jobs in manufacturing from 1998 to 2003, with millions more lost in the entire postwar period. This has greatly transformed the labor force structure in the United States from a traditionally industrial economy to a new service economy, with all the associated implications for labor, the central one of which is its impact on employment.

In looking at unemployment data for 2007 through 2010, we see that the unemployment rate was 4.6 per cent in 2007, 5.8 per cent in 2008, rose sharply to 9.3 per cent in 2009, and remained at 9.6 per cent in 2010 (see Figure 11). During the two years following the onset of the recession, the unemployment rate has continued to hover above the 9 per cent level.

Writing in July 2011 on the deteriorating unemployment situation in the United States, Associated Press economics writer Paul Wiseman observes: "booming profits have allowed Corporate America to leave the Great Recession far behind. But millions of ordinary Americans are stranded in a labor market that looks like

Figure 11: Average Annual Unemployment Rate, 2007-2010 (in per cent)



Source: Bureau of Labor Statistics.

it's still in recession" (2011). He goes on to point out that "unemployment is stuck at 9.2 per cent, two years into what economists call a recovery. Job growth has been slow and wages stagnant" (Wiseman 2011). Citing recent research by Andrew Sum, Director of the Center for Labor Market Studies at Northwestern University, Wiseman reports that:

> wages and salaries accounted for just 1 per cent of economic growth in the first 18 months after economists declared that the recession had ended in June 2009. . . . In the same period after the 2001 recession, wages and salaries accounted for 15 per cent. They were 50 per cent after the 1991-92 recession, and 25 per cent after the 1981-82 recession. Corporate profits, by contrast, accounted for an unprecedented 88 per cent of economic growth during those first 18 months. That's compared with 53 per cent after the 2001 recession, nothing after the 1991-92 recession and 28 per cent after the 1981-82 recession (Wiseman 2011).

In elaborating on this theme in his article "A Boom in Corporate Profits, a Bust in Jobs, Wages" which he calls an "economic disconnect" in referring to the surge in corporate profits, while jobs and wages remain at recession levels, Wiseman lists several factors that have contributed to this predicament:

- U. S. corporations are expanding overseas, not so much at home. . . . In the 2000s, they added 2.4 million jobs in foreign countries and cut 2.9 million jobs in the United States, according to the Commerce Department.
- Back in the U.S., companies are squeezing more productivity out of staffs thinned by layoffs during the Great Recession. They don't need to hire. And they don't need to be generous with pay raises; they know their employees have nowhere else to go.
- Companies remain reluctant to spend the $1.9 trillion in cash they've accumulated, especially in the United States, which would create jobs.

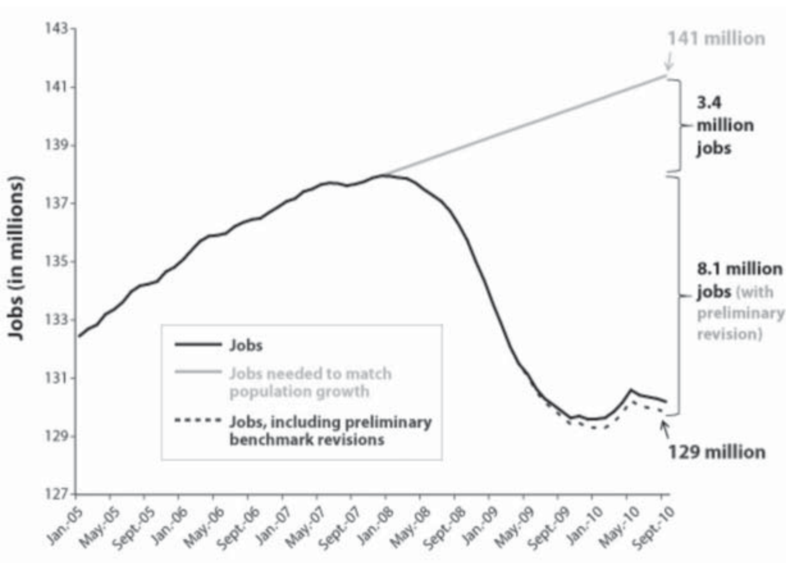
The grim economic situation affecting millions of workers across the nation has prompted others, like Simon Johnson, the former chief economist at the International Monetary Fund, to ask: "A Second Great Depression, or Worse?" Writing in *The New York Times* of August 18, 2011, Johnson warns of a prolonged period of economic crisis that may afflict the U.S. economy: although "the main features of the Great Depression have not yet manifested themselves and still seem unlikely," he writes, "it is increasingly likely that we will find ourselves in the midst of something nearly as traumatic, a long slump of the kind seen with some regularity in the 19th century" (Johnson 2011).

The latest data on unemployment, released in early September, 2011 by the Bureau of Labor Statistics and reported by the Economic Policy Institute, reveal that the unemployment rate in August 2011 was 9.1 per cent (still above 9 per cent). This amounted to 14 million workers who were still unemployed (6.3 million more than in December 2007), many of whom concentrated in 11 states with double-digit unemployment rates. The underemployment rate (i.e., those who are unemployed, marginally attached, or working part time involuntarily) was 16.2 per cent. Altogether, there were 25.3 million workers who were either unemployed or underemployed in August 2011. Whites had an unemployment rate of 8.0 per cent, blacks 16.7 per cent, and Hispanics 11.3 per cent. In July 2011, seasonally adjusted underemployment was 13.2 per cent for whites, 25.3 per cent for blacks, and 22.0 per cent for Hispanics. And the youth unemployment rate for all 16-24 year olds was 17.7

per cent, and for all 16-19 year olds it was 25.4 per cent, while for 16-19 year old blacks it was 46.5 per cent, and for 16-19 year old Hispanics it was 37.4 per cent in August 2011 (Economic Policy Institute 2011: 1-2).

Looking at the unemployment situation in broader perspective, data for the period 2005 to 2010 shows that the gap in the labor market due to the rise in unemployment from the fourth quarter of 2007 to the fourth quarter of 2010 is 11.5 million jobs. Thus while jobs needed to match population growth would have put employment at the 141 million level in September 2010, the actual number of people working in September 2010 (129 million) put the total deficit in jobs at 11.5 million (see Figure 12).

Figure 12: Payroll Employment and Gap in Labor Market, 2005-2010



Source: Bureau of Labor Statistics data compiled by Economic Policy Institute.

Despite the slight improvement in the unemployment rate by August 2011, down to the 9.1 per cent level, the economy still needed 11.2 million jobs to regain its pre-recession level of unemployment. With the recession continuing into 2012 and beyond, the economic situation is bound to get worse, and the unemployment and underemployment rates are bound to stay at high levels for at least several more years.

Impact of Globalization on the Current Global Capitalist Crisis

The global expansion of capital has had a great impact on the current global capitalist crisis. This impact is the result of the globalization process which has undermined national economies in the interests of transnational capital that profits from its global operations on a worldwide basis. This has brought about contradictions at a dual level. At the global level, it has meant first and foremost the ever-growing use of cheap labor across the world, hence high rates of exploitation of labor. In addition, it has caused a depletion of resources that could be used for national development; environmental pollution, and other health hazards; a growing national debt that tie many countries to the World Bank, the International Monetary Fund, and other global financial institutions; and a growing militarization of society through endless wars and the imposition of military and civilian dictatorships that violate basic human rights. The domination and control of countries for transnational profits through the instrumentality of the imperial state has at the same time created various forms of dependence on the center that has become a defining characteristic of globalization today (Amaladoss, 1999; Sklair, 2002).

Domestically, the globalization of capital and global economic expansion has had immense dislocations in the national economies of center states. Expansion of manufacturing industry abroad has meant a decline in local industry, as plant closings in the United States and other advanced capitalist economies have worsened the unemployment situation. The massive expansion of capital abroad has resulted in hundreds of factory shutdowns with millions of workers losing their jobs, hence the surge in unemployment in the United States and other advanced capitalist states (Wagner, 2000). This has led to a decline in wages of workers in the advanced capitalist countries, as low wages abroad have played a competitive role in keeping wages down at home. The drop in incomes among a growing section of U.S. labor has thus lowered the standard of living in general and led to further polarization between labor and capital in the United States (Berberoglu, 1992a; 2002; 2009).

The globalization of capital and the integration of national economies into the global system, a process that has been developing over the past several decades, and its intensification under neoliberal policies over the past twenty years, had a direct impact on the extent and depth of the current global economic crisis. Previously nationally-based economies, now under the control of transnational corporations and international financial institutions, have become appendages of the global economy that operates under the logic of global capital accumulation for the benefit of the transnationals, while at a great cost to those who have become its victims.

A major global economic crisis, such as the one we are experiencing today, greatly affects the economies of those nations that have become part of the global capitalist system. Thus, all the known consequences of such economic downturn (rising unemployment and underemployment, declining purchasing power, growing consumer debt, home mortgage foreclosures, bankruptcies, and a host of other economic problems) are the very ingredients of a system-wide crisis that has affected not only the advanced capitalist countries (where the current crisis originated), but all others integrated into the global capitalist system—and more so the latter, as they are more vulnerable to the forces of the global economy and its periodic crises.

The contradictions of global economic expansion, which have caused so many problems in both the periphery and the imperial centers, have in turn created the conditions for the decline and fall of the global economy. Economically, these contradictions have afflicted the system with recessions, depressions, and an associated realization crisis; politically, it has set into motion an interventionist state that through its presence in every corner of the world has incurred an enormous military expenditure to maintain an empire, while gaining the resentment of millions of people across the globe who are engaged in active struggles against it.[2]

The imperial state, extending its rule across vast territories, has dwarfed the militaristic adventures of past empires many times over. Through its political and military supremacy, it has come to exert its control over many countries. As a result, acting on behalf of capital, it has reinforced the domination of capital over labor across the globe. This, in turn, has greatly politicized the conflict between labor and capital and led to a direct clash between these forces. Such clash takes on special significance during global economic crises, as labor and other affected segments of society increasingly become conscious of their interests and begin to take political action that directly confront capital and the capitalist state.

Which Way Out of the Crisis?

Economic remedies to save the system from collapse are bound to fail so long as they remain within the framework of the existing capitalist system. Changes that are required to revitalize the economy and to turn things around, point to a redistribution of wealth and income to increase mass consumption. This would increase demand for consumer goods, hence increase production, and create jobs for the unemployed, as well as raising revenue for the state through corporate and individual income taxes. All these would require a restructuring of the economy away from failed neoliberal corporate capitalist policies and toward a new set of priorities that promote the interests of working people. Such restructuring requires the transformation of the capitalist system to provide greater rights and benefits to working people. And this would, in turn, benefit society greatly and set us on a prosperous course that would vastly improve living standards and pull us out of the economic crisis. But these are not things that can readily be adopted within the framework of the prevailing political-economic system. As vested economic interests lie at the heart of any class-based system, the capitalist system, too, is based on powerful class forces that control, dominate, and benefit from the prevailing social, economic, and political order that thrives through the exploitation of labor that makes the accumulation of capital, hence wealth of the capitalist class possible. Thus, to change the prevailing social order, it becomes incumbent upon labor and its allies to take charge and carry out the complete transformation of capitalist society, especially capital's supportive political arm, the capitalist state.

Conclusion

The contradictions of the unfolding process of global expansion and accumulation have brought to the fore new political realities: as the crisis unfolds and leads to further political organizing and mobilization by labor, the institutional forces that support the capitalist power structure intensify renewed repression at home and abroad to control an increasingly frustrated labor movement in the center states and a militant mass movement of popular forces in the dependent states of the periphery poised to resist neoliberal globalization (Houtart and Polet, 2001). This has occurred most visibly in Latin America, Southeastern Europe, the Middle East, North Africa, and other regions where neoliberal policies have come under sharp attack, and where popular alliances of oppressed classes have managed to come to power, or are in the process of mobilizing their forces for such an eventuality.

The continuation of the economic crisis in the advanced capitalist countries is bound to lead to the emergence of similar movements that will seek a political solution to the persistent economic problems that they now confront in the imperial heartlands. And as the social and economic position of the affected populations become threatened in a more severe way across these regions, one can expect the resurgence of grass-roots political movements to enter center stage and play a critical role in the coming period of crises and conflicts that will continue to unfold in the years ahead. Clearly, the inherent contradictions of global capitalism are making it increasingly difficult for the imperial state to control and manage the global political economy, as the current global economic crisis is making things worse for the state to halt the process from further decline and decay. At the same time, the unfolding global capitalist crisis is preparing the conditions for the international solidarity of labor in confronting global capital to address the many social, economic, and political inequities that characterize the global capitalist system.

Notes

1. This paradox of growth and expansion of capital on a world scale, simultaneously with the decline and contraction of the domestic economy, is a central feature of globalization at its highest and most intense stage of worldwide expansion – a natural outcome of the operations of capitalist imperialism (see Berberoglu, 2003, 2005, and 2010).
2. While one consequence of neoliberal globalization has been domestic economic contraction and an associated class polarization, a more costly and dangerous outcome of this process has been increased militarization and intervention abroad, such that the defense of an expanding capitalist empire worldwide has come to require an increasing military presence and a permanent interventionist foreign policy to keep the world economy clear of obstructions that block the expansion of the financial and investment activities of transnational corporations. However, such aggressive military

posture has had (and continues to generate) major problems for global capitalism and the imperial state, and thus is increasingly threatening the its effectiveness and, in the long run, its very existence.

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