The Double Economic Bubbles of the 21st Century: An End to the ‘American Dream’?

James M. Cypher

Research Scholar, Global Institute for Sustainable Prosperity

Professor of Economics, Universidad Autónoma de Zacatecas, Mexico
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Abstract

The Double-Bubble economic crises that defined the first fourteen years of the 21st Century called into question the ‘American Dream’. The post WWII ‘Golden Age’ economic structure was undercut by a complex and prolonged period of crisis and restructuring beginning in the early 1970s. A new, neoliberal, era commenced in the 1980s: this new structure rested on the long-discredited concepts of Chicago-School market fundamentalism. Yet, some forward momentum was attained via enhanced military expenditures in the 1980s as well as the Information Technologies that purportedly underwrote the ‘New Economy’ in the 1990s (when received economic opinion asserted that recessions and economic crises had been relegated to the dustbin of history). The implosion of the NASDAQ market in the spring of 2000 should have demonstrated that the neoliberal project had gone off the rails. But then, like a mythical Phoenix the U.S. economy seemed, momentarily, recharged by innovative financial engineering that spread hedge funds, syndicated loans, credit-default swaps, etc., across the economy: the mortgage market was but one locus of the financial legerdemain that gave shape and substance to this heady speculative era. The false policies of the neoliberal era accumulated for decades, creating the tinderbox conditions that ignited in late 2007 as the ‘Great Recession’ began, the followed by enduring conditions of economic stagnation through 2014.

Keywords: Income Distribution, De-unionization, Labor Productivity, The Tripartite Economy, ‘American Dream’, Kautsky

JEL codes: E22, E32, J08, J30, J51, N32
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Introduction

This Working Paper analyzes the current situation of the U.S. working and middle classes after a decade marked by the rupture of two financial bubbles. The stock market crash of 2000-2001 and housing market collapse of 2007-2010 have adversely impacted the U.S. as never before since the decade of the Great Depression (1929-1939). From 2000 to 2007, average income for all households declined, except for the top 10% who received all of the U.S.’s income growth (over $1.7 trillion in constant dollars) in this period (Council of Economic Advisors 2010, Table B-31; Saez 2010, Table A-6).

Once the Great Recession had officially ended in June 2009, through late 2013, the U.S. economy stagnated, with official unemployment remaining high and the employed portion of the labor force at its lowest level since 1977 (which was another year of great economic weakness). Worse, for 99 percent of the population the term ‘recovery’ had no meaning—the cumulative average increase in household income from June 2009 through December 2012 for the “bottom 99 percent” was an immeasurable 0.4 percent. Thus, the highest income households—the infamous ‘one percent’ that received more than $394,000 in 2012—seized 95 percent of all the increase in National Income in the US since the Great Recession was officially declared to have ended in 2009 (Saez 2013, 1 and 4). The share of total household income appropriated by the top ‘one percent’ in 2012—22.5 percent—was nearly identical to the record high of 24 percent attained in 1928 (as the U.S. economy edged toward the economic cataclysm of 1929-1939). As a result of the above factors and trends, median household income (measured in 2012 US dollars) fell from $56,000 in 1999 to $51,000 in 2012 (U.S. Census 2012, Table H-5). The (pre-tax, pre-transfer) U.S. Gini Coefficient reached a record high of 0.477 in 2011, up from 0.386 in 1968 (Levine 2012, 4). After adjusting for taxes and government income transfers the U.S. Gini Coefficient remains the highest of the advanced industrial nations.

Rising inequality is far from a mere statistical measure: one consequence has been nearly a 30 percent increase in the working-age adult suicide rate from 1999 through 2010 (Parker-Pope 2013, A1). Mainstream economists have long argued that inequality is one factor that promotes dynamic economic growth. Now, as even researchers at the International Monetary Fund acknowledge, there is strong evidence that increases in the level of inequality of income and wealth result in (1) reducing economic expansions by up to one-third, (2) increasing macroeconomic instability (more frequent economic downturns), and (3) a tendency toward economic stagnation (Berg and Ostry 2011). Inequality is now understood to be of greater importance in determining economic performance than a series of other major economic, institutional and political factors.

I. Hegemony, Power Projection, Social Consensus

The degree to which these sweeping events may impact or alter the nature of the social support or consent that the underlying population is willing to extend to the effort by the power elite to maintain and/or expand the scope of global U.S. hegemony is a fundamental consideration in the current conjuncture (Mills 1956). The maintenance of hegemony is multifaceted: As expressed by Antonio Gramsci—it is a matter of both coercion and consent. For the U.S., this problematic formulation has been primarily defined by the scope, imagery, and essence of national military power. Since WWII, military expenditures have played a dual role: on one side they have been the primary agency of ‘power projection’—or of coercion, persuasion and threat, as the Pentagon and other U.S. policy making institutions have seen fit in a variety of foreign policy situations. By late 2013, the current administration had not distanced itself from this militaristic trajectory, in spite of a chain of impressive defeats that began with the Korean War, then Vietnam, after which Iraq, and today Afghanistan. There has been a high degree of continuity in the utilization of U.S. power projection as a vital component of the effort to pursue the hegemonic objectives of U.S. foreign policy in its intertwined and multiple guises—diplomacy, geopolitical economic pressure/leverage, and military power projection (Cypher 2011). The other side of the dual character of the national project of U.S. military policy is the economic stimulus that has always been the result of large and normally rising military outlays in terms of (1) millions in well-paid employment positions, (2) unequaled levels of profit for contracting firms, and (3) the creation a vast array of cutting-edge technologies that have served to maintain the overall competitiveness of the U.S. economy in the face of growing economic rivalry among the advanced capitalist nations, and now China (Cypher 1987 and 2007).

In terms of the maintenance or restructuring of U.S. hegemony a key question today is the solidity of the support that the underlying population is willing to offer to military policy—a factor that has defined the largest part of U.S. foreign relations. In 2007 annual U.S. military expenditures reached a new milestone—they exceeded $1 trillion (roughly 40 percent of total federal expenditures) and have continued to rise through 2011 (Cypher 2007, 47). It has been often incorrectly been argued since W.W. II., that military expenditures have been a ‘burden’—or that they have an ‘undermining’
effect—on the US economy (Cypher 1984 and 1994). In terms of military expenditures having a negative socioeconomic impact, what can be affirmed is that significant increases in military outlays have normally been accompanied by reductions in (or the stagnation of) federal outlays for social programs (DuBoff 1989). This pattern continued nearly up to the moment—while the federal government announced a freeze on all non-military outlays beginning in October 2010, military outlays continued to rise from 1999 through 2011. However, the current conjuncture is unfavorable to further increases. The Department of Defense lowered its spending by 6 percent in 2012, with further scheduled cuts for 2013.

There are many reasons for this, but the underlying factor is that broad portions of the working class and the middle class have now fallen into relative penury and are now unwilling to automatically support the further military adventures frequently proposed by the Obama Administration (e.g. in Iran, Iraq, Libya, Northern Africa, and Syria). Between December 2007 and June of 2010 those who had lost their employment (8.4 million) or had experienced a decline in their wages or had suffered a drop in hours worked amounted to 55% of the labor force (Pew Research Center 2010). Meanwhile 76% of the unemployed were members of the ‘blue collar’, or non-supervisory, labor force (Sum et. al. 2010, 12) The working and middle classes now need, to an unparalleled degree since the years of the Great Depression, the support of massive social programs in order to confront (1) the absence of employment opportunities, (2) a historically unprecedented decline in real wages that has lasted for decades, (3) a devastating housing crisis that has led to 2.4 million completed foreclosures from 2007 through 2010 (with over 1.2 million new foreclosures anticipated in 2011), (4) the leaping increases in the cost of public university education for their children—a level of preparation now considered a ‘necessity’ to enter the Hobbesian struggle raging in the U.S. labor market. Given the above, and given that today the economic benefits from technological spin-offs occurring due to U.S. military expenditures can be realized in nations very far from the U.S.—due to the internationalization of production—it is apparent than U.S. military grand strategy is on a collision course with regard to the pursuit of the ‘American dream’ (defined and discussed below) by the underlying population. In fact, if the interpretation presented in this chapter is correct, it would be difficult to imagine a more explosive collision than that between these two key cultural elements—i.e. militarism and the ‘American dream’—in a structure where the realization of one will come at the cost of the other. Perhaps the passivity of an overwhelmingly apolitical citizenry will be sufficient to maintain a quotient of social stability. Nevertheless, the flip side of this situation has been the recent crystallization of an ultra-rightist mobilization (resulting in a takeover of the U.S. House of Representatives in the elections of late 2010) which is determined to take extreme measures to support a further militarization of U.S. foreign policy, while cutting social expenditures. That is, a great embrace of “the politics of resentment” and the glorification of militarism could be the ideological path regarded as a “resolution” to the current socioeconomic dilemma. All of this has taken place within the larger context of an unremitting effort by large corporations and their funded think tanks since the early 1970s to systematically undermine the legitimating institutions designed to include the working class and the middle class in the process of accumulation (Meeropol 1998). These legitimating institutions arose as a result of
policies constructed as a reaction to the Robber Baron era and particularly as a result of the ‘New Deal’ in the 1930s and 1940s.

II. The American Dream

The American dream, a crucial ideological construction for the U.S. working class and middle class, is the idea that all members of society—without regard to prevailing socioeconomic relations or matters of class origin—should be able to “get ahead” if they are dedicated to their work and prepared to take advantage of future economic opportunities that will come their way. According to those who defend this concept, it is one of the most significant aspects of U.S. “exceptionalism”—a set of long-standing, institutionalized, socioeconomic structures that never existed in Europe. (Of course, citizens of Afro-American origins have been excluded from this formulation—an issue beyond the scope of this chapter.) Thus, this “dream” is in fundamental ways tied to a very materialistic interpretation—the materialist aspects have historically overshadowed the Enlightenment ideas embodied in the formative documents of the nation wherein the “founding fathers” placed great emphasis on individual political rights and (somewhat) representative governing systems. Still, it has never been a simple matter to form a coherent and representative description of “the American dream”. Nonetheless, by and large it is possible to assert that—at least in recent decades—this dream consists of the ownership of an ‘adequate’ home (even though the lender would be the legal owner of the property for 30 years), two reasonably new cars, an income adequate to satisfy the necessities of the ‘good life’ for all members of the family including even the provision of an university level education for all of a family’s children and a sufficient degree of intergenerational social mobility for both parents and children. In brief, this dream has historically been overwhelmingly defined and measured in pecuniary terms.

In 2007 Louis Achincloss, scion of a rich family, member of the highest social circles of New York and a prolific author of books which detailed the luxurious living of the wealthiest U.S. families, captured the cultural essence of the present-day U.S.: “never has there been a society more materialistic than that which we live in today” (Noble and McGrath 2010, A23).

The ubiquitous, subjective, term “middle class” is frequently applied to the class strata that would objectively be identified as “working class”. It is also associated with university educated employees serving as lower-level professional-administrative functionaries. In a recent study of income distribution undertaken by the respected Congressional Research Service (CRS) the term “middle class” was applied to those households that had annual income from the second quintile through the fourth quintile, or the “middle 60 percent” of the distribution of income for all households (Levine 2012, 2). The author noted that the income share of the “middle 60 percent” had declined from 53.6 percent of all household income in 1968 to 45.7 percent in 2011. According to the CRS study, “middle class” is merely a relative statistical category and is not derived from any objective standard—a perspective disputed by
some economists who insist that a socially-determined, but empirically objective, standard of living should define the term “middle class”.1

The reductionist CRS approach diverges from the subjective categorization accepted by the US populace. A 2005 survey allowed households to define their own household class level. Ninety-two percent claimed that they were either “middle class” or “working class”—67 percent considered themselves to be “middle class” or upper middle class (Cashell 2008, 4). A 2013 poll, which did not allow respondents to assign themselves to the “working class”, found that 85 percent of those sampled defined themselves as “middle class”: 26 percent describing their household as “lower middle class”, 46 percent as “middle class” and 12 percent as “upper middle class” (Heartland Monitor Poll 2013, 1). The National Opinion Research Center, however, permitted respondents to identify their household as “working class”. They found that the largest category of US households was “working class” (47.8 percent), followed by “middle class” (44.1 percent), “lower class” (4.8 percent) and “upper class” (3.3 percent), as based on averages of responses from polls taken between 1972 and 2006 (Cashell 2008, 4).

In 2010 an agency of the federal government sought to convert the elusive term “middle class” into an objective standard, using as their metric (1) home ownership, (2) title to one-to-two autos, (3) opportunity for an occasional vacation, (4) access to adequate health care, (5) savings sufficient to fund retirement, (6) financial ability to provide university education for their children (US Department of Commerce 2010: 4-5). The study compared 1990 inflation adjusted income for a middle class family with that of 2008. Real income increased 20 percent for middle class households, but real costs for housing rose by 56 percent, health care by 155 percent and university education by 60 percent (US Department of Commerce 2010, 24). As a result, a considerable percentage of all households classified as “middle class” in 1990 were no longer able to afford a “middle class” standard of living in 2008, in spite of a 20 percent increase in real income since 1990 (Porter 2013, B1 and B4).

While the Department of Commerce study did not calculate the degree to which the “middle class” had been reduced, a 2013 study of low income “working families” demonstrates that, as the number of households able to afford a “middle class”

1 There is no rigorous, accepted, definition of the “middle class”. Economists have argued that the “middle class” should consist of those that are relatively close to the median household income level (both above and below). But, they have never demonstrated any objective standard to determine where the boundary levels should be (e.g. from 75%-125% of the median household income level?). In addition to the fact that such a range is arbitrary, it does not reflect per capita income based on the size of the household, nor does it reflect large variances in cost-of-living factors determined by the geographic location of the household (e.g. urban vs. rural, etc.), nor does it establish an independent standard of living metric. Adjusting for the size of the households dramatically changes the conventional statistical representation of the distribution of income (Burkhauser, Larrimore and Simon 2012, 17-20; 26-27). A classic 1992 paper (published only in 2010) theoretically analyzed some major measurement issues, but the method advanced by the authors has not been operationalized and brought into wide usage (Foster and Wolfson 2010).
standard of living has declined, the number of low-income working families subsisting at, or below, 200 percent of the official poverty line (or $45,622 USD in 2011) had risen from 28 percent of all households in 2007 to 32 percent in 2011 (Roberts, Povich and Mather 2013, 2). This study compliments the analysis conducted by the US Department of Commerce in 2008, both documenting the tendency for the “middle class” to shrink (even before the Great Recession). As Porter documented, this trend that has continued through late 2013 as measured by numerous factors (Porter 2013, B1 and B4).

III. The Antecedents

Prior to the Great Depression (1929-1939), above all in the vast agricultural regions of the U.S., to be “your own boss” was an integral element of the ideological structure of the ‘American’ dream. But given the forces of concentration and centralization unleashed in the 1920s—if not before in many instances—this important component of the ‘dream’ was largely abandoned, particularly by the working class (DuBoff 1989, 66-92). Above all, the significance of the ‘American’ dream was to legitimate, in the minds of both the working class and the middle class—that is to say, the great majority—an arduous labor regime based in systems of scientific management designed to generate a highly productive labor force under the capital-intensive norms of what Gramsci termed “Fordism”, and others “Taylorism” (Gramsci 1971, 277-318; Noble 1977, 267-320). In this new system, the extremely individualist formulation of the ‘dream’ allowed management cadres of the giant manufacturing firms a free hand to impose a regimented labor process in return for a relatively high wage payment—this being the essence of Fordism. Hence, the intellectual hegemony of the model, as Gramsci noted, was constructed by way of an implicit accord wherein the working class and the middle class received substantial wages and salaries—in relation to the then prevailing standards of Europe—in exchange for their adoption of a submissive posture with regard to the fundamental absence of authentic autonomous institutions, such as labor parties and other civil organizations, designed to create public policies that might support the broader needs for economic security and social justice of the underlying population. Nonetheless, it was taken as an acceptable proposition (by both management and labor) that the increase in the productivity of the labor force would be matched by a similar improvement in the wages and salaries of the working classes (Gramsci 1971, 277-318). Of course, in its application the relationships between U.S. capital and those who had to work for this capital were never quite so simple. In fact, the growing disequilibrium between the slow increase in workers’ wages and the increasing levels of productivity and potential output in many sectors of the U.S. economy in the course of the 1920s was one of the most fundamental reasons for the onset of the crisis in 1929: This crisis brought into relief (1) the over-accumulation of capital goods, (2) the rising level of unused capacity—even in the most important of all sectors, auto production, as early as 1923—(3) the under-consumption of both the masses who were tied to the manufacturing sector, and (4) especially farmers who had been the victim of dramatically declining terms of trade for their products since the early 1920s.
Even before this watershed event, in the 19th Century, U.S. exceptionalism was the focus of a brilliant analysis by Karl Kautsky, originally published in Die Neue Zeit in 1906. In his work entitled “The American Worker”—after taking note of the high level of tension between the very well organized and unrestrained capitalist strata and the poorly represented members of the working class, dominated and divided due to their ethnic and cultural differences—he argued that this delicate state of affairs was sustainable because:

Every intelligent worker, no matter from which social stratum he came, could expect to step up to a higher social position, or at least to rise above the ranks of the exploited. Thus, for a long time, all the conditions were lacking which could suggest to the exploited classes the necessity of a decisive transformation of the state institutions; even the exploited classes themselves, as a mass phenomenon, were missing. And the mentality arising from these conditions has continued to exist to the present day. It is true that, in the meantime, a strong proletariat and the strongest capitalist class in the world have appeared in the United States, but, in spite of that, to this day the mass of the people can be divided, rather than between capitalists and proletarians, between those who are already capitalists, and those who want to become such (Kautsky [1906] 2003, 40).

Therefore, instead of being a class in and of itself and for itself, as Marx famously described the agency of the working class, the U.S. working class existed only objectively as such a class; at the subjective level the grand majority of the members of this class never viewed themselves as defined and delimited by their actual class category. The redoubtable U.S. sage of this era, Thorstein Veblen, in his critical

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2 A recent example of the absence of class consciousness is the massive support given by the working class and the middle class in the battle conducted by the richest families to eliminate the inheritance tax. This tax was created at the outset of the 20th Century by a conservative president—Theodore Roosevelt—who feared that (in the era of the Robber Barons) the U.S. had arrived at the point where a hereditary ‘nobility’ was being formed given, the accumulation of fortunes such as those amassed by the Rockefeller, Morgan and Guggenheim families. In 2001 this tax was temporarily eliminated, in a gradual form, wherein the tax rate fell to zero in 2010. Only those households with inherited wealth above $3.5 million—a mere 0.24% of the deceased population in 2009—were subject to the tax. In spite of this, at the moment when the decision was made to temporarily eliminate the tax, 2001, 60% of the taxpayers were in favor of the elimination of the inheritance tax (Collins 2004, 53). And, why? Because, for a wide swath of the working class and the middle class, if they are able to open a small business, and if they could make this business expand to where it becomes sufficiently profitable to generate a taxable inheritance, it would be viewed as a wounding event to have those family members who inherent an amassed fortune to pay this tax. It really does not matter that this is a complete fantasy—that the probability of such a chain of events occurring is less than being struck by lightning three times in one year. For many, the overturning of the inheritance law is desirable because due to this change it would be possible to pass their imaginary wealth on to their children. The fact that the richest families—those whose wealth can reach into the billions of dollars—could in the course of the first decade of the 21st Century avoid much or all of a tax that had been justified and accepted for roughly a century was not either relevant or important. And even less important was the fact that members of the working class and middle class would have to fill the fiscal gap created by the reduction/elimination of the inheritance tax through higher taxes on their income. Failing this, they faced the loss of important publically-funded social services, such as the education of their children. Here we find an almost unparalleled example of
observations on Marx, put a great deal of emphasis on the class transcending, or *emulative* mentality of U.S. workers and on the general absence of class consciousness in the U.S. (Tilman 2005, 178, 180, 182, and 195).

### IV. The Realignment of the ‘American’ Dream in the 1930s

The Great Depression almost crushed the ‘American’ dream. Instead of the extreme individualism, which had been accepted for centuries, citizens had to confront a situation where their private initiative was not a means to achieve, in many cases, even the minimum level of sustenance. The shock of this state of affairs was palpable and lasted for decades thereafter. The solution, strongly rejected by many small business owners and some of the largest, was the massive intervention of the state functioning as ‘the employer of last resort’. The moment for President Roosevelt’s (1933-1945) ‘New Deal’ had arrived. In this conjuncture so sweepingly redefined by the insurgence of working class and by the creation of new laws and institutions—above all the new, strong and aggressive labor union, the Congress of Industrial Organizations (or CIO)—a classic, European-style trade unionist vision was projected onto the broader society. A class in itself and *for itself* with a social consciousness toward the improvement of the conditions of the entire underlying society began to crystallize. Briefly, the power of the working class was institutionalized; this was the case both at the point of production and in the formulation of public policies. This institutionalization was not only in terms of collectively bargained union contracts at the largest corporations, but also in regard to the struggle for wider educational opportunities, a minimum wage, the creation of the Social Security system, public assistance, and so on.

It can be determined that during the Second World War a new pact, a capital-labor accord, was consummated. In exchange for a commitment to avoid strikes over the course of the war, unions faced very little resistance to rapid organization of the labor force in almost all industrial sectors. Union power made giant forward steps in these years. From a ratio of 1:8 in the 1930s the level of unionization rose to 1:4 in the 1940s. In 1947, one year before the debate over and passage of the Taft-Hartley Act—the law which subordinated labor power—the level of labor force unionization reached 31.4%. In 1953, at its apex, labor representation reached 32.5% (Moody 2007, 100). The capital-labor accord, termed the *Treaty of Detroit*, was constructed and accepted in Gramsci’s terms as a matter of *common sense* during the presidential term of President Truman (1945-1953). It constituted:

[... a private treaty that codified and extended institutions for labor relations that had begun in the Depression and been enlarged in the very different environment of the war. The continuity of these institutions suggests strongly]

the false consciousness of the U.S. working and middle classes. If it were merely a grand exception to their behavioral patterns (in regard to the construction of public policy) perhaps this example could be considered as an isolated or irrelevant case. Unfortunately, it is not.
that they were not the result of individual historical accidents, but rather the outcome of complex negotiations and bargaining between the government, big business, and unions (Levy and Temin 2007, 21).

It was *Fortune* magazine that produced the name for the *Treaty*, as a consequence of a collective bargaining agreement between General Motors and the United Auto Workers union in 1950. What was unique at the time concerning this agreement was that workers achieved a real wage level that was directly linked to the cost-of-living index. Furthermore, wages were agreed to rise in direct accordance to the rate of increase in labor productivity (Levy and Temin 2007, 24). “[T]he Treaty of Detroit initiated a stable period of industrial relations. The use of collective bargaining spread throughout industry, and even non-union firms approximated the conditions achieved by unions in an extension of pattern bargaining” (Levy and Temin 2007, 25). The pact between labor and capital was openly supported by the representatives of large and medium-sized capital, such as Eric Johnston—president of the powerful U.S. Chamber of Commerce who observed that in this new institutional alignment: “Labor unions are woven into our economic pattern of American life, and collective bargaining is a part of the democratic process. I say recognize this fact not only with our lips but with our hearts” (Levy and Temin 2007, 21). Even while facing the anti-labor forces of McCarthyism and the effects of the Taft-Hartley law, unions were able to maintain their strength—the unionization level was still at 29.3% of the labor force in 1964 (LaBotz 2010, 3).

In contrast, in the 21st Century, wherein the level of unionization in the private sector in 2010 had reached its lowest level since 1900 (merely 6.9%) the director of a large entity opposed to any labor initiatives—*The Center for Union Facts*—stated that: “To be a member of a union is an antiquated concept for the majority of U.S. workers. It is a relic of employer-worker relations of the Depression era” (Greenhouse 2010, B1). 2011 brought more bleak news—unions lost 400,000 members in that year, with the private sector unionization rate falling to 6.6 percent, but most of the decline was due to the Austerians’ attack on the public sector where employment fell by 234,000 (Crotty 2012; Greenhouse 2013, B1 and B2). Without doubt, the *Treaty of Detroit* has become a historical artifact. This has been the case—at the institutional level—since the beginning of President Reagan’s term (1981) when he launched a frontal attack on union power.

V. The Golden Age

As a result of the capital-labor accord (along with the effects of a new wave of large-scale innovations that gave rise to a period of massive capital formation lasting into the early 1960s) many economists described a new “Golden Age” from 1947 through 1973. During these years the long-term annual rate of increase of the GDP was strong and—more to the point—this growth was shared on a more or less equal basis by all social strata. In these years the real growth rate was nearly 4% and the average annual real increase in wages (per hour) for 78% of the labor force (all non-supervisory production workers) was in excess of 2%, roughly equal to the increase in productivity.
The orthodox economists, Frank Levy and Peter Temin, placed great emphasis on two attributes of this epoch:

- “An Expanding the Middle Class. By 1964, 44 percent of the population reported itself as middle class, up from 37 percent in 1952. The expanding middle class did not reflect significantly more equal incomes, but rather rapid income growth in which more families could afford a single family home, one or more cars, and the other elements of a middle class lifestyle.”
- “Mass Upward Mobility. A number of studies have shown that intergenerational mobility within the U.S. income distribution is relatively limited. But rapidly rising incomes created a mass upward mobility such that a blue collar machine operator in the early 1970s earned more in real terms than most managers had earned in 1950. Much of a generation could live better than its parents had lived even though their relative positions in the income distribution were similar” (Levy and Temin 2007, 30).

Although it would be a misrepresentation of the historical forces and relations that synchronized to give rise to this epoch to suggest that all of the above occurred for only one reason, without doubt this process was based in the new institutionalization of capital-labor relations wherein the managers and owners of large capital accepted the idea that the only way forward was to share the benefits of economic growth with the working class. This result was never due to the good faith of capital, and even less so to a paternalistic state, but rather arose as a result of the unions’ capacity for organized struggle during the 1930s and 1940s and the need to for the state to achieve social peace. Hence, for roughly a quarter of a century, a period then understood to have marked the achievement of a new norm, the ‘American’ dream was understood to be within reach for a majority of U.S. families.

VI. The New Tripartite Economy

Given the limits of space of this chapter it is not possible to offer an extended analysis of the collapse of the Golden Age and the onset of what became known as the Leaden Age. Although the scapegoat of constant usage has been the ‘destructive’ role of

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3 In this passage, the contributive roles of social mobility and income distribution are slighted by Levy and Temin. In fact, in relation to later years, the level of social mobility was significantly higher. Income distribution improved a great deal from that of the pre-Depression era—ensuring shared growth in the Golden Age.

4 The Leaden Age began in the 1970s and has lasted through 2010, but with one very important qualification: During the 1990s the U.S. experienced its longest period of continual economic expansion. That is, from business cycle “trough” in 1991 to cycle “peak” in 2001, the expansion lasted 120 months. Real wages and employment, however, did not rise until late in this expansion: Real hourly wages began to rise only in 1996, but even at the peak (see Figure 1) they remained below the 1972 level. But, the Information Technology boom was not fictitious; it did create a new and dynamic industrial sector, strengthening the production base of the U.S. economy (Lazonick 2008). Still, in the 1990s the economy
OPEC—through the 1970s—in fact there were much deeper reasons than the abrupt change in one key price (i.e. oil): As always in a period of crisis, the previous years had been marked by an anarchic process of over-accumulation of capital, opening the way for an impressive drop in the profit rate. The profit rate oscillated between 12 and 18 percent from 1947 through 1966. Then, it dropped dramatically from a level of 18 percent in 1966 to 8 percent in 1972—all this occurred before the enormous increase in petroleum prices in 1973 (Bowles, Edwards and Roosevelt 2005, 234). Facing a new period of international economic rivalry with Europe and Japan—both now fully recuperated from WWII with a much more technologically advanced composition of capital than that of the U.S.—and a high and increasing level of excess industrial capacity, the crisis of profitability led to capital’s siege on the capital-labor accord. Confronted with this situation in the course of the late 1970s and particularly in the 1980s, the leaders of organized labor were not capable of mounting a mass-media campaign to artfully make their case. Their institutionalized style of leadership was to use union leverage within the circles of power—particularly through collective bargaining at the firm and industry level, and also via the political process. But now, neither their established relations within the state apparatus, nor their ‘historical understandings’ with large capital were reliable. Nor were they able to make use of their heavy weaponry of the past—massive, popularly supported, strikes. The last opportunity to make use of this consecrated form of struggle came in 1971—as a result of the widespread social unrest arising from the protracted civil rights struggles of citizens of African descent and the deeply-felt resistance movement of college-age youth in opposition to the war in Vietnam. Thus, at a critical moment for capital, given the decline in the profit rate “workers became more militant, undertaking strikes for higher wages and better working conditions and in order to increase their power in the workplace. In 1971 there were 298 major strikes in plants and factories with over one-thousand employees, involving a total of 2,516,000 workers in that year” (La Botz 2010, 2). This brief outbreak of militancy from below was followed by decades of retreat for labor’s leadership.

In the new climate, labor faced the menace of factories moving to the anti-labor (once Confederate and slave-holding) Southern States—or even further to Mexico, or Asia (Cowie 1999). As a result, the percentage of the unionized labor force entered a period of long-term disintegration. Still, as late as in 1979 the unionization rate was relatively high by U.S. standards—27%. But in a process of sequential deterioration this rate fell

was driven by two aspects of fictitious capital: First the stock market bubble, being fed by speculative forces and the massive shift to stock-backed private retirement accounts drove up stock prices, while the “wealth effect” of higher valuation of stock accounts led the wealthy to push up their consumption level, thereby significantly boosting the economy. Second, big lenders—including the U.S. government-backed lenders—began to push mortgages on low income and/or highly indebted families allowing them to access loan capital which then led to more employment in construction and other areas supported by the first stage of the housing bubble. Therefore, the term Leadhen Age needs to be applied with care because it encompasses complex and even contradictory processes regarding the U.S. economy as a whole. Nonetheless, in spite of a stronger labor market in the 1990s, real hourly wages did not even reach levels achieved two decades before. Thus, for the U.S. working and middle classes the term Leadhen Age is accurate.
until it reached the level of 11.9% in 2010 (Greenhouse 2011, B2). Facing what in effect was President Reagan’s declaration of war on organized labor, the unions immediately bent over backwards in to accommodate the repositioning of state power—in 1981 there were only 145 strikes in workplaces of more than one-thousand employees involving only 729,000 workers, this was 29% of the level of workers on strike ten years earlier (La Botz 2010, 3).

Without the unions struggling to divide the economic pie, non-supervisory production workers lost the capacity to receive their share of productivity increases. In fact, as Figure 1 demonstrates, from the beginning of the 1970s through 2009 productivity nearly doubled while the average real hourly pay fell by almost ten percent. Workers’ real overall compensation (wages + benefits) increased only 11 percent. What has happened to the gigantic mass of value represented by the productivity increases that were not received by labor?

Figure I: Index of Wages, Compensation, Productivity & “Usable” Productivity of U.S. Non-Supervisory Workers, 1972-2009 (1972= 100)

Sources: Baker, 2007; Council of Economic Advisors, Economic Report of the President, 2010 “Hours and Earnings” Table B-47; “Productivity and Related Data” Table B-49; Economic Policy Institute, 2011.

Without doubt, a massive annual flow of income has been transferred to (1) mid-tier corporate managers, (2) the owners of corporate stocks, and (3) the top directors of these corporations who have habitually decided to award themselves with an avalanche of stock options along with multi-million dollar annual salaries of unprecedented magnitude. It is very important to take into account the fact that in the Golden Age (1947- 1972) wage increases almost exactly matched productivity increases Chernousov, Fleck & Glaser 2009, 62). Had wages matched “usable” productivity growth, the 84 million non-supervisory production workers in 2009 (adjusted to maintain a participation rate equal to that of 1972) would have received roughly $2.15 Trillion more in compensation. That is, roughly 15.2% of U.S. GDP in 2009 was transferred from non-supervisory workers to capital (and managers) via the differential gap of 44.4% that opened between compensation and productivity by
The results shown in Figure 1 are directly related to the rupture of the Treaty of Detroit: “While the American working class faced the greatest employer assault since the 1930s, union officialdom proved uninterested, unwilling, or unable to mount a resistance to the attack and instead bargained concessionary contracts that eventually undermined the industrial unions even further” (La Botz 2010, 3).

From the end of the Golden Age era the U.S. economy has been transformed into what can be termed the Tripartite Economy. This new configuration consists of three basic structural economic elements: First, restructured manufacturing firms—now utilizing the globally integrated system of production. Second, a proliferation of high-technology firms, above all communication and information technology conglomerates—driven by “start-up” risk and ‘venture’ capital, schemes of financial “innovations” and stock options (Lazonick 2008). And lastly, leveraged financial firms (commercial real estate lenders, hedge funds, investment banks, stock brokerage firms and insurance corporations)—all making use of massive liquidity and financial innovations (such as derivatives) to appropriate value from the other sectors of the U.S. economy as well as from other nations.

In each of these three new structural economic elements defining the Tripartite Economy, (1) production workers have been excluded or relegated to the margins, (2) macroeconomic instability has increased—as could be noted between December 2007 and December 2009 when 7.2 million employees lost their jobs (constituting the worst two years for labor since the Great Depression)—(3) the distribution of income and wealth became concentrated to a degree not seen since the 1920s, (4) the working class has been decimated and the middle class has been reduced to a state of fragility and precariousness. There are, in this new Tripartite Economy, few institutions that can serve to broadly disperse the occasional gains that flow from this new economic structure. Neither the legacy of the New Deal of the 1930s nor the Congress of Industrial Organizations (CIO) has remained in a coherent form to serve as a counterweight to the current process of socially exclusive accumulation. In this new milieu the inability of the unions to play their historically established role is

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5 This calculation is based on the average real wage of $17.88 in 1972 as expressed in 2009 dollars plus $2.95 per hour in benefits, where total “compensation” [= wages + benefits] equaled $20.83 per hour for non-supervisory workers (US Department of Labor, 2010a, 2010b: 85-90; Economic Policy Institute, 2011). The growth of private productivity since 1972 was 92.7%. Adjusting the productivity figure (downward) to account for lower economy-wide productivity, consistent deflation in both producer prices and consumer prices, and for a rising rate of depreciation, the net growth of “useable” productivity was 55.5% (Baker 2007). If workers had been paid the value of their annual productivity increases (as they essentially were prior to the early 1970s) in 2009 they would have received an average of $35.98 per hour in compensation instead of the $23.14 they actually received. The differential was $12.84: Workers worked an average of 39.8 hours per week in 2009—so $511 of compensation that they would have received under conditions prior to the early 1970s instead was diverted. On an annual basis ($511 X 50) each worker lost to capital an average of $25,552. Adjusting the 88,239,000 production and non-supervisory workers employed in 2009 to the lower 1972 labor force participation rate equivalent of 84,180,000 workers, the total of purloined workers’ compensation for 2009 came to $2.15 trillion (Council of Economic Advisors 2010, Tables B-47, B-49; U.S. Department of Labor, Bureau of Labor Statistics, 2011 Table B-6]).
noteworthy: In 1991 there were only 40 strikes involving 392,000 workers, while ten years later strikes had all but ceased to occur—29 strikes, involving just 99,000 workers, were registered in 2001 (La Botz 2010, 5).

Without doubt, the most important element for the working and middle classes in the new environment established by the Tripartite Economy has been the process of exclusionary restructuring of the productive apparatus of the manufacturing sector orchestrated by corporate owners and managers. Making use of the advantages provided by the new technologies and institutions that have facilitated the increasing mobility of capital located in the sphere of production, today there are few if any, industrial sectors that have not been reorganized. Due to the effects of offshoring and capital-intensive investments, the manufacturing sector shed over 6 million workers between 1990 and June of 2009—this was a drop of over 33% of the entire manufacturing labor force, according to official sources (Economists 2009, 38). In 2009 alone, 1.3 million manufacturing positions were extinguished—leading to uncalculated but large negative job multiplier effects (in the millions) affecting those whose jobs were indirectly dependent on the consumption spending of these workers (Greenhouse 2010, B5). Overall, from the onset of the latest crisis commencing in late 2007 through 2009 over 2 million manufacturing positions were lost—those who once were considered to be members of the “labor aristocracy” because of their relatively high wages and good working conditions had been terminated. In almost all instances these massive job losses have been partly due to the fact that as the working and middle classes have been increasingly marginalized in the Tripartite Economy the demand for “wage goods” has not grown in lock-step with the growth of the overall economy because of the tens of trillions of dollars of income purloined from productivity gains (as shown in Figure 1). As income has shifted so have consumption patterns—the new rich spend on niche (often imported) luxury items and employ new mass of low-paid (servant-like) service providers who groom both the rich and their luxury possessions. At the same time, U.S.-owned manufacturing firms have continued to be massive producers—but their production sites are increasingly located in Asia, particularly China, and in Latin America and the Caribbean, especially Mexico. The export of manufacturing capital is a structural element of the new model anchored in the creation of export production platforms aimed at the U.S. market. And, of course, the process of exporting production capital is also based in the export of labor positions—all done in the quest for wages that commonly are one-tenth of U.S. wage rates. Frequently, productivity levels will very close to those attained in the U.S.

We can take as an example the ‘rustbelt’ city of Mansfield Ohio which has lost the following manufacturing plants in the Leaden Age: Dominion Electric (1971), Mansfield Tire and Rubber (1978), Hoover Plastics (1980), National Seating (1985), Tappan Stoves (1986), Westinghouse (1990), Ohio Brass (1990), Wickes Lumber (1997), Crane Plumbing (2003), Neer Manufacturing (2007) and Smurfit-Stone Container (2009). Finally, in January of 2010, the largest and most modern stamping factory owned by General Motors in its world-wide system—reaching a maximum number of 4,800 operatives in the 1980s—was closed (Phelps 2010, 23). Between the 1920s and the 1970s the Westinghouse Corporation was the largest employer in Mansfield—with over 8,500 workers employed in 16 production plants and buildings (Phelps 2010, 23).
In this all-too-typical city—once part of the industrial ‘heartland’ of the U.S.—little remains and nothing is secure. The disaster that has been brought on the U.S. is impacting all sectors, except those with linkages to finance, military production, and the information technology sector. (Commonly, communications and information technology firms are suppliers to the Pentagon.) In the country that gave definition to Gramsci’s concept of ‘Fordism’, from 2004 through 2009 there were 22 large auto manufacturing plants that were closed by Ford, General Motors and Chrysler. Some new auto plants have recently opened in the South of the U.S., bringing capital investments from Asia—but these are non-union plants with wages and benefits inferior to those achieved in the era of ‘Fordism’. From 2009 through 2011 Chrysler and General Motors will close an additional 16 major auto manufacturing facilities (Vlasic & Bunkley 2009, B1) Overall, between 2001 and the close of 2009 the U.S. lost 42,400 manufacturing plants, including 36 % of the plants with more than one-thousand workers and 38 % of the factories with employees in the 500 to 999 range (McCormack 2010, 1). In early 2010 there were an additional 90,000 manufacturing companies in risk of being closed. According to the Information Technology and Innovation Foundation, from 2000 through 2011 68,255 manufacturing plants closed—17 per day (Clifford 2013, A20).

Due to the effects of this prolonged process of de-industrialization, the employment regimen has been drastically, almost completely, altered. In the Golden Age the working class and the middle class (however defined) shared, more or less in a proportional manner, in the economic growth as much as did the top income recipients. Stability in employment was, normally, a given. The pay package was complimentsed by defined pension plans, vacations with pay, employer provided health programs and other benefits. (Of course, not all received this packet of pay and benefits—but it was perceived to be the ‘norm’. That is, it was taken for granted as being part of the ‘American’ dream.) Compensation was complimentsed by the ‘social wage’—including, among other benefits, unemployment insurance, disability insurance, Social Security (for the aged, injured, and for widows and orphans) and medical treatment for retired workers. The social wage included the high-quality system of public education, available to the most ambitious children of the working and middle classes, subsidizing their education up to and including professional schools (in medicine, law, etc.) and through the doctoral level in the Arts and Sciences.

This system combining direct wage payments, extensive employer-paid benefits and the ‘social wage’ created conditions of social mobility and shared prosperity. The high-salary economy functioned to marginalize socialist tendencies that had taken root in Europe. According to Gramsci, this new industrial system was hegemonic—a system built on the coercive forces of the market as well as the consent of what Veblen termed “the underlying population”. Today, although there are significant portions of the middle class and above all the upper-middle class (in the tens of millions) who remain secure and entrenched in a luxurious style of living, the socioeconomic system built in the Golden Age has been almost completely erased—now replaced by the frequently deteriorating Tripartite Economy. (For example, the average annual real rate of growth of GDP throughout the first decade of the 21st Century was 1.8 %--less than half of the rate achieved throughout the Golden Age.) The most important
contradiction of the Tripartite Economy is the disregard for something that was important, if not central: How can this new system confront the problem of social reproduction/realization? Facing up to this problem was the central focus of Keynesian policy of ‘shared growth’ established by the New Deal 1930s, lasting until the arrival of neoliberalism in the course of the 1970s.

Later—as manifested by the ideological positions and economic policies of the Chicago School that gave rise to Reaganism—the nation entered into a new era of widening social fissures, broadly impacting the underlying population. According to Margaret Thatcher—advised by Milton Freidman when she was Prime Minister of England—“there is no such thing as society, only individuals”. In the U.S., a land defined, to a certain degree, by the doctrines of ‘rugged individualism’ and Social Darwinism, the New Deal and its legacy (which had redefined the parameters of the distribution of wealth and income) was the notable exception (not the norm, nor the point of departure, or reference) of a much larger and deeper tendency of non-inclusive economic growth, social conflicts, labor militancy, and profound economic crises. Of course, as Kautsky emphasized in 1906, this long-term tendency did not exclude the payment of relatively high wages (in relation to other capitalist nations) given that in the U.S. the working class could enter business or the professions and take advantage of state-subsidized arable farmland and thereby leave the orbit of wage labor (Kautsky [1906] 2003). (These escape values closed during the Great Depression at the very moment that the Keynesian escape valve opened.) Once again, from 1973 onward the socioeconomic system of the U.S. has increasingly conformed, in broad terms, to its Social Darwinist roots—now without episodes of social struggle and labor militancy.

Through the 19th Century and up until the Great Depression, labor militancy was usually circumscribed and labor solidarity was limited due to the high levels of immigration. At that time these tendencies undermining labor power were not exacerbated by the emigration of capital to cheap labor havens. However, from roughly the 1980s—and increasingly so in the 1990s—rising immigration was complimented by the threat (frequently realized) to offshore production. All this served to destroy labor’s power at the point of production and, most importantly, its sense of solidarity. Frequently, U.S. workers have been induced (by various social forces) to transform themselves into ‘consultants’ and/or mobile and ‘flexible’ workers. These tendencies have further undermined collective action. Now, corporations have no long-term commitments to their workers and their workers have no loyalty to their employers.

A new political-economic institutional structure has emerged, working both through the legal system and at the level of prevailing corporate practices, which now serves to exclude unions and decimate labor power (above all in the tripartite pillar of communications and information technologies). Specialized consulting companies have created new and effective tactics, which have undermined recent attempts to reconstruct labor solidarity while proliferating legal battles have been mounted to block new unionization efforts.
In 2009 the last nail in the coffin appears to have been driven into what had once been known as the U.S. ‘labor movement’ when the once most powerful of all unions—the United Auto Workers—was forced to abandon many of its long established gains, accept a two-tier labor system which would permanently condemn young workers to drastically lower pay level and accept massive layoffs reducing this once dynamic union to a mere shadow.

The defining feature of the Golden Age was its relatively high rate of growth in labor productivity—because of the introduction of process and organizational innovations. The Tripartite Economy is marked by at times strong and at times mediocre productivity changes, with wages and salaries either held constant or declining. The inability to sustain a stable process of social reproduction (discussed below) and the incapacity to address or acknowledge the existence of this problem is now completely evident: As mentioned in the introduction to this chapter, there have been two recent unraveling incidents, sited closely in historical time, interrupting the Panglossian neoliberal discourse asserting that market fundamentalism had created the best of all possible worlds. First was the “dot.com” bubble which burst in 2000-2002 evaporating into air over $10 trillion in stock values, particularly impacting the new information technology stocks quoted on the NASDAQ stock exchange. Then, the crisis of 2007-2010 hit, pushing the rate of unemployment up to approximately 17% in early 2011—according to the U-6 measure of unemployment. By this measure, the unemployment situation was worse than any year since 1941. At the same time, because of the collapse of the real estate market and the drop in the financial markets, an estimated $13 trillion in wealth had been eliminated.

The contradictory manner in which the process of social reproduction has been maintained in recent decades is worthy of further emphasis: Without some significant counterweight to offset inadequate aggregate demand arising due to the stagnation of hourly wages it is not possible to sustain the accumulation of capital. That is, without massive growth in the consumption of the working and middle classes the major prop of the U.S. economy would atrophy. But, with the secular stagnation of real wages, the major offset has been to rely upon credits (loans) from the financial sector, made possible by the expansionary policies of the central bank. In this unprecedented milieu, aggregate household indebtedness increased from a level of 52% of GDP in 1980 to 62% in 1990, then reaching 71% in 2000 after which the explosive expansion of household credit carried this debt/GDP ratio to 100% of GDP in 2007—the year the Big Downturn began (Foster and Magdoff 2009, 121). Of course, the working and middle classes were using other methods to try to sustain their social reproduction, such as the massive entry of women into the labor force, a substantial increase in overtime work, and second jobs.

Unsound and unsustainable financial schemes have been hallmark features of U.S. monopoly/oligopoly corporations since the last decades of the 19th Century. Carlo Ponzi was a legitimate representative of that era of unregulated financial markets. And, in the unregulated era of the Tripartite Economy there has been a resurrection of financial fraudsters operating hedge funds and slipshod corporations such as Enron, Long-Term Capital, Bear Stearns, Countrywide Financial and AIG. But never before
have the financial assets of U.S. households been leveraged through debt to the degree we have seen during the period of the Double Bubbles of the 21st Century.

The current situation, then, is something outside of the long trajectory the U.S. economy established from 1820 through 1970—a long period marked above all by the unremitting growth in real wages. The new conditions that began to take form in the 1970s call into question the continuance of both social stability and U.S. hegemony. Today the Tripartite Economy is sustained by many of the undesirable aspects of the unregulated late 19th–early 20th Century era and few, if any, of its virtues. As Kautsky demonstrated, at that time structural economic conditions, and the power of Progressive and Populist reforms were only partially sufficient to limit the economic and political power of the Robber Barons (Beatty 2007, 193-231; Kautsky [1906] 2003; Kolko 1963). Difficult as conditions were, it was not then possible to exclude the working class and farmers from virtually all the benefits of economic growth.

Kautsky also placed great emphasis on the opportunities available to the most ambitious and privileged of the native strata: Unlike Europe the U.S. exhibited a lower quotient of what Veblen termed the ‘kept classes’ that constituted the large residue of aristocrats and other rentiers of the mercantilist, royalist era. In contrast, the new niches of relative privilege created in the era of monopoly capitalism—offering possibilities of social advance—were filled by ascending elements of the ‘native’ population. In this rough-and-tumble environment, large firms were driven to substitute capital for labor, introducing first Taylorism and then Fordism—opening the way for higher salaries because labor productivity was so high under this regime.²

The U.S. system, termed “Americanism” and “Fordism” by Gramsci, was built upon a base of abundant and cheap raw material reserves, a massive home market, capital-intensive production systems and economies of scale (Gramsci 1971, 277-320). A segment of somewhat prosperous, credit financed, farmers (until 1921 when agricultural prices collapse) and a portion of relatively well-paid workers, along with the growing professional strata of the middle class constituted the mass market for durable consumer products. In addition to consumer goods, the market for capital goods was significantly propelled by farmers who were directly involved in the first major wave of agricultural mechanization beginning in the 1870s—if not earlier. This socioeconomic arrangement was far from being a fluid process, such as that which could be termed a ‘moving equilibrium’ between the expansion of the forces of production and the growing purchasing power of the middle and working classes. In particular, this system began to deteriorate around 1923—as massive overproduction

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² There is no attempt here to romanticize what was frequently a brutal era for workers prior to the New Deal, particularly for those who attempted to organize labor (Braverman 1974; Beatty 2007; Boyer and Morais 1972). Especially after the 1919 Steel Strike and the collapse of farm prices in 1921, the long-boom of the 1920s presented an essentially similar incapacity to resolve the issue of social reproduction/realization, leading to the breakdown of 1929, as was found in the boom of the 1990s and onward to the crisis of 2007-2010.
and excess capacity occurred, especially in the leading sectors linked to auto
production, and later, to construction.

As a social response to the Great Depression, a new social structure of accumulation—
state monopoly capitalism—was constructed. The spinal column of state monopoly
capitalism—the military-industrial complex—remains as a impelling force behind the
Tripartite Economy, while most other components of the old social structure have
been swept away as a result of the long-term neoliberal offensive.

From 2007 through 2010 the Tripartite Economy sank for the same reasons that were
extant in the 1920s—widespread overproduction, wages lagging behind productivity
increases, fraud, and uncontrolled financial leveraging in an unregulated financial
sector. The last two 1980-2010 period has been stamped by the conspicuous
consumption of the new rich. But not even with this stimulus, as was demonstrated
earlier in the 1920s and before in the epoch of the Robber Barons, was it possible to
close the shortfall between the expanding potential output of the system and the
lesser level of aggregate demand.

The great mystery of the Tripartite Economy is: How is a sustainable level of aggregate
demand achieved? The answer is that on a reliable or reoccurring basis, such a
condition does not exist. Therefore, we find the two crises, which have already
occurred in the 21st Century—with the intermediate years consisting of ‘recuperation’
without the elimination of high levels of unemployment. In addition, serving as both
’solution’ and ‘cause’ during the neoliberal period—which has plunged the society into
bouts of economic chaos and austerity—we can locate new forms of gambling and
‘gaming’ which risk both social and individual stability: Below, four essential elements
of the new economic structure are underscored in synoptic, descriptive form:

1. Literal Gambling: During the neoliberal Leaden Age gambling casinos have
proliferated in almost all U.S. states. In those few where such activities have
been prohibited, it is frequently possible to enter an adjoining state to bet
ones’ paycheck or public support income (such as provided via unemployment
insurance or Social Security). In doing so, gamblers follow in the pattern of
California residents who have long evaded that state’s prohibition on gambling
in nearby Las Vegas. There is a doubly-perverse process in the proliferation of
casinos: First, given the stagnation of wages and the increasing difficulties
associated with attempts to rise on the social scale between generations, many
members of the middle and working classes have decided that way to attain
the ‘American’ dream is to gamble. “Casino gambling as a once or twice a year
vacation has largely given way to casino gambling as a once or twice a month or
once or twice or more a week pattern of life” (Council on Casinos 2013, 7). The
flip side of the coin is that giant investments in casinos, luxury hotels,
restaurants, etc., have been a major economic support in terms of direct
employment, multiplier employment impacts as well as boosting the
construction industry. A new ‘government-casino complex’ has now been
solidified—23 US states now promote gambling as a revenue source. This
recently emerged complex is a major contributor to the contemporary growth of income and wealth inequality.

The rise of the new casino culture has been viewed as an “institutional eruption” that “changes the nation—changes the physical landscape of communities, impacts the patterns and habits of daily life, affects citizens’ and communities’ economic outcomes, and in some cases even alters relationships between the governing and the governed, the more privileged and the less privileged” (Council on Casinos 2013, 6). The prime source of revenue for the new casinos are fast ‘continuous-betting’ programed, computerized, slot machines; in 1991, across the US, there were 184,000 in operation. By 2010 the number of these machines that are designed to create a pattern of addictive behavior had leaped to nearly 1 million (Council on Casinos 2013, 15-17).

Entering into this growth industry, state governments created lotteries and saturated citizens with advertisements touting gigantic premiums. Forty-three (of fifty) U.S. states plus the District of Columbia operated lotteries by 2010: In 1970, at the dawn of the neoliberal era, only three states operated lotteries. Today, ubiquitous lotteries serve to daily facilitate the ‘Las Vegas’ mentality in virtually all regions.

In 1988 a law permitting casinos operated by U.S. Indian tribes was signed by President Reagan. As a result, by 2006, more than 200 of the 562 tribes had constructed “large” casinos. Income from these casinos exploded from $100 million in 1988 to $17 billion in 2006. For those who are at some distance from a casino, or too busy to leave home, one can bet “on-line” in internet virtual casinos. On-line gambling is allowed in forty states—where citizens can bet without restrictions or limits. According to non-definitive sources, on-line betting reached a level of $20 billion in 2009.

2. Ideological Gambling: The significant increase in Christian Fundamentalism is more than anything a result of neoliberalism. At one time such U.S. fundamentalists were at odds with the idea of worshiping the Biblical “golden calf”—as explored in William James’ classic The Varieties of Religious Experience.

Influential fundamentalist preacher Oral Roberts (1918-2009) created something known as the “Prosperity Gospel”. The Prosperity Gospel is an important device of the neoliberal era: It declares that those in a ‘state of grace’ with be recompensed through a munificence of worldly goods. God, to put the matter directly, is ready to give happiness to the few who are ‘elected’. And, such ‘happiness’ directly translates into luxurious homes, exclusive autos, etc. For those who have ‘faith’ and those who are able to contribute to well-endowed preachers, there is the promised attainment of terrestrial, pecuniary ‘heaven’. There are, today, millions in the U.S. who are undoubting believers in the ‘Prosperity Gospel’, convinced that with their prayers and contributions to
the fundamentalist churches there is a miraculous individualistic solution to their economic hardships.

3. Gambling via mortgage loans: The largest gambling den of all has been the one where families have been seduced into a mortgage contract clearly beyond their debt servicing capacities. Due to the deregulation of the banks and the financial markets—all in the spirit of neoliberalism and market fundamentalism—from roughly 1980 onward we witness millions of home buyers locked in an intricate *pas de deux* between the bettors (buyers) and a constantly more agile, more audacious, more ‘innovative’ financial sector in terms of its ability to unload its loans on the least sophisticated while at the same time finding new forms of leverage to increase the loan turnover capabilities of their financial funds. This dance became frenetic by 2003. Throwing oil on the fire was the role chosen by a Federal Reserve that ignored any and all signs of financial fragility in the vast real estate mortgage market, even as it continued to expand financial liquidity. Finally, under conditions of the “last fool in” the mortgage bubble burst in 2007. Then began an unprecedented sequence of foreclose filings (legal actions that may result in foreclosures) according to RealtyTrac—2.2 million in 2007; 3.16 million in 2008; 3.96 million in 2009; and 3.86 million in 2010. In fact, millions of gambling households avidly entered into questionable contracts under impossible conditions with the idea that they would “flip” their property to another buyer after only a few years of loan payments. According to this strategy—highly successful until 2007 as prices boomed—to pay up to 60% of family income in order to continue the mortgage payments was not a fool’s enterprise. On the contrary, according to many in the working and middle classes, the *only opportunity the U.S. afforded* for them to “get ahead” and realize the ‘American’ dream was to bet everything on the skyrocketing housing market. Given that the historical and classic route had been blocked—that is to be a “good worker”—the unique upward path in the Darwinian free-for-all struggle among the “rugged individualists” was to leverage their bets in the vast real estate market. And, it was easy to do so—runaway liquidity conditions made it possible for millions. Meanwhile, for the financial intermediaries there was no difficulty with repayment concerns—through the new process of “securitization” the risks was passed to others, frequently in Europe.

4. Gambling in the stock market: In the *Golden Age*, due to the *Treaty of Detroit* the largest U.S. corporations—above all in the manufacturing sector—conceded excellent retirement programs, supplemented by public sector Social Security. Employer paid, “defined”, pensions began to be abrogated by many firms beginning in the 1970s. In many instances, due (1) to mergers and acquisitions, (2) programs to take firms “private” (off the stock exchange), (3) the offshoring of production operations, and (4) bankruptcy proceedings U.S. firms were able to avoid their responsibilities to aging workers. By 2007 only 15% of non-union workers had defined pension privileges. The new corporate tactic was to push employees into programs known as 401k and 403b funds wherein the workers themselves were forced to finance their own retirement—at times with some
support from the corporations. To a great degree these savings were thrown into the U.S. stock market. Workers never had sufficient knowledge of the risks or limits involved in stocks. A large part of the stock market bubble effects that built up in 1993-2000 and in 2003-2008 were the result of the immense influx of retirement funds financed by the middle and working classes. For many, including those who left their employment to bet their accumulated retirement funds as day traders (untrained individuals who bought and sold on a daily basis), the idea was that the stock market would become the avenue to reach the ‘American’ dream. The worst possible result of such a fixation—something that affected tens of millions—was to sell their stocks at an unfavorable moment. But, due to fear and a search for some security, this was often the tactic chosen in the course of the stock market panic of late 2008.

Completely unprotected, ignorant of the deregulated financial forces that had destroyed their wealth, facing a U-6 unemployment rate of 17% in 2010 (remaining at 14% in late 2013), ignored by a State that had emitted trillions of dollars to rescue the financial intermediaries; where could the middle and working class go now? Historically, above all during the Great Depression, workers were forced to think in terms of collective solutions—most importantly to (1) support new state policies designed to increase the “social wage” and (2) to create and strengthen labor unions. Now this avenue of change and resistance is nearly sealed off.

Unfortunately, the example of the ‘Bonapartist’ State of Weimar Germany now looms large. It is not possible to identify an unquestionable trend toward the creation of a Bonapartist situation in the U.S. Yet, there are deep signs of the obstruction of “normal democracy” (a slippage of power elite rule) due to a stalemate of the conflicting political parties as exhibited by the rise of “Tea Party” power both within the U.S. Congress and in the Republican Party as a result of the 2010 election, now continuing through late 2013 (Gramsci 1971, 216). These changes have occurred because a broad swath of the middle and working classes realize that they have been abandon by the powers that be. There is a feverish search for scapegoats as the ‘American’ dream recedes; the targets can be “illegal” immigrants, or “minorities”, or “the government”—the latter being the constant object of far-right hostility. According to those corporate and ideological interests who have always attacked forms of state intervention, the Keynesian policies of deficit spending have submerged the nation in an unpayable public debt: the U.S. broke all previous deficit spending records with a roughly $2.5 trillion increase due to federal deficits in 2009 and 2010 (followed by another $3.2 trillion increase for 2011-2013). For these critics—who now dominate the U.S. House of Representatives, the solution has been to attack all social support programs. But to do so is to prolong the agony of the Great Downturn as aggregate demand shrinks or stagnates, unemployment and underemployment rates remain high, while poverty widens and the general standard of living for the middle and working classes declines even more. There are, currently, few indications of the bottom of the chasm into which the underlying population has been thrust. Under these strained structural conditions, long-legitimated support for the costly policy of U.S. military hegemony could be called into question. For example, the underlying population failed to support the Obama Administration’s plans for military
intervention in Syria in the summer of 2013. Yet, indications of an internal challenge to global U.S. militarism are largely absent. What can be determined is that the ‘American’ dream has become merely a mirage for tens of millions of U.S. households who once saw it as their legitimate destiny.

References


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