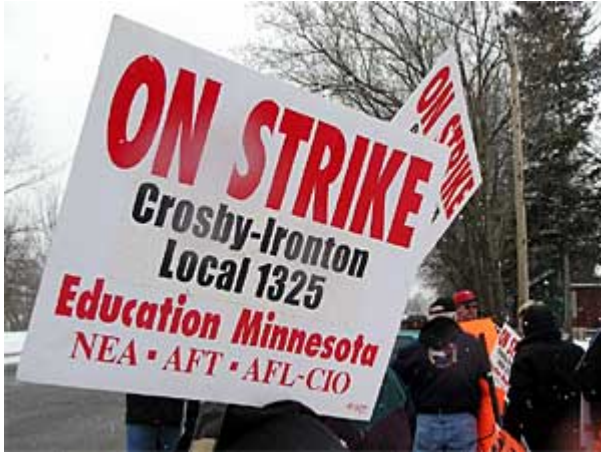


# Public Sector Workers and the Crisis

January 17, 2011



WORKERS ARE IN NO WAY RESPONSIBLE for the economic crisis of capitalism. This would be or at least should seem to be obvious to socialists. Noncontroversial as it may now be, this has not always been the case. There have been socialists — quite outspoken in their time — who had attributed past turndowns to a profit-squeeze triggered by cumulative decades of militant wage demands. They differed from mainstream economists only in the political slant such socialists advanced: to press such demands to the tipping point, presumably, of socialist transformation. Even the most thickheaded left-winger, on the other hand, would be hard pressed to resurrect that explanation for the current deep recession, which, if it is notable for anything, has been distinguished by the decades long resiliency of wage stagnation.

What is not so obvious to the left, however, is the truth of the symmetrical proposition, namely that capitalists too are in no way responsible for the crisis. It is not excessive greed, or reckless short sightedness; not an excess of risk taking or errant business practices on the part of the ruling class that caused this crisis. These predatory spirits are simply the "givens," the "constants" of the system. They no more cause business expansion than they do economic collapse and stagnation or — for that matter — war and imperialism. Liberals, in their ideologically constrained attempts to rescue the system from itself, believe in their heart of hearts, as they must, that taming the business cycle is ultimately an exercise in behavior modification realized through regulatory reform and enforced through judicious oversight; that the elimination of war similarly requires the search for appropriate international frameworks and networks of reciprocal commitments. The practical, reform proposals that liberals offer — even if they were technically workable to some degree — are generally negated and neutralized in the long run by market innovations that induce legal workarounds and system gaming. The pace at which reforms are undermined generally correlates inversely with the presence of a politically vigilant and engaged working class movement and the degree to which national capital is immune from international competition.

The antisocial conduct of capitalists is in reality an outgrowth of the relentless drive to invest, to outcompete and dominate the market or be driven into bankruptcy. It is the behavioral logic induced by a class system in which the appropriation of surplus labor is the sole means to the accumulation of capital.[1] Outcompeting requires raising the level of labor productivity. At the most basic level this process is fraught with difficulties insofar as increasing labor productivity requires producing more commodities with less labor per unit of capital invested, of substituting in other words — capital for labor. The mass of profits emanating from the relative decline of paid labor can therefore only increase if capital accumulates at a sufficient pace to offset that reduction. As productivity

increases there are relatively fewer workers exploited and a larger cost of invested capital over which to calculate the rate of profit. Because an increase in productivity permits the customary living standards of workers to be reproduced in less time, the conditions are generated for an increased appropriation of surplus-labor without a necessary decline in living standards. So long, in fact, as real wages rise less rapidly than productivity, a rising rate of exploitation is compatible with improved living conditions.

The end of business expansion results only when social conditions exclude a sufficient increase of surplus value for a further expansion of capital or — when the expansion of capital has reached a point beyond which any further accumulation would lead to the same or less surplus value than before. Problems in capital formation are therefore fundamentally rooted in the system itself — an overproduction of capital relative to the existing level of exploitation. Crises are necessitated, in other words, by the need to augment the rate of exploitation beyond the point realizable through the existing trend-line in labor productivity.

This leads to the convulsive process through which the temporary barriers to renewed accumulation can be removed. Portions of capital are demobilized, leading on the one hand to writing down capital values as a precursor to a more efficient, leaner structural reorganization. Massive political pressure is exerted against public spending in order to reclaim profits otherwise earmarked for taxation and thereby sacrificed to the accumulation process. Conversely, there is virtually no pressure exerted by capital against military spending, because these costs are accepted as a needed sacrifice to maintain an international order favorable to private investment. While unemployment forcibly drives down living standards below the value of labor power, it also ramps up the intensity of work as a diminished activated working class is forced to generate output previously produced by a larger complement of labor. This has the dual impact of increasing the unpaid portion of the working day while increasing the amount of exchange value generated in that unpaid portion, insofar as the increase in the intensity of work is uncompensated by a proportionate rise in real wages.

The upshot of this is that any real program for the defense of working class living standards in times of severe economic crises can only operate against reestablishing the conditions of economic recovery.[2] To attain the massive cuts in state spending and working class living standards necessary to restore profit rates, the ruling class needs to face a divided working class and to break those remaining pockets of working class resistance that offer a fighting alternative. This is always an issue in economic recovery, ramified however by the very depth of this, the worst recession in 75 years.

This in part contributes to the renewal of the nativist assault on undocumented workers. But this is an initiative mostly and most unfortunately originating from below. Agricultural, meatpacking, landscaping and hotel/restaurant businesses vitally depend on illegal immigration to underwrite their profitability.

IN THE CURRENT CRISIS, it has become increasingly obvious where the larger fault lines are beginning to break. The *New York Times* (August 7, 2010) breathlessly intones of nothing less than a "class war over public pensions" fomented by the private sector to enlist their employees against public workers, those who have retired and those down the line who will be dependent on state retirement funds. Unlike past battles against government workers, this is taking a bipartisan tone. Andrew Cuomo, for all his liberal pretensions, promises to engage against public workers much like his New Jersey neighbor, Chris Christie. The resistance against teachers' unions, which is the cutting edge of the battle, ranges across the political board, uniting Barack Obama to Newt Gingrich, to Mike Bloomberg to Al Sharpton. As Minnesota Governor and GOP Presidential hopeful, Tim Pawlenty told POLITICO, "If you inform the public and workers in the private sector about the inflated

compensation packages of public employees, and then you remind the taxpayers that they're footing the bill—they get on the reform train pretty quickly."

Behind this assault is the very real recognition that public sector now has the highest concentration of unionized workers in the American economy. Public sector unions are the de facto face of the labor movement today and the last bastions of union power. Public sector unions are effectively the frontline against dismantling state services, including the return flow of services that constitutes the safety net. The payment of unemployment insurance, food stamps, disability pensions, housing subsidies and social security/medicare[3] — that is, "entitlements" — for those who capital has thrown out of work, sickened, marginalized or has no further use — are themselves the victorious fruits of past labor struggles. These victories have always been subject to slander by rightwing demagogues maliciously playing off the employed against the forcibly idled. Welfare has already been transformed — under the previous Democratic Administration — from an entitlement to a time-limited, forced-work program.

Health and education, on the other hand, maintain the value of labor power, which, with the opening of new sources of labor in China, the third world and the former Stalinist economies, has, despite all the ritual bleating about American competitiveness, simply lost its urgency. What is needed can be purchased on the cheap; what can't can largely be offshored. A deficit of skilled workers — engineers and scientists — can always be countered by importing. It is precisely the prospect of a forcible reduction in the average value of labor power, delinked from productivity gains that otherwise allows labor power to be reproduced in less time with a constant or even expanding real wage, that, from capital's vantage point, now promises to make American capitalism more competitive. To finally break the back of the American trade union movement now requires a decisive defeat of public sector unions.

But what of the arguments themselves? Are public workers[4] in any meaningful sense privileged? On the face of it, yes. According to the Bureau of Labor Statistics, total employer compensation costs for private industry workers averaged about \$28 dollars per hour, while total compensation costs for state and local government workers averaged almost \$40 per hour. Moreover, the benefit packages of state and local workers average about 5 percent more than that of privately employed workers. Even more significant is that while about 61 percent of private industry employees had access to paid retirement benefits, 89 percent of state and local workers have such access. Medical care benefits are available to 71 percent of private industry workers, compared with 87 percent of government workers. For family coverage, the employer share of premiums was similar for private industry and government.

In and of itself, this should be a strong endorsement of unionization. But a closer look demonstrates the illusory nature of these benefit differentials. Keith Bender and John Heywood, in a paper entitled "Out of Balance? Comparing Public and Private Sector Compensation over 20 Years" point out that these comparisons overlook significant issues. Employees in the public sector are twice as likely as their private sector counterparts to have a college or advanced degree. When the comparison is adjusted to take education into account, state and local government workers actually earn between 11-12 percent less than their private sector counterparts. Moreover, in the past 20 years the earnings for government employees have generally declined relative to the private sector. And although benefits (e.g. pensions) comprise a greater share of the total benefit package for public workers, total compensation still lags around 7 percent in the government sector.

Even this tends to understate the issues. What it does unfortunately indicate — contrary to the popular perception — is precisely how vulnerable public workers are even when organized. On closer inspection, public sector workers, due to waves of hiring freezes, tend to be on average 4 years older than private sector workers, and have more time on the job. Moreover, the comparison

of large government sectors — the equivalent of huge corporations, with the "private" sector, whose average undertaking is dwarfed by the scale of government, makes little sense. The large share of small businesses in the private sector, which typically offers lower pay and benefits, so distorts the issue as to render comparisons based on the raw data nearly useless. To properly make the case, therefore, that public sector workers' wages and benefits are excessive would require a match with workers in a similar cohort within the comparable sections of the private sector. This is never done. Needless to say, the right's case against government workers is not scientific, but propagandistic: to play both sides against the middle.

BUT THE REAL FAULT LINES extend beyond pensions to matters of wages and benefits, and of employment security. There are larger fundamental differences between private and public sector workers that the right seeks to exploit. Public sector workers do not, for the most part, produce marketable products and therefore do not create exchange value for the system.[5] State workers are indeed exploited, because they — like all other workers — are paid not for their entire expenditure of labor time, but for their socially determined reproduction costs alone. But as a cost item, the outlay on their wages and benefits represent a portion of the unpaid labor time of the private sector's total exchange value that needs to be sacrificed for the reproduction of the system as a whole. To the extent that working people in the private sector pay taxes to the state, that portion of the working day represented by state revenues that do not flow back to the working class in the form of services—as part, in other words, of the social wage — are converted from paid to unpaid labor time. To that extent, the capitalist state is a source of additional exploitation. Its expansion and growth is predicated on the unpaid labor that can be squeezed from private sector workers either in the form of taxes on profits or wages.

Those liberals who still defend public consumption for all the good works that are performed in that realm can hardly compete on the ideological plane in times of crises with conservatives who insist that "individuals" know best how to dispose of their incomes. From a capitalist standpoint, surplus value that is directly converted into state revenues cannot be accumulated. In good economic times, this sacrifice can be tolerated for social peace, just as long, that is, as there are sufficient profits to expand both the public and the private spheres. In bad times, there is an opportunity for capital to make common cause with its own working class — a working class, hard pressed by the threat of unemployment, declining wages, home foreclosures and debt peonage — to shrink the scope of the state, whose tax burden is an additional source of working class distress.

Liberals can argue until they are blue that the challenge is to change the incidence of the tax code and shift the burden of state revenues upwards, or to shift the priorities of the state away from militarism to fortify and expand the social safety net. These are worthy agendas. Still, workers are understandably wary of such blandishments, given the history of tax avoidance on the part of business and the wealthy and the historic inability of society's rank and file to meaningfully participate in shaping government priorities. And they are similarly restless with the wonkishness of liberal proposals that equally exclude working people from the debate. The conservative appeal to workers is, in stark contrast, a call to political action, with the promise of immediate relief.

That is where socialists have a role to play in bridging the divide between public and private sector workers that cannot be performed in a socially "acceptable" or convincing fashion by left liberals. Liberals, including left liberals, are not merely socialists with a different set of policy preferences. The liberal left is ideologically hindered by their loyalty to a system that they wish to see strengthened and which socialists seek to replace. Liberals cannot insist and have not insisted that all the rightwing palaver about "individuals, not government, best knowing how to dispose of one's income" and about "the burden to our grandchildren of government debt" are just smokescreens for opening a second front against the working class. Their proud "political realism" is grounded in a theoretical netherworld where the purpose of public policy is to reconcile class

interests. The traditional Keynesian argument that crises are caused by lack of effective demand, and not, as both the business community and socialists argue, by a lack of profits, reinforces liberalism in this peculiar ideological bind. The precepts of functional finance were the traditional answer to the conservative cry of "out of control" public spending. Its ready prescription of deficit induced state production to compensate for sagging private production is, in theory, self-financing, and therefore unproblematic, over the course of the business cycle. This pump priming is, in other words, supposed to put into play sufficient idle capacity as to generate adequate additional revenues for retiring the deficits initially incurred to set the entire process in motion. That these deficits were instead largely squandered in the bailout of the banking system and Wall Street, with little to show in terms of induced production, has left liberalism in a quandary. Having recapitalized the financial system with funds that could have otherwise effectively shored up local and state government budgets, created green jobs, and expanded infrastructure, the administration has exhausted its political capital. An intact banking system in isolation cannot jump start capital accumulation. It will not lend money for investment or to finance trade unless convinced of the prospects for a resumption of profitability. Consequently, the administration has been unable to produce an adequate demonstration that additional deficit spending to lift the economy out of its doldrums actually works. Liberalism in power — that is, the Democratic Party — has no fallback position, therefore, other than to capitulate to the immediate demands of the business community for relief from the overhead costs of government.

It is after all "entitlement" spending rather than those traditional aspects of the state necessary to preserve and expand a social order favorable to capital accumulation, either domestically or abroad, that is under attack. And it is the state workers who administer and allocate those entitlements, not the military bureaucrats or the recipients of military contracts, not the intelligence agencies, not domestic police enforcement, and not the penal and parole systems that private sector workers are being mobilized to undermine. It is the prospect of huge swaths of entitlement revenue and government operating costs — the entire associated structure and substructure of public spending — being reconverted back into a fund for capital formation that the ruling class seeks to attain. The private sector job creation that can be expected to accompany this accumulation will invariably be purchased at the cost of the social safety net, of public education, community hospitals, libraries, and mass transit. There is no way to maintain the social component of wages or entitlements such as old age insurance, disability insurance, or modestly reasonable unemployment benefits, etc., without at the same time preserving and expanding government employment.

Moreover, the types of jobs that the private sector is poised to create now increasingly conform to a platform prototype with an increasingly fractionalized production structure. For those companies that still have significant manufacturing assets, they are devoted to in-house, complex, capital rich processes or products that generate few jobs. Low-value added, end of the line physical production is most likely being subject to outsourcing, which, domestically, means by part-time, free-lance, and contract workers with no union protection, job security, or benefits. As work becomes more provisional, workers who manage to hold on to the remaining full-time jobs will begin to seem like a privileged elite, much as government workers now appear. The dismantling of state services and elimination of government jobs will simply channel the unemployed towards this work, hastening the process of working class stratification and immiseration.

Just as the threat of corporate bankruptcy has been the fulcrum to whipsaw private employees into acquiescing to the loss of private pensions and health care plans, so too is the threat of government insolvency being effectively touted as the pretext to dump outlays earmarked for public consumption. This ruling class narrative is so effective that "runaway government spending" is now a close rival that threatens to surpass the seemingly intractable problem of unemployment as the principal public concern in opinion polls. The particular effectiveness of this appeal to workers in the

private sphere is that it speaks to their immediate need for lower taxes and more disposable income in times of economic contraction. The sacrifice of long-term interests is, in effect, a play on working class desperation at its most vulnerable point. Once again, the Democratic Party can be expected to volunteer itself as the most appropriate vehicle to reassure the working class that they and they alone can be trusted to organize an orderly and sensible retreat; that they and they alone are needed to "maintain" a realistic level of entitlements, e.g., further delaying eligibility ages, reducing cost of living adjustments, etc. in the Social Security program. The Obama administration has already signaled its willingness to put all these concerns on the table, promising only to hold the line against Social Security privatization. Even this assurance is rather thin gruel, given the administration's track record of wholesale capitulation to the insurance industry during the recent health care debate.

MIDDLE CLASS LIBERALISM — the liberalism of the professional classes — is fast becoming a political and social blind-alley for realistic working class politics. Their concentration in knowledge based activities will undoubtedly allow these elements to better weather the existing crisis. Their livelihoods may be palpably threatened by the scope of the crisis; working class incomes have come under active siege. The crisis cannot and will not be resolved on the backs of the middle class. Middle class liberalism can no longer be seen even as fair weather working class allies. Their conditions of existence provide no steady source of social discontent and therefore no continuous source of struggle from which a larger political program of resistance can emerge. If middle class independents, who combine fiscal conservatism with social liberalism, have not made the full leap into the Republican party it is largely because they are reluctant to merge their interests with fully fledged Tea Party reaction. But Keynesian bromides, and there is little left of middle class liberalism beyond this, retain little allure for them. They may still be capturable for the Democratic Party adrift to the right, but they will not play a crystallizing role in the struggle to prevent the retrogression of capitalist society. This is not a sufficient cause, to be sure, for socialists to write the middle classes off altogether, but it is sufficient grounds to look elsewhere for leadership against the rising tide of business reaction. A dynamic program of resistance can still turn much of the confused and anxious sections of the middle class to the left.

Their plight is indicative of a wider trend in American politics. According to a recent *Wall Street Journal* poll, America is entering an age of "unprecedented unstable political attitudes" (8/13/10). In the midst of the worst post-war economic downturn the popularity of both parties is sinking simultaneously. As confidence in the two party system to address the crises erodes, an opening for independent politics naturally presents itself. But only if the left is willing to take the initiative to define and clarify the true dimensions of the crisis. It can do this only by means of a clear class struggle program that places these dimensions in proper context. In this there are lessons to be learned from the scapegoating of public sector workers. First, the working class needs immediate and significant relief from taxation.

When the right raises this demand, it is being both demagogic and self-serving. The wealthy pay a disproportionate share of taxes only because they appropriate a disproportionate share of the social product. Their real purpose in raising this demand is not tax relief for workers. It is to shrink the state, to cast off the burden of public sector wages and reduce social entitlements. In so doing, the wealthy hope to increase their accumulation fund without sacrificing the extravagant personal consumption that has become their unchallenged class entitlement. It is only by capitalizing on the desperation of hard pressed working people, a desperation borne in the first instance by capitalism itself, that the demand for tax relief becomes an exercise in misdirection.

The left needs to make the demand that working class taxes be eliminated. From an economic standpoint this is not impossible. The top 10 percent of income earners paid about 73 percent of the federal income taxes and they accomplished this at effective rates of taxation that are under 18

percent for the wealthiest 400 households. A modest increase here should do the trick. But if that fails to keep pace with the "growing burden" of working class "entitlements" (paid separately by Social Security and Medicare/Medicaid taxes), consider this. The top 1 percent of financial wealth owners as of 2007 controlled almost 43 percent of the entire American pie; the bottom 80 percent — roughly the working class — held exactly 7 percent. In recognition of this, income taxes on the wealthy should be supplemented with a demand for a wealth tax. And socialists might further raise the demand that every percentage increase in productivity that capital extracts from the working class be matched by an appropriate increase in wealth taxes needed to ensure a proper and orderly expansion of working class benefits. It might further be proposed that a phasing out of working class contributions to these funds be financed not only through a wealth tax, but through levying a tax on stock market and currency transactions, the type of taxes least able to be passed back indirectly to the working class.

There is no such thing as a "fair" and "equitable" tax system under capitalism, nor is there the possibility of attaining social justice through a revamped tax code. Socialists should not participate in this façade. Capitalist income is unearned income; the fruit of exploitation based on the ownership of property. The taxes that the wealthy pay were first extracted from working people in the course of production. The demand that the wealthy bear all the financial burdens of the capitalist state, a state that above all ensures the orderly functioning of a system of exploitation, is simply the demand that the division of the collective working day be rather modestly redrawn independent of market operations.

Socialists should moreover urge the working class not to accept without contest the nonsense that pension savings give working people a stake in the system, because such programs are tied into the stock market. The pension system is merely a system of reinforced exploitation. Workers advance capital a portion of current earnings, either directly or by foregoing raises, which is then applied to extract surplus labor elsewhere, a tiny portion of which may —no ironclad guarantee here — eventually return to workers in the form of a modest retirement annuity. If this supposedly makes workers all "stakeholders" in capitalism, it does so to the same degree that a pickpocket who leaves the victim enough change to buy a lottery ticket accords the mark a stake in pickpocketing.

Finally, socialists might turn the attack on public sector workers inside out. The left should resurrect the demand that the government act as the employer of last resort, that any worker should be eligible to participate in the advantages — such as they are — of public employment. Why restrict these jobs, as liberals are so fond of doing, to shovel-ready jobs, or even green job? This is simply too restrictive. Such qualifications preclude from public employment those who cannot perform heavy labor. But more important, this restriction overlooks the vast inventory of unmet social needs that extends beyond the physical infrastructure, neglected by a system long characterized as one of public squalor. Such needs are readily identifiable: community and housing services; childcare; drug and alcohol rehabilitation, legal advocacy, violence prevention, adult literacy and other educational services. These enhancements to the social infrastructure have an immediate impact on the quality of working class community life. This necessarily requires deficit spending and massive revenue sharing with the states where most government jobs are. And it drives this need, not in terms of "saving capitalism," but in terms of concrete programs of working class communal amelioration.

Its political significance is that it subordinates the necessity of deficit spending to working class struggle and cohesion without assuming direct responsibility for the capitalist crisis. To take responsibility is to cap the movement at its knees. It invariably translates into a labor movement ideologically susceptible to the need for additional sacrifice, as long as it retains consultative rights on the conditions and dimensions of its surrender. The point is to demand that people be put to work in socially meaningful capacities, regardless of its effect on accumulation and profitability. It is a demand that raises the issues of social responsibility above that of private property. The radical left

should raise this demand in full knowledge that a growing public sector without democratic control from below, even if practically realizable, would further contribute to the bureaucratization of capitalism. This would nevertheless still be a qualified victory insofar as it entails a compromise forced upon capitalism by a working class gaining in social vision under circumstances most conducive to further unionization. It carries within it the momentum to drive the logic of labor's own existence beyond the confines imposed on it by the profit system.

But these are not socialist demands. The working class as it is presently constituted is not receptive to socialist demands. The point is to change the conversation and in so doing raise a perspective that cannot and will not be raised by the existing political parties. It is the perspective of real working class solidarity.

Socialists should not expect the union bureaucracy to raise these issues. The trade union leadership has spent decades desperately demonstrating how indispensable they are to the fortunes of the Democratic Party, more so ironically as the electorate is actively bailing as never before. It will become, if it is not already, manifestly clear that it will be the allegiance of swing voters that the Democrats need and will most passionately seek. Yet rather than this being evidence of the need to distance the labor movement from the Democrats, if for no other reason than to be more attractive to them, the union officialdom will undoubtedly draw the opposite conclusion. If past behavior is any guide to the future, it will merely stiffen their resolve to remain the most loyal of Democratic constituents. Labor can be expected to give them virtually free reign to conciliate any rearward elements that might be usefully employed to give Democrats an electoral advantage. Their enabling behavior will inadvertently continue to be a contributing factor in an electoral movement to the right.

Neither is this a question of calling for a new political party of the left. A party of the left can only be built from a gathering movement of struggle. It cannot be conjured forth on the basis of programmatic merit. But where there is evidence of fight back, of social resistance — among rank and filers, the 99ers (those collecting unemployment insurance that had to be extended beyond the norm to 99 weeks due to the recession), where businesses or shops face closure, among beleaguered government workers — the thrust of the struggle is fundamentally progressive and workers can be receptive to radical ideas. Building a movement with a boisterous radical agenda, even when well short of becoming an electoral presence, can still contribute mightily to shifting politics to the left.

THIS CRISIS HAS SIGNALLED a global employers' offensive against these last remnants of the welfare state safety net and the public sector workers, largely unionized, who administer these programs. For public workers this is an immediate issue of job security, but the ruling class cannot dismantle the remaining vestiges of the welfare state without decimating the unions that stand in the way of its larger political and social ambitions. So for better or worse, public workers are the incidental last bulwarks of labor resistance. This explains why they have been subject to an unprecedented level of propagandistic venom from the business press, ginning up a near lynch mob reaction against these "privileged" workers, who "live off the taxes of ordinary struggling Americans."

The trend line of the rate of profit has been falling since the early 1970s, despite more than three decades of wage stagnation and relative and near absolute working class immiseration. That only sufficed to keep the system barely humming. The business class is now sitting on an ocean of cash, having largely liquidated their inventories during this recession. They will not resume investment until they are convinced of the prospects for enhanced returns. Wages have fallen, now it is time — according to capitalist reckoning — to liquidate government overhead.

If capital cannot convince itself of its need to part with liquidity and restore momentum to the economy without additional working class sacrifice, the working class must look to its own program



and make capital part with that liquidity and jump start the economy on an entirely different set of terms.

## Footnotes

[1] This analysis derives from the approach of Marx, according to whom "all economy is finally reducible to the economy of time." All class relations, in the end, constitute varying means of expropriating the material surplus of the productive classes by those who possess a monopoly over the means or conditions of work. That is, all class societies are based on the division of the working day between that needed to replenish the capacity to work (necessary labor time), and that over and above which can be appropriated by the socially dominant class (surplus labor time). Where that line is drawn under capitalism is determined not physiologically but sociologically through the interaction of productivity change with class struggle. Under capitalism, the atomized structure of independent productive units is unified into a system of social organization by means of marketplace structures. Class relations take the form of specific market relations — wages and profits — concretized in terms of exchange values or prices. The monetary units in which these prices are expressed have an implicit labor time content insofar as the price of the net annual product is, at the same time, the outcome of a specific quantity of collective labor time productively worked. The ratio between the two is the labor time expression of the monetary unit. It is how an hour of simple, average labor — labor of average skill and intensity — is concretely represented. This reduction allows for the quantitative relationship between qualitatively different use values to be expressed in homogeneous invariable units of embodied labor time. The theory of value however is not a theory of relative prices, but rather an instrument for the analysis of capital accumulation that centers social conflict in terms of exploitation. Changes in productivity — in output per unit of labor time — make possible in turn changes in time relations between the labor required to sustain and reproduce workers and the surplus labor time that falls to capital in the form of additional exchange value realized in profits. But changes in productivity require investment decisions that necessitate plowing back capitalized surplus value (profits) into the system as labor-saving innovations. This is not to deny that there are other ways to derive a theory of capitalist exploitation. But without the "labor theory of value" such insights have ethical connotations alone and cannot be extended to investigate the material connections that regulate the accumulation process.

[2] Liberal economists deny this. They point out that deficit spending — the borrowing of unused liquidity to prime the pump of economic activity — has a multiplier effect on income, which can turn around an economic downturn and change the shape of capitalist crises. Paul Krugman and others attribute the anemic showing of the Obama program not to a fault in the theory, but to the insufficiency of the undertaking. But unless profit expansion resulting from the economic stimulus can be shown to exceed the input of funds withdrawn from the private sector, the entire undertaking makes no sense from the point of view of capital accumulation, whatever the scale of the operation. Incomes and employment can expand, but only within the context of a state that has grown at the expense of the private sector. This is precisely what the business community fears and what liberals — despite their sincere commitment to the free-market system — side step. The experience of the second world war has, nevertheless, given rise to a great misunderstanding widely shared by socialists, that Keynesian intervention ultimately "saved" capitalism in the form of a war economy. But a war economy is a nonaccumulating economy. Idle resources are put into play; output, however, is used not for capital formation, but for armaments. It is not the private sector, but the state that is enlarged. What was changed was the shape of the crisis, not its underlying causes. Capitalism was ultimately "saved" by the massive increase in the rate of exploitation carried through by means of forced savings during the war years, that was later available for capitalization when the

need for a fully fledged war footing receded. In the 1930s, the growth of the bureaucratic state bought the system a modicum of social peace, pacifying a militant trade union movement that, otherwise unchecked, threatened to develop in a socialist direction. This is not a current political imperative. The evisceration of working class institutions in the past 40 years has diluted the urgency of such aggressive counter cyclical activities, which explains to no small extent why liberals have capitulated so seamlessly to the business call for deficit reduction. This capitulation is, in effect, a call to deepen the crisis by ramping up the offensive against the working class until the necessary rate of exploitation can be restored. Liberals cannot acknowledge this. They do not have the ideological or theoretical framework to do so; socialists must.

[3] President Reagan slashed SSI, and Congress still whittles away at it. They would like to turn Social Security into a means-tested program. That would get a lot of public support because there is a certain logic in not giving it to the rich, but that would be the beginning of the end for the program because as soon as a program loses its universal status, it is doomed to get cut.

[4] The term "state workers" is used here in the generic sense of government workers. Most studies however are confined to state and local workers and exclude federal government workers. State and local employees comprise approximately 17 out of 20 million civilian government employees. Moreover, the state and local budget crises are largely attributed to excesses in worker pay and benefits. On the federal level, the public debt "crisis" is a crisis not of employee pay and benefits, but of "entitlements." That is, on the federal level, the cost of maintaining a working class as it ages out of employment and sheds its commodity character — that is, has lost its usefulness to capital — is considered the source of the projected "crisis". There is always some element of additional confusion because a great deal of federal benefits are administered by state workers, whose pay is first deducted from the federal coffers and then transferred to the states as general revenues. But the difference in the character of the so-called crises between the two sectors of government — state and federal — is one between operating costs and program costs. The combination of the two is what is meant by "runaway government spending."

[5] Ever smaller portions of wage workers under modern capitalism are employed in production including the production of services, compared to retail and wholesale trade, commerce, and finance. To the extent that the production process is not continued in the packaging and display of items, such work that purely involves the exchange of titles of ownership — bookkeepers, accountants, cashiers, etc., create no new value for capitalism. In this limited sense, these nonproductive workers — not productive, that is, of surplus value — belong to the same broad category as government workers. They are exploited, in the same sense that public sector workers are exploited, because they are paid not for the entirety of the working day, but only for that time socially determined for the reconstitution of their ability to work. The difference is this. The wages of nonproductive private sector workers are carried over into the price of the final product analogously to the cost of fuel and raw materials, that is, as circulating constant capital. For unlike government workers, their efforts facilitating the purchase and sale of commodity values are part of the total process of capital accumulation. Their purpose is to reduce the turnover time of productive capital and thereby minimize the total amount of time that would be otherwise lost to production in the process of marketing and selling commodities. The wages of these private sector nonproductive workers are nevertheless an additional cost of production made good out of sales, rather than a deduction from surplus value as are the wages of civil servants.