On Strike

September 17, 2011

On Thursday, House Speaker John Boehner told the Economic Club of Washington, DC, "Job creators in America are essentially on strike."

He was quite right. Although most people have heard of a strike by workers, capital too can go on strike, and often has done so to achieve its political and economic goals.

Economists Sam Bowles and Herb Gintis explained in their book *Democracy and Capitalism* how the capital strike works:

> "The electoral prospects of an incumbent government depend on the general performance of the economy in the period preceding the election, particularly the level and growth of employment and personal income. The overall performance of the economy, in turn, depends on the level of investment. The level of investment in any given country depends on the anticipated domestic profit rate compared with expected returns in the rest of the world, and compared also with returns to non-investment uses of capital. Therefore the adoption of public policies that reduce the expected rate of profit also tend to reduce the electoral prospects of the incumbent government." (p. 88)

So even though corporate profits are at extremely high levels – they grew by 44 percent from 2008 to 2010 and have continued to grow — and even though the internal cash available to corporations for investment increased by more than a third over these same years — corporations are not hiring. Capital is essentially saying to Obama: unless you lower our incredibly low tax rates even further, unless you reduce even more the minor regulations that impede us, we'll refuse to invest, and thus maintain the devastating unemployment rate and doom your re-election prospects.

The capital strike is not a new phenomenon. Both the British Labour Party and the French Socialist Party "reneged on electoral promises in order to avoid antagonizing capital." Leaders of these parties, "from Harold Wilson to Laurent Fabius, confirmed that these revisions in policy were made in order to maintain levels of profitability high enough to encourage investment." (Peter Hall, *Governing the Economy: The Politics of State Intervention in Britain and France,* 1986, pp. 262–63.) In the United States, President-elect Bill Clinton was told by his advisers the constraints within which he had to operate. Said Clinton, "You mean to tell me that the success of the program and my reelection hinges on the Federal Reserve and a bunch of fucking bond traders?" (Bob Woodward, *The Agenda: Inside the Clinton White House,* 1994, p. 84.)

Does this mean that we are helpless against the power of corporations, that we have to give them what they want and what they demand or else the economy will be crippled and working people and the poor will continue to suffer? No, but it does show the limits of small incremental reforms. You can't defang a tiger one claw at a time, as R.H. Tawney once said. In the same way, you can't make tiny dents in the capitalist system because corporations will use their remaining power to crush you. The only solution is to take strong measures to break the power of capital, and that means removing the investment decision from them. Mitterand could have pursued a social democratic program, but only if he dared to nationalize key sectors of capital. Clinton could have freed himself from the constraints of the bond-traders, but only if he challenged their power directly. Instead, he appointed these very representatives of capital to the key economic positions in his administration (Indeed, it is another dramatic instance of how narrow the difference is between Democrats and Republicans that while Clinton's Treasury Secretary was the former co-chair of Goldman Sachs, Robert E. Rubin, George W. Bush chose as his Treasury Secretary the chair and CEO of Goldman Sachs, Henry Paulson. At least when John F. Kennedy chose a Defense Secretary to follow Eisenhower's George Wilson, the head of General Motors, he picked Robert McNamara, the head of a *different* auto giant, Ford.)

Obama too has staffed the upper economic positions of his administration with investment bankers and corporate honchos. There is no doubt that Obama would like to lower the unemployment rate — which threatens his presidency and the Democratic Party going into the 2012 elections. But to do so he'd have to directly confront the corporations. Those whom he's chosen to oversee the economy and those on whose campaign contributions he depends (as well as the whole record of his presidency) make it exceedingly unlikely that he'll undertake such an attack. Perhaps the fear of being a one-term president will jolt him into adopting a new approach. But don't hold your breath.