Democracy or Disaster: The path away from converging global crises

Jon Rynn, 1/17/2006

There are three large-scale crises that have been developing over the last 50 years that are now threatening to converge. The American economy is in danger of going into permanent depression, the infrastructure is in danger of collapsing, and the global addiction to oil is in danger of overheating the global climate and relations among nations. All of these looming crises can be solved, but only if manufacturing is rebuilt in this country and the working people are empowered as they participate in the rebuilding process.

The first problem is that by 2020, if not earlier, we could be reaping the horrible consequences of a reliance on oil as our main fuel for transportation. Global warming was probably partially responsible for the terrible hurricanes of 2005, including Katrina, and this is only the beginning. The debacle of the Iraq war is partially attributable to the fact that Iraq sits on a pool of oil, and there are surely more oil wars to come. By 2020, if not earlier, many observers agree that we could start to see a significant lessening of the amount of oil available globally, which would lead to huge increases in the price of gasoline; at present growth rates, China, India, and other countries would be bidding up the price of oil just on their own. On top of all this, the collapse of the dollar would make oil prohibitive for most Americans. The United States of the post-World War II world was built on the assumption of cheap oil forever. If Americans were facing gasoline at $10 to $20 per gallon, they might be attracted to demagogues advocating the solution of the energy crisis by invading oil-producing countries (come to think of it, maybe they already are). Thus our addiction to oil has managed to create potential and actual economic, military, and environmental crises. Is an SUV really worth it?

The second set of crises will be brought on by our deteriorating infrastructure, as we saw so ominously in New Orleans. Global warming will interact to accelerate the onset of infrastructure-related problems, as extreme weather and rising water levels threaten crumbling water control systems, or bridges, or roads, or sewage systems. Almost every city is vulnerable. In addition, as we saw in the case of the Indian Ocean Tsunami in 2004, infrastructures need to be hardened against threats that only occur in cycles that are measured in hundreds of years. For instance, the Seattle area should have its brick buildings reinforced, because a huge earthquake and tsunami, it has now been determined, will eventually occur there. The American Society of Civil Engineers has raised the alarm by issuing an annual report card on the state of the U.S. infrastructure. The overall grade: D. The minimal cost over 5 years of getting to A: $1.6 trillion.

Finally, the U.S. threatens to drag down the global economy. The American middle class, which has been supporting much of the world economy, is in danger of disappearing, and the deep-seated reason is the collapse of manufacturing in the U.S. Because manufacturing is declining, many other economic problems are taking place.

First, a huge, unsustainable trade deficit continues to grow. The accumulated trade deficits over the last 20 years are over $4 trillion, and added over $700 billion in 2005. Americans and citizens of foreign countries prefer non-American goods over American ones because our manufacturing system is becoming less and less competent, partially because the military economy has warped competitiveness, as the late Seymour Melman showed. Almost all economists agree that the continuing increase of the trade deficit is unsustainable, even as they claim that the U.S. economy is the best in the world. At some point, the U.S. dollar will suffer a precipitous decline, and when that happens, the prices of all the goods Americans like to buy will double or even triple. People who can buy TVs, cars, and toys can at least claim to be middle class; people for whom such goods would be out of reach would most certainly not be so labeled.

The second looming economic crisis is the bursting of the housing bubble. The speculative buying and selling of houses, and the explosion of home equity loans, I believe, is related to the fact that the disappearance of manufacturing leads to an economy in which no other form of investment yields decent returns. After real estate, there is no other place to go. This occurs while there are now $8 trillion in mortgages.

Third, the wages and salaries of most people in the middle class are stagnating at best, and going down at worst. Without the economic base that a strong manufacturing sector and solid infrastructure provide, economic growth for the vast majority of people in an economy is simply not possible. The average consumer is actually in debt, that is, there are virtually no savings when you add all consumers together. Therefore, we depend on foreigners to provide the bulk of investment money. Now pension funds are under assault as are health care benefits, because corporations believe that the labor market is so bad that managers can get away with it.

A consequence of this terrible employment picture is that foreign investors, in particular from Europe and Japan, bring trillions of dollars over here, because they view the U.S. as having a "favorable business climate". Translation: we screw our workers. Our economists advise their European and Japanese counterparts that in order to turn investors' attention back to Europe and Japan, they need to "reform" so as to make themselves more attractive. Translation: Screw your workers. The United States, not China, is leading a race to the bottom, which has negative consequences for the global economy, about which more shortly.

Finally, the budget deficits, which have accumulated to the tune of almost $5 trillion, are partially a result of the lack of producing power that comes from a wrecked manufacturing base, and partially because the rich have been given huge tax cuts and the military has been funded way beyond its needs. This, in turn, is a consequence of the increasing power of the most powerful in this country. The power elite of this country, like many countries in the past, have turned from building up the country to ripping it apart and selling it off. They use the military, as in the case of Halliburton, to funnel money out of taxpayers' pockets, and they try to stick the middle and lower classes with the bill for maintaining what's left.

As the founders of this country realized, those with power try to accumulate more power, until democracy is threatened. After World War II, the political elite in the U.S. saw that they controlled history's largest military, with 50% of the world's GDP as its foundation. They were chomping at the bit to use that massive power, and the eventual result was the Vietnam War. After the Cold War ended, the neoconservatives saw the collapse of the Soviet Union as a similar moment in history, one in which the overwhelming power of the U.S. could be used to create an empire, and the result is the war in Iraq. In similar fashion, the heads of U.S. multinational corporations saw their dominance as an opportunity to destroy unions at home and construct a low-cost sweatshop empire abroad. These political and corporate elites, like elites before, are too blinded by their lust for power to understand that they are destroying the base of their power, the United States.

The result of all this is that the U.S. could become mired in a recession that does not end. In most recessions, as in the Great Depression, the manufacturing capacity of the economy escaped much damage. But after the 1982 recession, with its sky-high interest rates and the assault on unions we saw in the breaking of the PATCO strike, the manufacturing sector began its final dive. The 1990s saw a final technological boom, much of which was illusory, leading to the stock market bubble-popping of 2000. Since then, the housing market has kept consumer spending increasing at an unrealistic rate which, in conjunction with foreign investment, has kept the economy afloat.

Like a red sun, the last stage in the life of a star, in which the core has been burned away but the outer layers expand to many times the original size of the star, the U.S. is destroying its core of manufacturing while staying alive with speculative binges and military and imperial expansion. When the final collapse happens, all that will be left is the dregs of a manufacturing system, and a nation that will be close to the income level of the neighbors it dominated for so long, in Latin America.

Europe and East and southern Asia will also experience a depression, but it will fairly short-lived, because these regions either have a large manufacturing sector or are constructing one. Since they have become used to gearing their economies to the sale of their products to the American middle class, when that middle class disappears, they will have no place to sell their goods, and so they will contract. But because they will still have the potential to produce goods, they will need to sell their extra goods to themselves, that is, they will have to raise the level of income of their own citizens.

The rest of the world has been mired in slow-growth because the world's elites have been redirecting so much capital, not back to their own economies, but into America's. European and Japanese economic elites are no more forward-thinking than America's; they invest in the U.S., and not their own countries, because they like the "business environment" of the U.S. which they think will lead to larger profit margins. In the long-run, however, they are throwing away their investment capital and traded goods, because they get little in return from the United States.

To take the example of China, the government uses the more than $100 billion in trade surplus with the U.S., and turns around and buys about the equivalent in treasury bonds from the U.S., that is, it buys the U.S. federal budget deficit. If the value of the dollar collapses, so will the value of those bonds. The Chinese accelerate the decline of production in the U.S. by keeping their currency cheap, thus keeping Chinese workers employed by making low-wage goods for Walmart and others. Instead, the Chinese could, in effect, buy the goods they are throwing at the United States, and spread the goods to their own population by instituting a safety net, which does not now exist in China. What scares the elites of China, Europe, and other regions, is that by reorienting to their own markets, they will make their own workers more powerful. Powerful workers demand more political and economic power, and before you know it, the society might become truly democratic.

The problem for the worlds' elites, and the promise for everybody else, is that the only way out of this mess is to empower the world's working and middle classes. In the United States, this will entail the reconstruction of the manufacturing base, which will lead to such a high level of employment that workers will be able to demand pensions, health care, and other "perks" that the major corporations have been working so hard to deny.

There is a medium-term strategy for establishing and maintaining an industrial base, and a long-term strategy. The medium-term strategy is to replace the military-industrial complex with an infrastructure-industrial complex. The Federal government's role would be to use the promise of large sources of funds to force state and local governments to coordinate their buying policies so that the basic components of a manufacturing sector were recreated. There is no subway industry in the U.S. If the major cities coordinated their buying plans for subways, they could provide the startup capital to create subway firms and attendant subcontractors, and local governments could provide the long-term, stable markets that subway firms need to stay in business.

The long-term strategy of economic reconstruction would be to move ownership of American firms from the current stock market, managerially-based system to one in which employees owned and operated their own firms. Without employee veto of management decisions, even the firms that were created by the infrastructure-industrial complex could still try to shift production abroad. But if workers owned their own company, they would not vote to move abroad and so lose their source of income. Nobody would want to do something that would guarantee the loss of their jobs. In addition, as the late Seymour Melman has shown, employee owned and operated firms are more productive than their managerial counterparts.

An economy with a rebuilt manufacturing and infrastructure would be able to solve all the economic problems outlined above. No more decade-long bubbles; people would have solid manufacturing firms to invest in, firms that were actually creating something tangible. The trade deficit would close because we trade our goods for their goods, and because our own citizens might actually like to buy American. The middle class would recuperate because of the creation of good jobs; the tightening job market would also help to overcome racism and sexism on the job. With more income would come more saving and less debt, including less Federal debt.

But we would still face the frightening prospect of the economic, military, and environmental disasters brought on by oil. That is why the centerpiece of a plan to rebuild manufacturing should be the goal of greatly expanding the mass transit systems of America. At this point in time, the technology to replace gasoline as the main fuel for cars seems to be decades away. On the other hand, it seems that it may be possible to construct coal-fired electrical plants that have zero emissions. If so, then the transportation system should be reoriented to electrical energy sources, and this would mean that electric rail and bus systems would be the way to go for a world with drastically reduced oil consumption.

A focus on mass transit would mesh with the other two solutions, rebuilding manufacturing and rebuilding the infrastructure. Producing transportation machinery involves almost all parts of the manufacturing, as pointed out in the discussion of subways. The transportation system, along with the electrical, communications, and water systems, are the core of the physical infrastructure of a country. By replacing our automobile-based transportation system with a rail/bus system, we could repair the transportation system at the same time that we prevent or ameliorate crises created by oil, the decline of manufacturing, and the inattention to the infrastructure.

The implication of this plan is that the government has two major economic responsibilities that it has yet to fully embrace; the maintenance of the manufacturing sector, and control over the infrastructure. There is no need to juxtapose government intervention in the economy vs. the free functioning of the market. For the vast majority of industries, the market is obviously the best way to allocate goods and services. Even for manufacturing, most of the time, the government not need intervene. But by using its control over the infrastructure, government can encourage and protect the manufacturing. Just as ecosystems are protected by intervening at strategic points, but are allowed to function naturally most of the time, the government can keep a watchful eye over the manufacturing base of the economy.

This reorientation of the government within the economy requires a greater control over the infrastructure, and greater employee ownership of firms. Because of their cost, for instance, it may be necessary for the government to build clean coal electricity-generating plants, and with them, it may make more sense for state and local governments to control the electrical and energy systems. If transportation is based on mass transit, most of the transportation system will be controlled by government as well. The advance of the Internet, and projects such as offering free wireless internet access in Philadelphia, point to a future where the telecommunications infrastructure is controlled by government, while consumer equipment stays private. Water systems have always been government controlled; the first cities were mainly water control projects.

The Federal government will need to ensure that municipal governments have the resources to keep their economies functioning properly. This will involve keeping the housing stock large enough to encourage people to stay in the city, and to keep the educational systems at an adequate level to ensure a high level of technological progress in manufacturing. Cities have always been the base for manufacturing economies, because the close contacts that are available in the cities allow for technological change to be created and disseminated easily. Mass transit would also help the cities.

Full employment, education, health, housing, higher wages and salaries, employee ownership – it all adds up to empowering the vast majority of citizens of the United States, and other regions as well. The only way to prevent the economic, environmental, and military disasters that are looming is to create a truly democratic economy, based on a solid foundation of manufacturing, infrastructure, and cities.

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