Changes in the Financial System and the State of Workers in USA from SSW onwards.

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1) Introduction.

The current economic crisis has shown the collapse of the financial sector and the bad conditions of life that workers have undergone from 1970s onwards. The economic crisis in the 1970s due to the fall down of the rate profit brought twofold things: 1) the stagnation of productive sector and a shift to search an easier profit in the financial sector, 2) the search for getting a profit for exploiting to the workers more. This paper is dedicated to review these two things. First, we encompass the changes in the financial regulation from SSW until today, and after we discuss how have been the conditions of life of the workers from SSW onwards.


With the fall down of home prices in the 3rd quarter of 2007 the economy was moving towards a crisis. The grow up of the GDP had been led by the housing sector and the increase of home prices. Financial institutions and people had taken advantage of low interest rates for a long period of time (from 2001 to 2003 interest rate was below 2 points) by means of two things: 1) the financial institutions developed a new kind of complicated financial intruments and granted huge credits to people of low income, 2) people who took mortgages that were not able to pay.

So, when the price of housing stop going up the economy started to undergo big problems, a lot of financial institutions collapsed and a lot of people were bankrupt. Still more, the collapse of the financial sector showed that a lot of countries were facing more deep problems like huge deficits in the current accounts and the worsening of the conditions of life of workers.
What could provoke this? A lot people have pointed twofold things: i) the crisis in 1970s, and ii) the changes in the financial regulation.

Considering the first aspect. At the beginnings of 70s there was a fall down of the rate of profit in the world. This decline was due to mainly the rise of productivity of some European countries and Japan, this brought an increase in competition for markets. So to put money in to accumulation was not a good option for capitalists, large quantity of dollars, were stored in European banks (Eurodollars) and then recycled in two ways: 1) lending to underdevelop countries, for example Latin America (this, after would provoke the debt crisis), and 2) in trying to develop a new financial system where less capitals controls took place. So, then taking that, capitalists could do an easier profit in the financial sector than if they accumulated in the productive sector and left things to the vissicitudes of the uncertainty.

Thus, from 70s onwards there have been through a lot changes in the financial regulation, following Campbell (2005: 192), these have been three mainly¹:

1) Relaxing the Federal Reserve Regulation Q.

2) Deleting the separation between commercial banks and investment banks.

3) Branching restrictions.

The two first characteristics were included under the Glass Steagall Act² (1993) and the last under the McFadden Act (1927), both of these Acts had the purpose of incentiving the productive sector.

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¹ We skip universal banking because of “One Glass – Steagall restriction that has not yet been eliminated is the prohibition against (…) doing both banking and commerce…” (Campbell, 2005: 193).

² According to Giovanni Arighi the Glass Steagall was dispute upon who controlled the liquidity, the private capital or the state.
The regulation Q set ceilings upon interest rates that commercial banks could offer on deposits. It is important to say that 1970s was not the first time that regulation Q was under attack, because in 1951, with the dispute between Federal Reserve and the US Treasury on the control of monetary policy (Rosenberg, 2003: 57), and that ended with the independence of the former, there was pressure to rise the interest rate. For that, even some people like Randall Wray (2007) sees the origin of the current crisis in that year. However, as in that period there was economic growth and short interest rates as well as long interest rates were low (around 1.5 percent the first and around 2 per cent the second), that is not important for this paper. The real pressures came in 1970s; commercial banks could now compete for deposits without ceilings in the interest rate. A fight between investments and commercial banks was set and as a result of that the short and long interest climbed up.

But things did not stop there, for a long period of time investment banks were doing easy financial profits in the housing sector, but without ceilings in the interest rate now the profits in the housing sector was too low, so there was an incentive to make riskier moves. So a secondary mortgage market and new financial instruments were developed. The first intent to create a Mortgage Back Obligations (MBO) was in 1977 (Kregel, 2008), and since then we have had a lot of alterations in the housing sector, for example Elda Molina (2008: 3) points out the followings changes: “…In 1980 the Depository Institution Deregulation and Monetary Control Act, in 1982 the Alternative Mortgage Transaction Parity Act…”. Both permitted concede loans with a floating interest rate.

The end of the separation between commercial banks and investment banks and branching restrictions came in 1999 with the Financial Services Modernization Act or Gramm – Leach Bliley.
As we said before, the separation between commercial and investment banks was set in 1993 with Glass-Steagall Act. Commercial banks did mainly two things: loans for customers, households, small businesses and they collected deposits. On the other hand, investment banks made money by advising companies on mergers and underwriting initial public offerings (Bilginson, 2008), they were more related with capital markets. The first, were strictly regulated by the Federal Reserve; meanwhile, the second, were regulated in lax way by the Securities and Exchange Commission.

With the removal of ceilings on interest rates and with development of new financial instruments, investments banks were taking advantage over commercial banks. Investment banks were taking every day riskier moves and developing new financial instruments, so there was a pressure to end with the difference between commercial banks and investment banks.

The McFadden Act (1927) mainly prohibited to commercial banks had activities on more than one state and that ended in 1999, that gave way to the rise of new giant banks.

3) The Conditions of Life of the Workers.

Talking in a broad sense, the conditions of life for workers in the USA improved from Second World War (SWW) until seventies and after that pick worsened. From SWW until 70s real wages per hour rise as well as productivity, however from 1970s onwards productivity has grow up without any increase in wages (see figure 1). As you can see the rate of exploitation has increased and for that it is one of the reasons the rate of profit was increasing since 1980 onwards. What can explain this performance? We think that labor - capital relation can.
Figure 1.

Hourly and weekly earnings of production and nonsupervisory workers. The idea of this figure comes from Pollin 2003.


There is no agreement on the path followed by the labor - capital relation in the United States. Some people like Samuel Rosenberg (2003) and Al Campbell (2005) have observed always a conflict among labor, government and capital; meanwhile others, like Michael Yates (1998), Paul Le Blanc (1999) and Nelson Lichtenstein (2002) have seen a more submissive role of the workers. They have appreciated that workers have not fought for the democracy inside the unions, have been racists and extremely nationalists. In some cases unions have been integrated by people of the same ethnicity only (Italian, Irish so on) or have allowed that the leaders, like George Meany³, could bargain almost for free with the capitalists sector.

³ George Meaney the leader of the AFL-CIO became to say “I stand for the profit system; I believe in the profit system. I believe it is wonderful incentive…” (Le blanc: 1999 106).
Giving some credit to the workers is important, because in a lot of cases the wave of strikes were huge like in the years of 1945 and 1946 or in some cases they were addressing in the correct way, asking for the democracy in the shop floor like in the 70s. So, in some periods of the time appeared to be that workers tried to oppose to the capitalist proposals but they were defeated. Three examples of this are: i) the War Labor Disputes Act that was designed to weaken workers and in which the president Roosevelt could “…size plants useful in the war and made it crime to encourage strike in such plant…” (Rosenberg, 2003: 32), ii) at the end of 50s when workers had to face a well coordinated and aggressive strategy by the National Association of Manufacturues (NAM). This strategy consisted in aggressive use of mass media, weakening the unions not allowing closed shop⁴, prohibiting sympathy strikes and the elimination of the communists in the CIO (Rosenberg, 2003), iii) and finally, when workers were addressing the correct direction, after the 1960s with the movement that ended with the American Civil Right Act in 1964, (and with the Equal Employment Opportunity Employer), saying that: “…Workers in virtually all occupational and demographic categories evidenced appreciable declines in job satisfaction along with other, quite unmistakable manifestations of rising discontent (Rosenberg quoting Staines, 2003: 212)” and fighting for the Better Opportunity Act in 1974 and the Full Employment Act in 1975, they were once again defeated by a well coordinated strategy by the National Association of Manufacturues (NAM) and the National Chamber of Commerce (Harvey, 2005, 43). They had to face re – localization of plants and the introduction of new technologies. So all these things have been mixed to worsening the conditions of life of the workers, three examples of that are health care, unemployment, and inequality.

⁴ It means that a worker must be in the union before being employed. See Le Blanc 1999 p 161
Considering health care. In 40s the United Mine of workers won some rigths in health care and pension funds (Rosenberg, 2003). In 60s was achieved health care for elderly (Medicare) and poor (Medicaid). In 70s even more companies and the government gave more comprehensive health care plans (Le Blanc, 1999:108); but even that, the majority of the persons have to deal with private health companies. Pondering the end of the 70s the historian Howard Zinn commented (2001: 571): “One of every seven American children (…) had not known regular source of primarily health care. One of every three children under seventeen have never seen dentist”. Then, the access to health is impossible in some cases; in others, you could undergo bankruptcy. Currently, a lot cases for what families got bankruptcy is due to illness (Himmelstein et al, 2005 : 63).

Regarding, the unemployment, the situation for some people is like the historian Eric Hobsbawm describes:

“As for poverty and squalor, in the 1980s even many of the riches and most develop countries found themselves, once again, getting used to the everyday sight of beggars on the streets, and the even more shocking spectacle of the homeless sheltering in doorways in cardboard boxes, insofar as they were not removed from visibility by the police. On any nigth of 1993 in New York twenty – three thousand men and women slept on the street or in a public shelters…” (Hobsbawm, 1994: 406)

The conditions for the people nowadays even looks to like to be sharper. According to the USA Today Newspaper, in 2005 cities like Los Angeles has 88 345 homeless, New York 48 155, Orange County 22 784 and Detroit 14 827. But even some people that have got a job they are undergoing a worsening in their conditions of life because the state has cut off a lot benefits that people could enjoy like the Aid Families with Dependent Childrren (AFDC).
And finally inequality. This has risen from seventies until now, some people have argued that the rise of inequality was good because we were in a new industrial revolution (the dot - com bubble) but today it is so clear to see that wealthy people have done too well in the last 30 years. You can see this in chart 1, the average mean for the ratio top quintil/ bottom quintil has increased since 70s (this picture is even misleading because the truly benefited have been the 1 top per cent), and even worse the level of inequality of today can be compared with these levels before the Great crisis (Dumenil and Levy, 2004).

| Chart 1. |
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| Inequality. Ratio top quintil/botton quintil | 7.9 | 7.4 | 7.6 | 9.3 | 11.9 |

http://www.census.gov/_income/Historical Income Tables > All races

**Bibliography and references.**

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