CURRENT ROLE OF THE U.S. STATE IN CAPITAL ACCUMULATION

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INTRODUCTION

One way to understand the political economy of current and near future U.S. capitalism as it faces a multidimensional crisis is through an assessment of the role of the state in accumulation. Is neo liberalism (NL) likely to continue to hold sway or will a new more secure political-economic framework and process be created for generating capital expansion?

The ideology of NL is commitment to entrepreneurialism, strong property rights, the free market and free trade. Integral to its historic appearance in the 1970s and early 1980s was the intent to erase the regulatory and income narrowing regime of accumulation from the New Deal and post war periods and the political zeitgeist which sustained it.

NL assumes as axiomatic a minimum role for government in a self regulating market capitalist economy including preference for privatization for government financed services.[1] Therefore, besides monetary policy with an anti inflationary stance, the state should have few regulatory roles.

With the assumption of a non inflationary maximum employment market equilibrium as a natural state of affairs, an economic crisis could not materialize except from inappropriate government intervention. For those who can be termed NL fundamentalists, this notion still prevails even in the midst of crisis.

With the advent of crisis a broader pragmatic framework for NL became necessary to halt economic decline and restart capital accumulation. Its scope involved huge government monetary and fiscal expansion including deficit spending.

However, doubts about the viability of these pragmatic policies in the current conjuncture and conflicts of interest among different fractions of capital have contributed to political turbulence. Moreover, the almost total incorporation of fundamentalist NL as Republican Party ideology and policy orientation, as the party raises the stakes to recuperate in the political market, further adds to political contentiousness.

NL fundamentalism is also very convenient even to sectors of capital approving of pragmatic NL. Though benefiting for example from health care reform, the various corporate sectors comprising the health care sector are reluctant to make even minor concessions for fear of an uncertain future. Finally, the confusion, outrage and fear of millions for the economic future, combined with a racialized and nativist panic and rage which currently drives populism, also contributes to shaping NL.

I will review health care reform and macro issues of the budget deficit, financial regulation and economic growth through industrial redevelopment to assess the current and near future role of the state in capital accumulation.

NL IN HEALTH CARE REFORM

It can be shown that Obama's health care plan, beyond all the furor, at its core is a reorganization of the structure of health care markets with the simultaneous goals of maintaining a failing market system and of removing impediments to accumulation by its corporate participants.

Because of accelerating premiums even before the 2007 financial crisis erupted, both large and small employer group insurance declined. The peak for employment based insurance was reached in the year 2000 and declined by five million in the next four years.[2] With corporate cost cutting and with massive reduction of the employed labor force, the decline has accelerated.

Increased cost sharing through downward wage adjustments and increased OOP patient expenditures no longer suffice for cost shifting to employees. Many low wage workers do not participate even when employers offer insurance with extensive cost sharing. Moreover, the growth in permanent contingent workers without any fringe benefits has also reduced the number of workers with group coverage.

The emergence of low premium high deductible policies, partially underwritten through a tax expenditure by the federal government, as emblematic of so called "consumerist" plans which are only suitable for younger, relatively healthy workers, signals a new era in privately insured care.

Some uninsured workers have been enrolled in expanding but fiscally threatened state Medicaid plans while others have purchased coverage in the individual market.

The decline in worker access to health care through employer group purchase has led the Obama administration to focus on the expansion of the individual insurance market. This is the reason for (1) *health exchanges*, a locus of managed competition – to standardize insurance policies and create a large enough pool to manage risk and avoid the most egregious type of insurance practices and (2) the proposed, then dropped *public option.* Though the latter is a pathetic stand-in for a single payer system and restricted to the individual market, the market's anticipated growth aroused the hostility of the insurance companies and the NL fundamentalists.

However, it is highly unlikely that the exchange will control premiums or the retained share of the premium for expenses and profits, and except for the minimum coverage allowed, the benefit design.

The insurance companies responding to employer group policy contraction, now welcome the basic elements of reform including government subsidies for the uninsured in the individual market to expand revenue, though resisting any of the aforementioned controls.

Moreover, they are not objecting to the expansion of Medicaid for the uninsured as they are increasing their participation in that program in a managed care arrangement similar to their role in the Medicare Advantage program.

Large employers will more easily have the option of eliminating the drag on their profits from rising health care premiums as a minimal penalty for dropping coverage will speed up employer withdrawal.

It is highly unlikely that a renewed but not fundamentally changed market system will be successful in achieving cost savings unless it comes at the expense of lower wages for the mass of health care workers, and reduced services for patients. Reduction of Medicare expenditures is the planned major funding source for the reform program together with a tax on so called "Cadillac benefits" of workers and a moderate tax increment for upper income recipients as their contribution for the almost ten year trillion dollar expenditure.

The prototype for the reform program is the Massachusetts plan which since its inception a few years ago has incurred significantly rising per capita costs which has forced reductions in subsidies for the low income insured as well as a thinning of benefits. With much smoke and mirrors, the same is likely to happen with the Obama program.

Employers and insurance companies will not be the sole corporate beneficiaries of reform. The agreement that the Obama administration entered into with the pharmaceutical manufacturers to prohibit inexpensive drug imports and to forego single payer drug purchases for Medicare part D in exchange for their promise for an $8 billion *revenue* reduction per year for 10 years, provides a healthy addition to profits, even as the drug companies are already hiking prices even before the agreement goes into effect.

In addition, the reform proposals call for more integrated services to achieve economies and quality improvement which will accelerate the growth of large multi-specialty physician group practices, more than a few with ownership of hospitals, testing units and laboratories. With large numbers of salaried physicians with little or no proprietary rights, physician assistants, nurses and other workers, these physician enterprises will join the for profit hospitals as another center for accumulation in the health care system.[3]

Evidence on the causes of the ongoing massive increases in health care costs point not only to the continuing consolidation among insurers but to sizable overuse of services.

Studies have revealed that high tech testing, radiation and other treatments with the use of expensive and often untested equipment, produce no discernible differences in medical outcomes and even evidence of worse outcomes.[4]

Vaunted market competition is the basis for excessive technological diffusion and overuse as a means of hospitals competing with each other for doctors to obtain patients. Excess equipment leads to overuse to recoup capital and fixed labor costs.

Thus market competition among *health care providers* (as opposed to *insurers*) often generates *rising* and not *declining* prices and poorer outcomes. Evidence is clear that a well administered single insurer reform is desirable not only because of proven lower administrative costs but also for having the leverage to enforce collaboration among hospitals and other providers for appropriate use and diffusion of technology for the lowest costs and the best outcomes. That's the approach in Canada through capital budgets drawn up for areas before conditionally apportioning funds to individual hospitals.

THE BUDGET DEFICIT

While the so called health care reform is a problematic strategy to prevent collapse and continue accumulation, NL policies are even more doubtful for solving deep seated macro economic problems.

The financial panic of 2008-9 now seemingly dormant has morphed into the fiscal alarm of 2010 and is also being approached though an NL lens.

The contribution to the deficit from expenditures for basic safety net programs is now regarded by the state apparatus and its supporting networks in civil society as of primary economic concern.

Obama has stated his intention to cut "discretionary domestic programs." With prodding from his NL economic advisors, he has also established a bipartisan Budget Commission, to propose to Congress legislation to eliminate the so called structural deficit.

The defining of the structural deficit as overwhelmingly the result of the expansion of Medicare, Medicaid and Social Security as a consequence of the aging of the population, ignores the costs of empire – of the Afghan and Iraqi wars and their aftermath, of approximately $3 trillion (Stiglitz) and homeland security on the expenditure side and the massive reduction in tax revenue from the upper 20% and especially the top percentiles of the income distribution from the Reagan period to the present on the budget receipt side.

The ideology of small government is also in play, using massive declines in taxes strategically, to create budget deficits, in order to rationalize a reduction in social welfare expenditures.[5]

A bipartisan consensus is now emerging that the recommendations of the bipartisan Task Force should include a highly regressive value added tax as a basic source of federal revenue. On the expenditure side, the recommendations should include a significant raising of Medicare age eligibility, a shift in the structure of financing for both hospital and physician expenditures from the state to Medicare beneficiaries, and a full scale implementation of a voucher program.

Medicare will then perhaps in several stages be transformed to a defined contribution program which would reduce and eventually eliminate coverage for specific medical benefits with *all* beneficiaries purchasing private insurance. Drastic reduction in Social Security pension payments will also be recommended.

Thus a significant contraction of the safety net is possible, under the aegis of pragmatic NL, though unachievable by the Bush administration. We can remember "The End of Welfare As We Know It," Bill Clinton's quip. That's small potatoes compared to NL oriented recommendations which are likely to emerge from the Task Force appointed by President Obama.

The ultimate NL goal to be achieved by the bipartisan consensus would be the transformation of the Medicare and Social Security programs in stages to means tested programs like Medicaid.

INITIAL ATTEMPTS AT FINANCIAL REGULATION

The Volcker plan to reduce the risk of repetition of near financial collapse by restricting bank overleveraging and risky investment together with regulating transparency for derivative markets has been drastically watered down. Similarly, regulation of the other institutions of finance that contributed to the bubble are either flimsy or slated for defeat in Congress. Neither Volcker's plan which did not, as he himself insisted, involve restoration of Glass-Steagal separation of commercial from investment banking,[6] or any other plan on the horizon, seeks to seriously redirect the circuitry of monetary flows from speculative fictitious capital.

Financialization remains intact. Underlying resistance from the financial sector, is the approximately 40% of total corporate profits appropriated by this sector (with approximately 20% of total invested capital) heavily through the interest payments from the enormous debt which it underwrote.

Financialization is the enormous extension of finance that occurred in large part as the market response to deindustrialization. The latter developed with the opportunity to mobilize massive reserves of labor offshore and to obtain other resources and assets on the cheap from developing economies.

It includes for example, stock buybacks and shifting of internal funds to financial units in the non financial sector as greater sources of enrichment than investment in the "real economy" for the production of use values.

Pragmatic NL and President Obama as its personification, reciprocally shaped, are opposed to tampering with these natural market processes.

ECONOMIC GROWTH AND REINDUSTRIALIZATION

The slow pace of capital accumulation as shown in the downward trend of physical investment as a percent of GDP, a trend from the 1970s, is a response to the high level of unused capacity, a direct result of the hollowing out of the manufacturing sector.

The massive redistribution of income from wages to profits and thus a decline in mass purchasing power from Reagan to the present was counteracted by the enormity of working class household debt, ie., financialization neutralized in aggregate demand the affect of deindustrialization. Now, with the real estate cum financial crash, further use of this option appears perilous. Financialization, health care and government are the major service sectors that have been relied on to offset the reduction of manufacturing employment and all three sectors, as argued above, have serious constraints on real expansion.

The argument that a large fiscal stimulus will automatically expand employment is flawed. Public works spending without corresponding private investment for the ongoing production of commodities provides only temporary employment. The only medium term alternative to reindustrialization would be a massive increase in net exports. And as all other major economies in the global market place intend the latter to generate output and balance their withdrawal from deficit spending, it is not a feasible solution.

Reindustrialization is even viewed by state policy makers as the key to ending the crisis, by greatly expanding employment and with a massive increase in demand for labor also raising wages, providing an aggregate demand replacement for debt and asset inflation. However, the assumption of current policy makers is that market forces, if properly stimulated could do the job.

But substituting expansion of employment in the U.S. for outsourcing to low wage and undervalued currency areas and entailing redistribution of income from capital to labor are decisively counter to market forces.

Thus a strategy for any but superficial development in high tech and green industry has yet to emerge.

INDUSTRIAL POLICY

An entirely different option would be an industrial policy, which would bypass the logic of profit maximization. To guide the development of specific industrial sectors through planned resource allocation, market forces would be used, but only as passive agents.

It is useful to recall the War Production Board, the World War II agency by which the federal government ordered direct allocation of resources not only for strategic final but also for intermediate goods.

Recognition of the current crisis of capitalism as a comparable danger and potential disaster if not surmounted or superceded, justifies retrieving this historical precedent to legitimize economic planning for industrial development.

Contradictions aplenty would be inevitable for a redevelopment policy which gives primacy to government planning in a capitalist system, but why should anticipated contradictions and conflicts if recognized as such, be a barrier to serious advocacy?

THE LIMITS OF NL

The drastic changes needed, but beyond the competency of NL practices and the recognition of its ultimate historic failure would tend to displace it as a ruling ideology and practice. However that depends on the recognition by the ruling class that NL even in its pragmatic form does not prevent attenuation of accumulation. More hopefully the organization of social forces into a political movement which demands change not only on an anti NL but also on an anti capitalist path could use industrial policy cum planning as a transitional strategy.

Therefore depending on the outcome of political struggle, state authority could include the directing of industrial redevelopment and set limits unimaginable today on the right of capital to direct resources within a market framework.

If the political power of capital remains intact however, NL could still be useful for enabling the operation of a powerful logic within a capitalist economy during stagnation or decline which capital might prefer, despite a substantial decline in profits, for the ultimate restoration of accumulation.

This would be to facilitate the reduction of the value of productive assets and even more important, the reduction of the value of labor power as the basis for an ultimate revival. Tight money policy and balanced budgets could do the trick. The logic would be that U.S. industrial competitiveness could be reestablished over the long term in the global economy through deflation, massive insolvencies and depression.

Many contradictions and difficulties for capital would be in the offering but their political agents' grasp of reality is often extremely faulty especially for medium and long term developments.

The political struggle would then surely be explosive.

ENDNOTES

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[2] Robinson, James "The Commercial Insurance Industry, in an Era of Eroding Employer Coverage" *Health Affairs* (Nov/Dec, 2006) 2

[3] Joffe, Jerome "The Evolution of Capitalist Relations of Production in U.S. Medical Practice" in *Research in Political Economy* Vol. 24 (2007) 220-222

[4] Wennberg, John E. (lead Author) "Tracking the Care of Patients with Severe Chronic Illness" *The Dartmouth Atlas of Health Care* (2008)

[5] Krugman, Paul, "The Bankruptcy Boys" *New York Times* (Feb. 22, 2010)

[6] Rose, Charlie, "At the Table" *Business Week* (Jan. 11, 2010) 11