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Banking by Kathy Wolfe

The new Third World debtors: you!

America's working people have become the international bankers' new debt-pyramid victims.

The non-existence of the Volcker recovery is seen most clearly in the fact that the U.S. workforce has replaced the Third World as the biggest debtor to the U.S. banking system, with over $2,175 billion in household debt, compared to the entire Third World debt of some $400 billion. Total households' outstanding debt has doubled since 1977, the last year of stable postwar interest rates.

The U.S. consumer used to be a net provider of funds to the banking system in the form of deposits, which consumers gave to the banks at a much lower rate than banks made loans to consumers. This has now shifted dramatically. U.S. bank lending abroad slowed from $100 billion a year in 1981 to a trickle in 1983 and zero in 1984. Without the consumer debt bubble, Citibank, Chase Manhattan, etc. would have no business to conduct, and no customers to pay interest to them.

One of the major reasons for the skyrocketing of U.S. consumer debt has been the collapse of the wage system, which gives the lie to the recovery. If working households can no longer support themselves on their wages, just what has recovered? The real reduction from 1972 to the present of productive households' earned income, in the form of wage reductions, has forced the average American to use credit, at 18-24% rates, instead of wages, to survive.

This has led to a situation where U.S. households' annual debt-service payments on consumer debt have risen from $178 billion in 1972 to $780 billion in 1984, assuming consumers are only repaying an average of 12% of their principal per year in addition to repaying interest. The skyrocketing of this number has more than *twice* outstripped the nominal wage bill for the industrial workforce, which in inflated nominal dollars rose from $196.4 billion to $492.3 billion during the same period. (graphics, p.9).

Consumers' interest payments alone rose during the same period from $59.4 billion to $420 billion, that is, by 1984, they were just about equal to the nominal industrial wage bill.

Apparently, the overall U.S. industrial wage bill rose, if the Department of Labor is to be believed, from $196.4 billion to $492.3 billion in current dollars, during the 1972 to 1984 period. But this is deceptive. First of all, *purchasing power did not rise at all, and indeed dropped by 5%* during that same period, according to the Department's own figures for wage inflation. Their own numbers show that in 1977 constant dollars, the industrial wage bill actually fell in a constant sweep, from $227.3 billion in 1972 to $216.5 billion in 1984.

Take a figure like that and compare it to $420 billion paid in interest and $780 billion paid in principal alone by consumers in 1984.

From this must be further subtracted all sorts of "wages" which are included in the figures, but which the workforce never sees or gets to consume. These include, foremost, taxes, which average 25% for this wage bracket; padded benefit packages such as pension plans, which the workers never collect because their jobs turn over before collection time, and so on.

The myth of the recovery is seen most clearly in the looting of the wages of the displaced workers, 30% of our workforce, which is most vicious. As described in the article on page 4, these are the workers who lost jobs at one rate, and were recycled and downgraded to lower-rate jobs during the "recovery."

For example, the Bureau of Labor Statistics in an unpublished report states that 45% of the 7 million workers reemployed took a wage cut, and 40% of them reported weekly earnings of 20% or more below the jobs they had lost. The average wage of the reemployed worker fell from $262/week at his old job, to $250/week at his new job.

This would reduce the gross wage bill for this entire category of workers from $144.6 billion in January 1979, to $84 billion in 1984. The real number, as calculated in the aforementioned article, of such recycled workers was at least 14 million, so the amount lost to their wage bill must be doubled. This shows *a reduction in the wage bill by recycling alone, of $121 billion (current dollars) during the 1979-84 period.*

This figure is about equal to the rise in U.S. consumer debt during the same period, some $120 billion, from $265 in 1978 to $385 billion in January 1984.

This looting of the wage bill through displacement particularly downgraded the most productive, heavy industrial sections of the labor force, the BLS reports. Wages for the average manufacturing worker were reduced from $270/week to $252/week, on average. Machinery workers wages' dropped from $330/week to $284/week. Wages of autoworkers dropped from $374/week on average to $302/week, a reduction in the auto industry's labor bill from $6.1 billion to $3.2 billion.

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