

THE CLASSICAL LABOUR THEORY OF VALUE AND THE FUTURE OF AMERICAN POWER

Doru TSAGANEA

Ph.D. in Mathematical Economics*

Ph.D. in International Relations

Associate Professor of Mathematics and Economics

Metropolitan College of New York

Abstract

In the present article the author makes an eloquent inquiry regarding the current economic and financial crisis and its relationship with the classical labour theory of value. The author realized a full synopsis about economical, social and military evolution of America after the Second World War until nowadays, stressing out the assertion that “the military power is depending on the economic one”.

As a conclusion, the author presents some of the key actions and policies strongly needed for The United States in order to remain the preeminent superpower of the world in the 21st century.

Key-words: *economic and financial crisis, labor theory of value, military power, economic power, sustainable development*

JEL Classification: O₁₁

Anyone who has seen the automobile factories in Detroit and the oil fields in Texas knows that Japan lacks the power for a naval race with America.

*Admiral Isoroko Yamamoto
Commander, Imperial Japanese Combined Fleet¹*

Introduction

I decided to write it for four reasons. First, the crisis that started in late 2007 has not been only exceptionally powerful but has also had several specific characteristics that might entail dangerous consequences. Second, some of the most critical economic problems of present day America are surprisingly similar to those of some of the East European countries which were submitted to a process of

* I am using the term “Mathematical Economics” because the term “Economic Cybernetics” is not used in America or Britain. According to the classification of the American Economic Association, Mathematical Economics corresponds to Economic Cybernetics.

¹ Quoted in: John Keegan (1988), *The Price of Admiralty*, Penguin Books, New York.

brutal deindustrialization after the fall of communism in 1989, and are unable even today to regain their wealth production capability of 25 years ago. Third, because after I have lived, studied, thought and taught in two continents and two opposite socio-economic and political systems, I became convinced that the labour² theory of value is one of the most important economic theories for its practical implications. And fourth, because I have no doubt that in this century the dependency of the military power on the economic one would be at least as high as in the preceding one.

I have chosen as motto the words of Admiral Yamamoto since they, as well as the 20th century history of Japan, illustrate in the clearest manner the military power's dependency on the economic one, and how tragic are the results when this rigorous connection is disregarded.

The planner of the Pearl Harbor attack was a brilliant naval officer who perfectly knew the United States and correctly understood the relationship between economic and military power. He was a great Japanese patriot, but at his level of intelligence and in his military position patriotism implies a high level of realism. Subsequently, as a realist he opposed a war with the United States until 1940 on the basis of the huge disparities in economic resources. He finally decided to plan the attack because it would have been unimaginable for a Japanese officer of his status to disobey the will of the emperor, prime minister and most of his fellow officers.

The attack was a success of historical proportions from a strategic point of view but – as the admiral had been afraid – was a disaster from the perspective of grand strategy. Two years later he would be dead, and four years later the imperial navy would be on the bottom of the Pacific Ocean while, in Tokyo Bay, General Douglas MacArthur would accept the unconditional surrender of the Empire of Japan.

Japan's tragic example of what happens when the true relations among the elements of national power are ignored, as well as the similar case of Germany constitute powerful reasons for an exhaustive examination of the present state of the US socio-economic system, of its probable evolution, and of what should be done in order to preserve the position of this country in the world, by the middle of this century. Having no doubts with regard to the dependency of the military and political power on the economic one, and fully convinced that on long term the economic power is based on commodity production and not on financial speculation or useless services, I have decided to focus on the labour theory of value for studying the evolution of US power.

As most analysts have remarked the crisis that started in 2007 has not been only a financial one. It has been the most important economic crisis since the Great Depression. It is possible that besides important economic and financial consequences it would also entail social, political and military changes. Subsequently the international distribution of power might be affected. The fact

² I use the word "labor" because this is the name under which this theory is known. But, in all the paper, I do not mean only workers. I mean all people who are involved in the production process including the highest level managers, and – if it is the case – Nobel Prize scientists. In this context a CEO who owns stocks of its own company is included in labour as CEO, but not as a stock owner.

that when the American, Western European and Japanese economies were at least stagnant, if not regressing, the Chinese economy has continued to grow at a 9% rate is a wake up signal. If it would not be considered in the most serious manner, it could entail severe or even dramatic consequences in twenty or thirty years.

What we observe today are not the surprising, unexpected results of some recent erroneous financial decisions or of some seismic international economic processes. They are the logical and normal results of a succession of major, fundamental economic decisions that began nearly forty or even fifty years ago.

The United States of the sixties was not only the most powerful country of the world and the most powerful country in the history of the mankind. But it has also been the political and economic ideal to which was aspiring a large portion of the world population. The famous American kitchen presented to Nikita Khrushchev when he visited the United States was a more powerful case in favour of US type capitalism than the Sputnik in favour of the Soviet communism. Tens of millions around the world were hoping to immigrate to the United States, virtually none wanted to immigrate to Soviet Union.

In the post World War II world, America was not only the greatest industrial power. But also the most powerful financial one. Since the Breton Woods Conference of 1944, the mighty dollar had been as “good as gold.” As a result the trust of the American people and of a large part of the world in the in the US socio-economic system, in the US government and in the US stability was nearly absolute. And of course the trust in the mighty dollar “the green paper as good as gold” was paramount.

In these circumstances the US government started to do in a discrete manner something that was only apparently new, because in fact it was as old as money and governments willing to spend more than they have had. Under the pressure of the steep increase in the costs of the Vietnam War and strategic offensive arms race with Soviet Union, America started to enlarge the amount of dollars on the international market without augmenting its gold reserves³.

The strong trust in the stability of the US government as well as the universal respect for the American economy allowed the continuation and even discrete expansion of this policy for nearly a decade. But in the late sixties even some US allies started to express their discontent (France under General De Gaulle being the most vocal), and in the early seventies the United States was in the painful situation of losing a part of its gold reserves as a result of the increase demand for dollar conversion.

In order to stop the gold transfers abroad, to save the US financial system, and to preserve the dollar as the main world currency the US government stopped the convertibility of dollars in gold. On this way these three main objectives were attained. But this decision which was efficient and welcomed on short and medium term would have important consequences on long and very long term.

The disconnection of the dollar from gold damped the two oil shocks of the seventies and to some extent moderated the negative impact of the cost of Vietnam

³ The equivalent or mixing gold with copper for making “gold” coins ... in ancient Rome!

War and the Cold War arms race. But later, associated with the deregulations that began during the Reagan administration it allowed the “exuberant expectations” caused by the end of the Cold War, the fall of communism and the disintegration of Soviet Union.

These “exuberant expectations” emerged during the George Bush administration (1989 – 1993) and expanded during the years of the Clinton administration – “the roaring nineties.” Under the leadership of Allen Greenspan the Federal Reserve allowed high risk taking policies, destabilizing speculative financial practices and a dangerous expansion of liquidity. Using an intentionally fuzzy language allowing him to pretend nearly anything, the FED chairman was acting in fact in contradiction to the FED charter. On this way he was weakening the US economy in order to enrich some groups of people.

In the same period, these financial policies were mutually reinforced by the strong promotion of globalization and outsourcing, without taking into consideration that the transfer of the manufacturing industries abroad might be advantageous on short term only, while it is ruinous on long term. The results of these policies were the ones that would have been normally expected by any candid economist – the dot-com bubble and the very fast increase of financial speculations entailing a considerable inequality in income distribution.

But although these policies were unusually risky, the last year of the Clinton administration was marked by a sound budget and by the lowest price of gold in more than thirty years. Those encouraging economic results were caused by the short term positive effects of globalization (as opposed to the long term negative ones) and by several important political and military factors that had directly contributed to the development of the US economy. Among these were such processes as the considerable decrease of military expenditures as a result of the end of the Cold War and the disintegration of Soviet Union, the influx of capitals from Russia and other former communist countries or the considerable improvement of the world security climate. Subsequently when the new century started and President Clinton left office the virtues and power of US type capitalism appeared logically incontestable and practically unshakable.

But eight years later when Barack Obama would be sworn as the 44th US president the situation would be completely different. The United States was in the worst economic crisis since the Great Depression, The financial system was near collapse, the stocks were in nearly free fall and the unemployment was steadily increasing. To some extent these were the results of the expansion of the excesses that appeared during the Clinton administration, but they were also caused by several new factors. One of these was the beginning of two controversial wars (from which at least one was non-necessary) with the simultaneous decrease of the taxes for the wealthy. A second was the creation of the housing bubble by the FED and cooperating financial institutions in order to make the American public to feel well and to not pay attention to the foreign policy of the G.W. Bush administration. And a third one was the indirect financing of the wars by inflation and irrational borrowing.

The policies promoted by the Obama administration since the spring of 2009 prevented a second great depression, but with the exception of some provisions of the health insurance reform bill they did not deal with the fundamental problems of the US economy. Only in his first State of the Union Address the president began

to tackle some of the real, basic economic and social problems that America is facing today, and that will drastically affect this country during the next quarter of a century. The manner in which he did this has been encouraging and suggests at least a good beginning if not more.

Therefore, under these less pessimistic assumptions, I will go to the first section in which I briefly describe the main elements of the labour theory of value.

The classical labor theory of value – main tenets⁴

According to the classical labour theory of value, the value of a commodity is given by the quantity and quality of labour embodied in that commodity under the assumptions of average skill, average level of technology and average/prevaling intensity of the working process.

The average level of skill and technology refers to the production process specific to that commodity. An increase in work/labour intensity increases the value created in a given interval of time (for example one hour). An increase in skill has the same effect. If the education and experience required for making a given commodity in a given interval of time is bigger than those required for producing another commodity in the same interval of time, the value of the former commodity would be bigger than that of the later one.

The value of a commodity is regarded as an abstract value rooted in labour as an abstract utilization of the general human capability to work (the work force). It is different from the utilitarian value that consists in the capability of a given commodity to satisfy a specific/particular need of the individual, society or production process. The difference is comparable to that between the abstract aspect of labour that is regarded as the source of value, and the concrete aspect of labour that allows the creation/production of a particular object.

Within this general framework, the exchange ratio between two commodities is given by the ratio between the values of the two commodities. And, at their turn, the ratio of these values is determined by the ratio between the amounts of abstract labour incorporated in the two commodities. These amounts of abstract labour include old and new abstract labour. The quantities of old labour are embodied in

⁴ As it is well known, the classical books in which the theory was developed are: Adam Smith, (1776) *Inquiry into the Nature and Causes of the Wealth of Nations*, (available edition: University of Chicago Press, 1977); David Ricardo, (1817) *The Principles of Political Economy and Taxation*, (available edition: Barnes and Noble, 2005); Karl Marx, (1867) *Das Kapital: A Critique of Political Economy*, (available edition: Regnery Publishing Inc. 1996). References to the theory and/or its founders can be found in many books published in the United States and abroad. For example in Peter C. Dooley, (2009) *The Labor Theory of Value*, Routledge Frontiers of Political Economy; Robert L. Heilbroner, (1999) *The Worldly Philosophers: The Lives Times and Ideas of the Great Economic Thinkers*, Simon and Shuster; Louis Berenquer, (2000) *The Labor-Value Theory*, Xlibris Corporation; R. Edwards, S. Bowles and F. Roosevelt, (2004) *Understanding Capitalism*, Oxford University Press, etc.

raw materials and the depreciation of machinery and buildings. The amounts of new abstract labour consist in the added quantities of abstract labour which have been necessary for producing each of the two commodities.

Taking into consideration that gold is a commodity itself, the price of a commodity is defined as the expression in gold of that commodity's value. It represents the quantity of gold that can be produced with an amount of abstract labour equal to the one necessary to produce one unit of that commodity. If the abstract labour necessary for the production of a carved desk is equal to that necessary for producing one ounce of gold, then the price of the carved desk would be one ounce of gold.

According to the labour theory of value, the supply and demand affect the market prices of commodities, but they are essentially determined by the relationships between the quantities of abstract labour included in a unit of a commodity and a unit of gold (a specific gold coin in practice). The raw materials and any other materials, as well as the machinery used for the production of a commodity do not create new value. They only transfer all (in the case of materials), or only a part (in the case of capital like machinery and buildings) of their value to the new commodity.

For example if the skill of a goldsmith and of a silversmith are regarded as equal, then the difference in price between two identical objects – one made of gold and another of silver would be equal to the difference between the cost of gold and silver used for making the two objects, and the difference between the tools' depreciation (assuming that the tools used by the goldsmith are more expensive than the ones employed by the silversmith).

Development policies according to the labour theory of value

Before the industrial revolution the productivity was increasing very slowly or in many cases was stagnant. Between the productivity of the builders of Versailles, and that of the builders of the Roman Coliseum or of the gothic cathedrals there were not really major differences. Similarly, the productivity of the peasants working in the Portuguese vineyards of eighteenth century had not been much higher than that of the ancient Greeks working in their vineyards in the fourth century B.C.

Therefore, because before the industrial revolution the increase in productivity was extremely slow a faster increase in the wealth of a nation was possible only by:

- conquering new territories;
- enslaving other peoples;
- colonization implying land acquisition and destruction or domination of the indigenous peoples;
- discovery of new, unknown reserves of valuable minerals on the national territory or in the occupied ones;
- transfers of wealth as “war reparations”;
- dynastic alliances and/or marriages;

- considerable increase in the value of a natural resource previously regarded as valueless as a result of the development of new technologies (for example the crystal and porcelain technologies);
- development and implementation of important projects for administering water resources, drying up swamps, or recuperating portions of the sea floor;
- international trade; and
- development of the pre-capitalist banking system (that started in the fourteenth century).

To these old ways of wealth increase the industrial revolution will bring three new ones, and the effects would be overwhelming. Not only the world distribution of wealth would considerably change, but also the world distribution of power and the configuration of the world political map would be also fundamentally modified.

The first method consisted in the introduction of machinery in all the economic fields where this was possible and efficient. Subsequently, the value created in a time unit (an hour for example) increased. In accordance to the labour theory of value, the new higher skilled labour became a multiple of basic abstract labour. Inside a specific economic sector, the firms that had introduced machinery faster and in larger quantities have created more value, and became more profitable and more competitive. As a result the ability to survive on the market and the profits have considerably increased.

In parallels, a second method for increasing wealth was used at the level of national economies. It consisted in the change of the structures of national economies by the development with priority of those economic sectors in which was possible to use machines on the most extensive scale. Subsequently, as a result of the industrial revolution it became possible for a country to remarkably diminish its dependency on natural resources and environment, and to develop those industries in which the higher amount of wealth is created in a time unit as a result of superior skill and high technology.

In association with these two methods of increasing wealth, a third one has emerged and has been used. By considerably increasing the level of general education and by shifting from liberal arts centred higher education to science centred one were created the necessary conditions for increasing wealth by increasing the skill of the whole labour force.

As a result of these revolutionary changes countries and/or nations that would have not had significant opportunities to increase their wealth following the traditional patterns became preeminent world powers by investing in education, technological research and industrialization. In this context the industrialization means the development of manufacturing industries and not of various fields of the service sector that sometimes are called industries (in other words: shipbuilding yes, but medical insurance not).

Using these methods, theoretically based on the labour theory of value and practically on the industrial, scientific and technological revolutions as well as on the modern capitalism, two countries having limited natural resources – Britain and

Germany – became world powers. Following the same patterns but also benefiting of huge natural resources, the United States became the preeminent world power at the beginning of the 20th century, and would probably remain in this position for the foreseeable future.

Following the same basic principles, but emphasizing more on scientific education and work ethics, Japan became the second economic power after the United States even after its devastating defeat in World War II. And three relatively small Asian countries – South Korea, Taiwan and Hong-Kong – have known rates of economic growth not only impossible to predict, but even impossible to imagine during the first half of the 20th century.

On the other side, on the basis of the Marxist interpretation of the labour theory of value, the former Soviet Union became the second superpower of the world (and until today the only one comparable to the United States regarding all dimensions of power) and China is gradually ascending to the status of world economic superpower. Both countries not only consciously used the Marxist interpretation of the labour theory of value in order to design and plan their economic development process, but also used the full power of highly centralized, totalitarian systems for implementing the theoretical blueprints.

Following a middle road, India started in the fifties with a massive program of free higher education, focusing on science education and student selection based on merit and not on family wealth. To this was added a program of industrialization in which the role of the state was considerable. But in the late eighties, and definitely in the nineties new decisions were made. To the special attention paid to scientific education and industrial development was added a particular interest in the development of high and very high technologies. In parallels, the free market capitalism replaced to a large extent the relatively mixed economy that had been developed in the fifties and sixties (as a result of the particular conditions in which India gained its independence).

The current⁵ economic and financial crisis

For briefly presenting the current economic and financial crisis I will use an article published in January 2009 that offers a vivid and dramatic description of the first year of the crisis. Without knowing the name of the author and the journal in which it was published, some readers would probably be inclined to believe that it has been the work of a leftist analyst and published in a neo-Marxist magazine. Or even more, that it is the result of an analysis made by the economic section of the intelligence service of a communist country.

And this is the best proof of how serious the crisis is, and how thorough and rigorous the analysis is. Because the author is Roger C. Altman, the CEO of a respected Wall Street financial firm and a former US Deputy Secretary of the Treasury. And the publication is *Foreign Affairs*, the highly influential journal of

⁵ This crisis started in late 2007, and according to some analysts it ended as a financial crisis in 2009. However, because the financial crisis has been only one of the elements of the very serious economic fundamentals' crisis and this did not end and will not end during the next years I use the word "current."

the Council of Foreign Relations, the venerable institution that has expressed the US establishment's views on foreign policy for nearly ninety years.

Dr. Altman begins his article entitled *The Great Crash, 2008*,⁶ by affirming that “[t]he financial and economic crash of 2008, the worst in over 75 years is a major political setback for the United States and Europe.” It is associated with a “brutal recession ... likely to be more harmful than the slump of 1981-1982” for this country, Europe and probably Japan.

As a normal consequence, “the American model of free-market capitalism [has been put] under a cloud” and “[t]he financial system is seen as having collapsed; and the regulatory framework, as having spectacularly failed to curb widespread abuses and corruption.” Under these circumstances the role of the state in economy has the tendency to increase, and the importance of the private sector to decrease. Regrettably, but probably inexorably the position of the United States in the world is eroding. And the same is true about the appeal of the US-style democracy.

In parallels “a few states – notably China – will achieve a stronger relative global position,” and China’s more than two trillion foreign exchange reserve proves that this is not a baseless political speculation but a highly accurate prediction.

In Altman’s opinion the fundamental cause of the financial crisis and to a larger extent of the economic one was not the “collapse of housing prices and the subprime mortgage market in the United States.” It was in fact the combination of “very low interest rates and unprecedented levels of liquidity” that caused the collapse of the two, and finally had painful effects on the US population.

In one and a half year, from July 1st, 2007 to the end of 2008, the people leaving in the United States lost “one quarter of their net worth” or approximately 8.3 trillion dollars.

According to the author’s data, the losses were the following:

Loss in total home equity from \$13 trillion to \$8.8 trillion	\$4.2 trillion
Loss in total retirement assets from \$10.3 trillion to \$8 trillion.....	\$2.3 trillion
Loss in savings and investment assets.....	\$1.2 trillion
Loss in pension assets.....	\$1.3 trillion ⁷

As a result of this situation, in September 2008, 150 billion dollars were withdrawn from money market funds in only two days, while usually the weekly overflows are about five billion dollars. Subsequently, the probability of a financial panic entailing the downfall of the whole US financial system was not more regarded as nil, and FED created a 540 billion dollars fund as “first aid.”

Revising his analysis in a succeeding article⁸ published in the July-August 2009 issue of the same journal Dr. Altman has affirmed that: *[i]t is now clear that*

⁶ Roger C. Altman, *The Great Crash, 2008, Foreign Affairs*, Council on Foreign Relation, Volume 88, No. 1, January/ February 2009, pp. 2-14.

⁷ The total losses as calculated on the basis of the data provided by Dr. Altman and presented in this table is \$9 trillion. The difference of \$700 billion is probably caused by some differences in the reporting time of data and/or some double recordings.

the global economic crisis will be deep and prolonged and that it will have far-reaching geopolitical consequences. The long movement toward market liberalization has stopped, and a new period of state intervention, reregulation, and creeping protectionism has began.

The fact that the current economic crisis is the most powerful one since the Great Depression, that it started in the United States – the archetype of free market capitalism – and, that it has practically affected all the countries of the world causes a reversal of globalization. In these conditions, the United States is becoming less dominant and the “unipolar moment” is history. While China is able to preserve a positive rate of growth, “the United States, The EU and Japan, will not be able to generate a normal cyclical recovery.”

Describing the “anatomy” of the crisis, Dr. Altman stresses that “this one is a balance-sheet-driven recession” which “[i]s rooted in the financial damage to households and banks from the housing- and credit-market collapse.” The debt of the people living in this country surged because they “spent beyond their means.” As a consequence of the combined actions of various factors, *[s]ince the crisis broke, global financial institutions (mostly Western ones) have reported \$1 trillion of losses on US-originated assets. And the IMF recently estimated that ultimate losses will reach a staggering \$2.7 trillion.*

The recovery will be painful because “[t]he overall picture is a grim one; a deep, truly global, and destabilizing downturn with world GDP falling for the first time in the post-war period.” The world is entering in a post globalization era characterized by several trends.

Among these are the following:

- the end of the laissez-faire economics;
- the perception that the Anglo-Saxon financial system has –failed;
- the expansion of the role of state, and the reregulation of markets;
- the retreat of globalization in concept and practice;
- the probable commencement of a new historical phase “marked by less leadership, less coordination and less coherence”; and
- increase of geopolitical instability.

With perceptible sadness but also with a truly admirable courage and professional honesty, the former Deputy Secretary of the Treasury and Wall Street insider has written: *Only China has prevailed. ... Beijing’s unique capitalist-communist model appears to be helping China through this crisis effectively. And measured by its estimated \$2.3 trillion in foreign exchange reserves, no nation is wealthier.*

In conclusion “[t]his economic crisis is a seismic global event. ... Global economic and financial integration are reversing. The role of the state, together with financial and trade protectionism, is ascending.” Subsequently, in order to limit the duration of this new phase the “pro-growth leaders” must promote aggressive stimulus measures and moderate regulation reforms. And in this

⁸ Roger C. Altman, *Globalization in retreat, Foreign Affairs*, Council on Foreign Relation, Volume 88, No. 4, July/August 2009, pp. 2-7.

environment the “enormous global goodwill” that President Obama enjoys can be an important key and asset for the United States.

An explanation of the crisis based on the labour theory of value

The extreme severity of the current economic and financial crisis that started in 2008 has stimulated many influential persons going from columnists of major newspapers to prime-ministers and presidents – including President Obama – to explain its causes.

The most frequently offered explanations have been the following:

- the gradual deregulation of the US financial system that started as far away as during the Reagan administration, and had considerably accelerated during the George W. Bush administration;
- the errors committed by FED (usually presented as based on good intentions) under the chairmanship of Allen Greenspan (mainly) and Ben Bernacky (to a significant lesser extent);
- the errors committed by the Treasury Department under Secretary Paulson;
- the general incompetence of the Bush administration;
- the housing and in general the real estate bubble;
- the unrealistic expectations of the stock market pushing the Dow Jones to unrealistically high values;
- the fast and very important increases in the national debt and deficits run by the Bush administration;
- the very low saving rate in the United States;
- the business cycle;
- the US corporate culture of the last three or four decades focusing on maximizing profits on short or very short term and paying extremely high salaries and bonuses to the top managers, regardless of corporations’ long term interests or even their survival;
- a considerable decline in corporate ethics;
- the destabilizing effects of large hedging funds;
- the very important size of the US foreign debt;
- the high costs of the Iraq and Afghanistan wars, etc.

To all these causes it can – of course – be added the traditional Marxist explanation according to which this is a typical crisis of overproduction exacerbated by imperialism defined as state monopoly capitalism using the Marxist terminology, or as the domination of the “military-industrial complex” by using President Eisenhower’s own words.

Describing, analyzing and comparing all these explanations and interpretations would be of course a useful endeavour, but it would require a whole book and it is not the objective of this paper. Consequently, before trying to offer an explanation based on the labour theory of value, I have to observe that not all the previously presented explanations are equally accurate.

The crisis that started in 2008 has not been a crisis of overproduction. It has rather been one of "underproduction" with regard to the United States. The globalization has had the tendency to spread the crisis that began in the United States, but it also moderated the shock by spreading it around the world. The huge US debt toward China has been a source of the crisis, but also a shock absorbing element. The complete breakdown of the US financial system would have been a catastrophic loss not only for the United States and the US type of capitalism, but also for communist China. The role of the "state monopoly capitalism" and/or of the "military-industrial complex" was minor if not even nonexistent. The United States of today does not have the monopolies as they were described by Lenin, and the manufacturing industrial sector of the United States has diminished considerably in relative terms since Eisenhower's presidency (this being one of the main causes of the crisis from the perspective of the labour theory of value).

In parallels the explanation that the crisis was caused by the FED's inappropriate but well intentioned decisions is also erroneous. President George W. Bush has of course had a below average intellect, but Allen Greenspan has been an intelligent person. He had at his disposal all the essential and most relevant financial and economic data concerning the US economy, highly sophisticated econometrical models and some of the best computing facilities in the world. The language that he was using was fuzzy and foggy, but the decisions themselves and the reasoning behind them were not. His decisions were fully consistent and the results of very serious, professional thinking. But they were completely biased in favour of the groups of interest that put him in that position, and against the vital national interests of the United States and of the American people. For this reason his decisions look of course erroneous and inexplicable if we assess them from the point of view of US national interests, but they look brilliant if we evaluate them from the vantage point of the hedging funds speculators, unimaginably highly paid bankers and brokerage houses CEOs who led their institutions to bankruptcy, or the perpetrators and supporters of the Iraq war.

If Allan Greenspan's long chairmanship of FED can be regarded as one of the causes of the financial crisis (but not of the general economic one), secretary Paulson's relative short stay at the Department of Treasury had mixed results. There is no doubt that he made many of his decisions as a former CEO of the most prestigious Wall Street firm, and in the interest of his former Wall Street colleagues. But at the same time those decisions stopped the highly probable "melt-down" of the whole US financial system.

If the interpretations biased on overproduction or on the "well intentioned errors" of FED are to a large extent biased, the other explanations can be partly or completely considered because they try to illuminate various aspects of this so complex crisis. They should be regarded as complementary and not as contrary to the explanation based on the labour theory of value.

This crisis has not been only a financial one. It is a deep economic and financial crisis. It is a crisis of the economic fundamentals and not only of the intermediary or final links of the economic chain. With regard to the United States, this is a crisis of underproduction. Its main causes are not psychological or even

political. They are basic fundamental economic causes. They are rooted in the very foundations of the economy of this country.

Subsequently, I believe that – in accordance to the labour theory of value – the most important causes that generated the deep economic and financial crisis that started in 2007-2008 were the following.

The Relative Deindustrialization of the United States

In the seventies, most manufactured commodities sold in the United States were made in this country, by US companies using US labour. The United States used to import luxury goods like German and Italian cars, or French perfumes, wines and jewellery. It was – of course – also importing other products like tropical fruits or raw materials and minerals inexistent in this country. Nevertheless, most goods found in the American houses were “Made in the USA.” Most of the cars, TV sets, refrigerators, washing machines or HF sets were made here. Today, not only most of these are made abroad, but it is almost sure that the typical Texan hat that you would find in a department store was made in Taiwan, the Wyoming belt in China, and the John Wayne t-shirt in Bangladesh. The United States does not more have even one important domestic brand of TV sets or cameras. The mighty Kodak became irrelevant, and just secures a small dark corner at the New York Photo Show annually opened at the vast Jacob Javits Center. Samsung of South Korea is able to pay for a significantly better stand, and in the domineering locations are – of course – Nikon and Canon.

These domineering locations are the same that were occupied for decades by General Motors, Chrysler and Ford, at the annual New York Auto Show. But which would be occupied in the future by the Italy’s Fiat who bought the bankrupt Chrysler, by the convalescent mini General Motors, or by some newly emerging Indian or Chinese car companies. And if the United States would again be under pressure to build some heavy protected naval ships, it would need first to order steel from ... South Korea. Because the greatest power of the world does not more make the necessary steel!

This total or partial loss of very important US manufacturing industries, the industries that were the engines of the faster creation of wealth and accumulation since the industrial revolution is an essential, fundamental element of the current crisis. In accordance to the labour theory of value the United States produces in relative terms less wealth than it used to do in the past.

The Disproportionate Increase of the Service Sector

During the last thirty years the percentage of services in US economy has continuously increased, while the percentage of the manufacturing sector has continuously decreased. The causes of this fundamental structural change were the following.

Initially, for ideological reasons associated with the Cold War, capitalism-communism rivalry, or the use of the labour theory of value not only by the builders of the British Empire but also by Stalin’s commissars, the intimate process

of wealth creation was less studied in the departments of economics and business administration of US universities. The focus was moved from the study of the production of value and wealth to the extended study of opportunity cost as well as supply and demand. But this has meant to focus more on the distribution of wealth without primordially knowing how it is in fact created.

A second cause linked to the first was the conflict between the unions and management which was looking significantly more important and menacing during the Cold War than it appears today. The workers from the manufacturing industries and especially those from the heavy industries (like steel, cars, shipbuilding, etc.) were extensively and well organized, while most service employees were not. Subsequently, the replacing of a manufacturing based economy with a service based one was a discrete, but efficient method for reducing the power and influence of unions in management's favour.

Another cause was of pure economic nature – the initial capital for procuring buildings, apparatuses and machinery in services is remarkably smaller than in manufacturing industries, and especially in the heavy ones. Therefore the risks are considerably smaller, the profits come much faster, and are usually higher as a percentage of the initially invested capital.

Another major cause was the exponential increase of financial services. Under gradual but substantial deregulations, and with the confidential assistance of FED (mainly) and Treasury (to a lesser extent), the banks, brokerage houses, as well as mutual and hedging funds were assuming very high risks, and were involved in operations going to the limits of legality. There have been created various dubious and valueless financial “products” to be sold in the United States and abroad, and with SEC's and FED's tacit approval various “bubbles” were created. In this manner was possible not only to finance the Iraq and Afghanistan wars, but also to significantly diminish the taxes paid by the wealthy and to exponentially increase the pays of the top managers regardless of their economic performances.

The Expansion of Useless Services

The difference between services and manufacturing goods is major. A useless manufactured good is immediately eliminated by the market, while a useless or even fraudulent service is not. To realize that medical insurance is in fact a useless service that does not create any wealth but only absorbs a large amount of national wealth requires a relative long period of time. Accepting that universal and equal health care regardless of how rich a person is, is a basic human right requires a very important change in the system of national values. Similarly, to realize that highly “respectable” firms could sell the equivalents of junk bonds, and that other “highly respectable” companies could guarantee their highest possible ratings requires not only time and expertise, but also a deep crisis that would expose the fraudulent schemes.

For these reasons various types of services look initially as being more profitable than manufacturing. On long term however, and after various types of dubious financial operations are performed and the public trust is lost, one observes

that the wealth brought by these services to the entire nation is illusory. Or, it is incomparable smaller than that that would have been created by investing the same amount of money in manufacturing industries. This does not mean that the financial institutions in general, and the banks in particular, are not necessary, but that in the financial sector is far more easy to be successful by offering useless or even fraudulent services than it would be in the manufacturing industries to sell useless, defective or counterfeit products.

The Quality of Education in the High Schools and the Change in the Higher Education Structure

Another fundamental cause of the current economic crisis is the relatively low level of education offered by the US high schools and the structure and access to the US system of higher education.

For various reasons that cannot be explained in this short paper, the level and quality of education in science in the US high schools is relatively low in comparison to that existent in all the other developed industrial countries regardless of continent. As I have personally observed the graduates of the high schools from the relatively poor island of Jamaica are better educated than their colleague from the very rich and financially powerful New York City. And they are better trained not only in mathematics and science in general, but also in English literature and “rational” writing. (as opposed to “creative” writing which frequently is an accumulation of trivial logical and grammatical mistakes presented with infatuation as “creations.”)

In parallels many universities and colleges have more the status of businesses than that of national institutions entrusted with the education and development of the future generations entailing the increase of the creativity and power of the American people. They use criteria of decision making specific to the business world and not to the academia, and as a result a disproportionately large number of people specialize in social sciences and liberal arts instead to study sciences and engineering.

From the universities’ perspective the ratio between tuition and the cost of educating a student is considerably higher in social sciences than in engineering, and therefore they prefer to expand the social sciences and liberal arts departments instead of the sciences and engineering ones. But these policies have a negative effect on the job market, causing important imbalances and tensions. The oversupply in the field of social sciences and liberal arts, and the undersupply in the areas of science and engineering are not more exceptional situations, but – unfortunately – chronic, typical ones.

Subsequently, the labour force does not have the skills required by the modern industrial economies, and many companies transfer their production abroad. Of course, the outsourcing has as its main rationale profit maximization, but the level of labour skill is also an important cause of United States’ deindustrialization.

In the terms of the labour theory of value this situation of middle level and higher education means that because of a relatively lower skill (caused by the lower level of the scientific education in itself, and by the structure of graduates in

which the percentage of engineers and scientists is relatively small) the wealth created by the US labour is significantly lower than that which might be created with a drastically changed and improved system of education.

The Standard of Living of the US Population Has Not Been Supported by the Productivity of the US Economic Systems for at Least One Decade

As any objective American or foreign analyst can easily observe there is a large discrepancy between the average standard of living in the United States and the average level of productivity. In other words, the Americans have been living too well in comparison to how much wealth they have been producing. As a nation the Americans have been living considerably above their means by borrowing abroad and by buying at very low prices commodities made abroad. This was possible because of the convergent policies of the Department of Commerce, FED and SEC from one side, and several powerful foreign institutions – mainly Chinese – from the other.

The Department of Commerce, the FED and the SEC promoted policies which had allowed an extraordinary fast increase of the wealth of the richest people in the United States by deregulation and dot-com bubble, and more recently by the housing bubble. The role of the later one was to create the psychological and short term financial environment for supporting the Iraq and Afghanistan wars not only without additional taxes, but even by cutting the taxes of the rich. Put in different terms, the housing bubble was the bait given to the American people by the G.W. Bush administration and FED for supporting, or at least acquiescing with the wars. And they did this with the tacit acquiescence of the communist Chinese government who was undoubtedly aware of the negative consequences for America and the long term benefits for China.

Reasoning on very long term (and not on very short term as their American counterparts) and obviously inspired by their great strategic thinkers, the Chinese leaders realized that a loss of wealth on short term caused by the price scissors could be a huge gain on long term. And this was also associated and possible by identifying the two main weaknesses of their American competitors and adversaries – the extreme greed and the extreme individualism making some Americans to completely disregard the interests of most of their fellow Americans. As a result, within this general framework, by selling at very low prices for a long period of time, the Chinese and those who have followed their example were able to partly de-industrialize the United States, to accumulate the largest reserves of hard currency, and to make the United States – the country of the former mighty dollar – their most important debtor.

As a result of the low or even very low levels of education in mathematics and sciences, the American people has not observed this game and the Bush administration, the FED, and most of the media did not do anything in order to stop it. It was in the interest of most of the wealthiest people, and it was necessary and extremely useful to the groups of interest that initiated the Iraq and Afghanistan wars and the un-American policy of the Bush administration. For nearly two decades the American people was living very comfortably and was feeling well without understanding that at one moment would be necessary to pay, and that this would be painful. Unfortunately, that period came to an end of 2007, and it is impossible to

predict for how long it would last because this depends on various decisions that would be made not only during this year, but also in the years to come.

The Nature of US Capitalism

As it is well known, the US capitalism has – as a socio-economic system – important particularities that clearly differentiate it from other types of capitalist system like the German, French, Scandinavian or Japanese. The lack of safety nets, the discretionary powers of management, the huge differences between the pays of the top managers and of all the other employees, the custom of firing people instead of diminishing the salaries and the number of working hours of all employees, the frequently non-cooperative relationship between unions and management, as well as the very limited role of the unions are specific characteristics of US capitalism.

These characteristics are rooted in US history, in the formation of the American people, and in the Anglo-Saxon heritage. The fast and extensive development of the United States has usually been regarded as the main proof of the superiority of this type of capitalism. A rigorous analysis, however, indicates that environmental, political, historical and even external factors caused the remarkable US development, and not only the specificity of US capitalism.

If we would exclude (in statistical terms “control for”) all these factors we would observe that the Anglo-American model of capitalism was very good for producing on large scale commodities to be sold in the former British colonies or building railroads, highways, relatively cheap cars or home appliances in America. It has also been very good in manufacturing some of the most advanced technical products of their time (going from top weaponry to highly luxurious cars). But it was not able to produce on large scale goods of superior technical qualities. America produced the Ford T, the atomic bomb, and the stealth bomber. But did not produce the equivalents of Mercedes-Benz-s, BMW-s (the regular police cars in Bavaria, Germany!), or Hasselblad-s. With workers who are hired today and fired in the day after tomorrow is possible to build railways. But it is impossible to make advanced digital cameras because – obviously – the workers would lose their skill during the unemployment periods.

Therefore it is possible to affirm that the United States is in crisis not because the capitalism in general is in a crisis situation, but because the traditional Anglo-American model of capitalism does not more correspond to the 21st century’s technology. The management-labour relations of the gilded age entailed the triumph of the steam engine and the building of the US railways system in record time. But the same type of relations during the last two decades, led to the replacement of important parts of the US manufacturing industries by McDonald-s and Burger King-s.

The De Facto Elimination of Gold as Money

It is obvious that under the theoretical assumptions of the labour theory of value, and the existence of gold money (or banknotes exchangeable for gold without any restrictions), this particular type of financial crisis would have been impossible.

The dot-com and housing market bubbles would have been rapidly corrected. At the same time would have been extremely difficult if not absolutely impossible to cover the huge debt toward China and the cooperation of the wealthiest US

capitalists with the most powerful Chinese communists. Cooperation that has had as a result the deindustrialization of America, the relative decrease of wealth and power of this country as a whole (although a few have enormously profited) and the remarkable increase of China's economic and financial power – entailing of course the increase of its military power and global political influence.

The Import of Production Relations

According to the Heckscher-Ohlin Theorem, as a result of free trade among nations, not only the commodities prices have the tendency to equalize, but also the labour costs. But this means that from an American perspective the salaries and wages would have the tendency to decrease attaining a point of equilibrium between the former US level of pay and that from the exporting countries (China, Taiwan, South Korea, Bangladesh, etc.). Without the social and economic safety-nets of the other developed countries, this means a relative and even absolute erosion of the standard of living of US employees.

This situation can be observed without any difficulty. Taking into consideration the inflation rate, and the productivity increase the current real purchasing power of the average US employee is considerably lower than that which should be in accordance with the current level of productivity. Although the productivity increased during the last thirty years the employees' purchasing power was stagnant or even decreasing.

This means that during the last decades we did not import only commodities from non-democratic countries but also their relations of production that keep salaries and wages very low by using non-economic means – going from union banning to political oppression and police terror. As a result the US worker of today is not more the proud GM or US Steel worker of the sixties and seventies, but a partly illiterate Walmart employee living from one pay check to another under the terrible stress of being fired at any moment and unable to go to a medical doctor for even a simple consultation.

But this new employee who does not more have the purchasing power of the former GM or US Steel employee doe also not have his or her professional skills, technological knowledge and work ethic. Subsequently, he or she creates less value and therefore wealth in the time unit.

This means that the uncontrolled and unrestricted imports caused a significant erosion of labour skills and economic significance. The former highly skilled workers found after thirty years that their purchasing power is considerably diminished not only in relative but also in absolute terms. From another perspective, observing this situation and competing in a considerably tighter labour market the young people focus less on their qualification and skills and accept to take jobs that require less qualification and skill. Subsequently they create less value and therefore wealth, and receive lower wages.

In conclusion it is possible to affirm that the unrestricted imports from countries having low wages for historical, political and economic reasons have caused not only wage depression but also a significant change in the structure of the labour force. The United States went from having a labour force with a high level of skills, technological knowledge and work ethic to one with average or in some cases even bellow average skills (for a developed industrial country)

Promotion of High Savings, Investments in Manufacturing and High Tech Industries, and (Relatively) Free Higher Education in Science and Technology in China, India, South Korea and other Asian Countries

The development policies promoted for nearly sixty years by Japan and for more than thirty years by the other Asian countries which are today important or very important economic powers have been different or even opposite to the US development policy. With the exception of China which has followed its own specific path, all the others focused from the beginning on free market economy. But within that economic and legal framework, they followed development policies fully consistent with the basic principles of the labour theory of value while this country did not in the same historical period.

First, they started with those industries that required less skill, and less capital but were producing commodities not difficult to sell on the industrial countries' markets – pottery, simple furniture, textiles or cheap garments. Promoting at the same time a very high rate of saving, they were investing the hard currency procured by selling these low tech commodities in gradually more complex industries. On this way they went from ceramic pottery and kitchen furniture to home appliances. From here to steel and from steel to shipbuilding – initially only the iron bodies but later more and more machinery and apparatuses. Finally – like following a classical textbook's prescriptions – they started to build cars and complex electronic products.

They also knew from the beginning that this type of economic development requires a labour force that is continuously increasing its professional skills. Therefore, the education in general, and the scientific one in particular, were not more regarded as personal private problems – but as essential issues of national importance. Consequently, complex programs frequently supported by state were initiated, and their excellent results are observed today everywhere. From the Japanese plants where the marvellous top of the line digital cameras or some of the most sophisticated parts for the SDI system are made, to India where an increasing part of advanced computer software is developed and to the United States where many computer engineers and programmer have been initially educated in Asia.

Considering these policies, one immediately remarks that they are absolutely consistent with the labour theory of value. The substantial increase of the level of education and skill of the labour force has made it able to produce considerably more value in a time unit. At the same time the procurement of capital by high saving rates, and the restructuring of the economy by going from agriculture and simple services to more and more complex manufacturing industries has created the new jobs for which this highly educated labour force would be hired, and subsequently would generate a large amount of wealth.

The Culture of Greed and Individualism of the “Roaring Nineties”

The fall of communism and the disintegration of Soviet Union created a kind of unjustified euphoria that in less than two decades considerably undermined the American economy and the US position in the world. The sudden implosion of the most formidable adversary in the US history, and the defeat of the system of socio-economic and political values that it represented and promoted led to a plethora of

self congratulating and celebratory phrases like the “end of history,” the “unipolar moment” the “American century” or the “obvious and normal US hegemony.”

This psychological and ideological collective mentality created at its turn a different economic-political environment suggesting that in order to become hyper rich or to satisfy the requests of some powerful groups of interest is permissible to do many things there had been prohibited in the past. Without the communist and Soviet threat and challenges, a new “gilded age” appeared as not only possible but also economically and morally justified.

The excessive greed, the difficult to imagine inequality of income, and the high tolerance toward various financial operations at the limits of legality have dramatically eroded the US economy. This high level of tolerance has not only stimulated dangerously high risk taking but also generated the conditions for illegal schemes. Enron or Madoff were the most extreme cases, but they were not the only ones. They were possible because of the general conditions existent during the last two decades. A feed-back, two ways relationship has developed between the FED, SEC and the Treasury from one side, and most of the big banks, brokerage houses, and various types of funds from the other.

Conclusions regarding the Future of the US Power from the Perspective of the Labor Theory of Value

The power of a nation-state is a multidimensional concept and the creation of an absolutely objective index of power is impossible. However, virtually all political analysts and decision makers use currently this concept, and try to apprehend to the best of their abilities what the aggregate power of a nation-state might be.

Observing that any index of aggregate power necessarily contains an appreciable degree of subjectivity, I consider in this paper only the main elements of power. Using a mathematical terminology I would say that I regard the national power as a vector having a number of components and not as a unique variable.

As it is usually accepted the main elements of national power are: territory, natural resources, population (number, education and health), economy (manufacturing and productive services, trade and finance), technology, armed forces, and political system’s quality. The relationships among all these elements of power are very complex, but some of them – and especially the ones in which I am interested in this paper are remarkably clear.

The following table may offer some suggestions for a discussion of the complex relationship among various elements of power, and it might probably lead to a mathematical modelling approach, but it should be regarded at this moment as only a subjective and rough approximation. I include it however in order to indicate the feed-back connections and the necessity to consider all elements that determine a nation’s power, and its ability to influence other nations. The lines suggest how each element of power determines the others, and the columns how each element of power is influenced by the others.

	natural	population	population	population	manufacturing					armed
government	territory	resources	number	education	health	and pr. services	trade	finances	technology	forces
quality										
territory		xxx	x	-	-	xx	x	-	-	x
n. resources	-		xx	-	x	xxx	xxx	xxx	-	xx
p. number	-	-		x	x	xxx	xx	x	x	xxx
p. education xxx	-	-	xx		xxx	xxx	xxx	xxx	xxx	xxx
p. health x	-	-	xxx	x		xxx	xx	x	xx	xxx
manufacturing x	x	x	xx	xxx	xxx		xxx	xxx	xxx	xxx
trade	-	-	-	x	-	xxx		xxx	xx	x
finances x	-	-	-	x	x	xx	xx		xx	xxx
technology x	x	x	-	xxx	xxx	xxx	xxx	xxx		xxx
armed forces x	x	-	-	-	-	-	x	x	x	
government quality	x	-	xx	xxx	xxx	x	xx	xx	x	xxx

= no influence
x = weak influence
xx = medium influence
xxx = strong influence

With a limited number of exceptions, the productive and trading power of a nation as well as its natural resources determine its financial power. But on long term the financial power itself has a less important role in determining the productive power and it cannot be maintained on long or very long term without an adequate productive infrastructure. Similarly, the military power is highly dependent on the economic power and population, but in the modern world the economic power is less dependent on the military one.

According to the prevailing views in the international relations theory in general, and in the realists and neo-realist schools in particular, the power of a nation-state on the international scene is represented, or is finally concentrated in its economic and military power. The political power is a derivative of these two, and it is usually considerably limited if it based only on the characteristics of the internal political regime or on the ethical principles on which a country bases its foreign policy actions (for example the Scandinavian countries or Canada are highly respected by the international community, but their high political prestige is not sufficient for making them great or very influential world powers).

Subsequently, the answer to the question if the United States would remain the preeminent super-power of the world in the 21st century depends of what would happen with the US military and economic powers. But observing that the military power is highly dependent on the economic one, while in the modern world the

later one is only partly dependent of the former one, implies that the future of the United States depends on the future of the American economy. And this economy will remain the preeminent economy of the world only if it would be able to create more wealth than the dynamic emerging economies of the large Asian countries, the European Union whose market is now comparable to that of the United States and Russia which is not at any moment as weak or as powerful as it appears, as Bismarck has accurately observed.

Therefore, taking into consideration that the new and real wealth is created as the labour theory of value indicates, and not as the Wall Street speculators or medical insurance companies pretend, the future of the United States' power would depend on its ability to considerably restructure its economy and social system in accordance to the drastic requirements of this theory.

This means that in order to remain the preeminent superpower of the world in the 21st century, the United States must:

- redevelop the manufacturing sector focusing not only on very high tech industries (missiles, airplanes, computers or high tech weaponry) but also on medium level technologies, because even a person employed in a less advanced industry produces obviously some new wealth while one who is unemployed or works in a useless service sector does not produce any wealth;

- eliminate useless services (like medical insurance), drastically control financial services, and extend the wealth creating services;

- considerably improve the quality of education in junior and high schools;

- radically change the administrative and organizational structure of the system of higher education, by bringing it to the 21st century from the 19th century where it is today – that is make it similar to those of all other developed industrialized countries in which the quality of higher education received by a young man or woman depends on his or her brain, and not on how much money or what kind of political and economic connections his or her family has (the success of President Obama is non-relevant for the system as a whole, it is one of the exceptions intentionally created by the system in order to maintain the privileges of a very limited group of families whose sons and daughters would become the system's beneficiaries);

- considerably improve the quality of life by a system of steep progressive taxes that would provide the social services existent for many decades in all the other advanced industrial democracies, allowing in this way to the corporations to focus on technology, production, quality and competitiveness and not on social problems;

- bring the US capitalism from the early 20th century where it is today to 21st century, by radically restructuring the relationship between management and employees as the countries specializing in high tech did even before World War II; clearly understand that with people who are today employed and tomorrow thrown on the streets was possible to build railways by 1850 and to extract coal by 1920, but is impossible to manufacture even decent cars and TV sets in the 21st century;

- clearly understand that completely free trade in the modern world – in which nations are able to completely change their status in manufacturing in about thirty years by promoting radical changes in education and rational control of investment and prices by national governments – has the tendency to lead not only to an equalization of prices but also to an equalization of wages;

– clearly understand that the tendency of the US real wages, and subsequently purchasing power, to move down to the levels of the Chinese, Mexican, Bangladeshi or Indian ones is beneficial only on short term and only for some groups of people, but it has a corrosive, destructive effect on long term; it considerably enriches a very limited group of people but impoverishes the country as a whole;

– realize that national wealth cannot be created on long term by Wall Street financial juggleries and high risk speculations;

– observe that sixty years ago “what was good for General Motors was good for America” indeed, but what was good for AIG, Goldman-Sachs or Meryl Lynch three years ago was devastating for America; the reason is simple – GM was manufacturing cars “for the American people and by the American people” while Wall Street firms guilty for the banking crisis have “manufactured” tricky financial instruments in order to astronomically enrich their own management by redistributing the real wealth created in the United States and to some extent abroad;

– drastically reform the US banking system, and use all US influence for ameliorating the world financial system in order to make again the dollar “as good as gold;”

Making these observations a few basic questions arise – is the United States of the first quarter of the 21st century capable to courageously face these extraordinary challenges or not? Are the US elites able to do what they did 80 years ago during the Franklin Delano Roosevelt administration? Are the wealthiest Americans of today ready to do what their grandfathers and great grandfathers did when they gave up a portion of their wealth in order to preserve the system and to avoid the advance of communism or fascism in this country?

The answers to these questions are not affirmative, but they are also not negative. The results of the 2008 elections as well as the nature of a number of Obama administration’s actions do not entail heavy pessimism as those of the G.W. Bush administration, but low level optimism. On this way the president’s State of the Union Address⁹ is moderately encouraging, even completely discounting the pro-domo arguments expected in any presidential address like this one.

Referring only tangentially to foreign policy the president focused on the economic situation proving that he understands that to a larger extent “the state of the Union” really depends on the state of the economy.

After the expected political introduction emphasizing the achievements of the administration during its first year, the president stressed that “jobs must be our number one focus in 2010.” Observing that many of the new jobs are created in small businesses he pleaded in favour of financially supporting these. Of course because this is a popular political position, but also because he is probably convinced that these small businesses add new wealth to America instead to only redistribute the one created by others.

⁹ Remarks by the President in the State of the Union Address, January 27, 2010, www.whitehouse.gov/the-press-office/remarks-president-state-union-address.

On the same way, the president affirmed that “we can put Americans to work today by building the infrastructure of tomorrow.” And although he is probably not aware of the requirements of the labour theory of value he spoke fully in accordance to these when he referred to new high speed trains and not to new medical insurance companies, brokerage houses or law firms.

“The only way to move to full unemployment is to lay a new foundation for long term growth” said the president, and any person who accepts the labour theory of value would also necessarily agree with this affirmation. The “so called economic “expansion” as the one from the last decade” was in fact an artificial one “where prosperity was built on a housing bubble and financial speculation” and as a result “jobs grew more slowly than during any prior expansion; ... [and] the income of the average American household declined while the cost of health care and tuition reached record highs.”

While the persons who had profited from this long lasting situation and their representatives in Washington have been preaching patience, other countries have been doing exactly what must be done in order to create real wealth and not the impression of wealth. “China is not waiting to revamp its economy. Germany is not waiting. India is not waiting. ... These nations aren’t playing for second place. They’re putting more emphasis on math and science. They’re rebuilding their infrastructure.”

In president’s opinion in order to fix “the problems that are hampering ... [United States’] growth” is necessary:

- to promote “a serious financial reform;”
- “to encourage American innovation;”
- “to export more of our goods;”
- “to invest in the skills and education of our people;” and
- to reform the health insurance sector.

As one observes without any difficulty this program is fully consistent with the basic principles of the labour theory of value, and it is encouraging. If it would be effectively implemented and enlarged during the next twenty years it would allow to this country to maintain its preeminent economic position in the world. And taking into consideration the relationship between economic and military power, it would also allow to the United States to remain the undisputed military force on the globe. But, if the rational program advocated by the president will not be considered and implemented is a high probability that the leading position of the United States would be aggressively disputed by other countries or groups of countries.

In other words, America will remain the preeminent power of the world if it would be able to create in the first half of this century an economic and social structure corresponding to the new economic, technological, social, political and military condition. But if it would be unable to do this, it is probable that by 2040 – one hundred years after Admiral Yamamoto – the admiral in command of the Chinese Navy would be able to write “Anyone who has seen the ruins of the automobile factories in Detroit and the deserted oil fields in Texas knows that America lacks the power for a naval race with China.”

REFERENCES

- Adam Smith (1977), *Inquiry into the Nature and Causes of the Wealth of Nations*, University of Chicago Press.
- David Ricardo (2005), *The Principles of Political Economy and Taxation*, Barnes and Noble.
- John Keegan (1988), *The Price of Admiralty*, Penguin Books, New York.
- Karl Marx (1996), *Das Kapital: A Critique of Political Economy*, Regnery Publishing Inc.
- Louis Berenquer (2000), *The Labor-Value Theory*, Xlibris Corporation.
- Peter C. Dooley (2009), *The Labor Theory of Value*, Routledge Frontiers of Political Economy.
- R. Edwards, S. Bowles and F. Roosevelt (2004), *Understanding Capitalism*, Oxford University Press.
- Robert L. Heilbroner (1999), *The Worldly Philosophers: The Lives Times and Ideas of the Great Economic Thinkers*, Simon and Shuster.
- Roger C. Altman, *Globalization in retreat*, *Foreign Affairs*, Council on Foreign Relation, Volume 88, No. 4, July/August 2009, pp. 2-7.
- Roger C. Altman, *The Great Crash, 2008*, *Foreign Affairs*, Council on Foreign Relation, Volume 88, No. 1, January/February 2009, pp. 2-14.
- www.whitehouse.gov/the-press-office/remarks-president-state-union-address.