Letters and replies on the US economy

13 January 2001

The following are letters on the US economy and replies by WSWS *editorial board member Nick Beams.*

I found your article to be very interesting, but I would like to make a couple of points:

1. The US economy grew in December by between 2 percent and 3 percent.

2. Retailers reported a slow Christmas season that I think can be explained by these factors:

a. Blizzard-like condition throughout most of the US kept shoppers at home.

b. Lack of consumer confidence in e-tailers after their performance last Christmas.

c. Overall lack of consumer confidence based on the fact that the right wing just stole a presidential election.

Having stated these facts, I do not disagree that a US recession is likely, but I think that George W. Bush is "low-balling" the economy—saying there is a recession coming in order to get his tax break through.

It is irresponsible of George W. Bush (and you and the media) to say that we are "headed for a recession" while the economy is actually growing.

Thanks for your time.

MC

5 January 2001

Dear MC,

Thanks for your letter. I am glad you found the article interesting. Let me say firstly, its main purpose was not to "predict" a recession, but rather to point to the processes at work in the US and world economy. The responsibility I have is not to "the economy" but to present a clear analysis to the readers of the *WSWS*.

Accordingly, for some time I have been particularly concerned to expose the real operations of the so-called "new economy" and to dispel the myth that US and world capitalism have somehow entered a crisis-free epoch.

Only in this way can working people be prepared for the social struggles, which a downturn and recession in the US will bring. The extraordinary growth of indebtedness in the US economy during the 1990s, particularly over the past five years, which has formed the financial basis of the boom, means that a recession, or even just slower growth, will have far-reaching consequences.

The precarious position of many working families means that any major recession will bring about social protests and struggles. The reaction of the Bush administration to such developments is clearly indicated by its insistence that the threat of recession makes even more necessary its proposal for a $1.3 trillion tax handout to the super rich.

Yours sincerely,

Nick Beams

11 January 2001

Dear *WSWS* Editorial Board,

I follow this web site with great interest. Your analyses are consistently enlightening and informative. I was wondering if you could help me understand several economic issues.

1. How did the Euro-dollar market develop in Europe in the 1960s? My understanding is that the US ran trade surpluses consistently from the end of World War II up to the early 1980s. This development would tend to drain the supply of dollars from the rest of the world, resulting in their accumulation in America. Did the Euro-dollar market result from massive US foreign investments and "aid" in the form of dollar outflows via the Marshall Plan? Were these investment-driven and "aid"-driven dollar outflows larger than the trade surpluses America ran? Finally, how did the development of the Euro-dollar market contribute to the undermining of the dollar-dominated Bretton Woods framework?

2. Did the incorporation of the former Stalinist regimes and other semi-autarchic states into the world capitalist system in the early 1990s lead to increased profit rates? To me, it seems like the super-exploitation of the highly productive workers in these countries by the transnational corporations would lead to at least a temporary surge in the total mass of surplus value. Indeed, I've seen some statistics which suggest that profit rates rose in the US during the early and mid-1990s. Was the takeover of the Eastern Bloc and other areas by Western finance capital and industrial capital partially responsible for this apparent bump-up in profit rates witnessed in the early 1990s? Are profit rates now once again receding, and, if so, why?

In solidarity,

AW

3 January 2001

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Dear AW,

In the immediate postwar period and indeed right through to the end of the 1960s the US ran a trade surplus with the rest of the world. In the late 1940s the world economy was constricted by a dollar shortage. American industry, which had expanded in the war, needed international markets for its goods. But the Europeans did not have the currency to purchase them. The reestablishment of a world trade system consequently required an outflow of dollars from the US in the form of aid, such as under the Marshall Plan, military spending, government spending abroad and private investment. These outflows outweighed the US trade surplus and provided liquidity for the international trading system.

The postwar monetary system was based on the system of fixed currency relationships established at the Bretton Woods conference of 1944. Under these arrangements, the world's major currencies were tied to the dollar, which in turn was exchangeable for gold by the US at the rate of $35 per ounce.

This arrangement, however, rested on a profound contradiction. On the one hand the world trading system needed an outflow of dollars from the US to provide liquidity for international transactions—the dollar in effect functioned as world currency. On the other hand the more this outflow grew, and the more the international holdings of US dollars expanded, the more pressure it placed on the dollar-gold nexus. These strains became apparent during the 1960s. While the US trade balance was decreasing—because of the revival of production in Europe and Japan—the outflow of investment from the US and government spending (particularly on the Vietnam War) was increasing.

Both the Kennedy and Johnson administrations attempted to place some curbs on the outflow of investment capital from the US in order to ease the pressure on the dollar. But their attempts were largely undermined by the operations of what came to be known as the Euro-dollar market. This consisted of the dollar holdings of US corporations and financial institutions in Europe, which were used to finance loans and investments outside the control of the US Treasury.

In 1971, in the face of a movement of the trade balance from surplus into deficit, Nixon repudiated the Bretton Woods agreement and broke the dollar gold nexus. This signified the beginning of the end for the nationally-regulated financial system, which had been in place for the first 25 years after the war. The withdrawal of the gold backing from the US dollar soon led to freely floating currencies, to be followed at the end of the 1970s with the scrapping of controls on the movement of capital, giving rise to the development of a global financial market.

On your second question, I think that the main impact on profit rates resulting from the incorporation of the Stalinist regimes into the world market has not been through the super-exploitation of workers in these countries by transnational corporations. There has been little of such investment in these countries. It has tended to be concentrated in China, Southeast Asia and Latin America. Probably the main impact on profit rates has been through the lowering of raw material prices as a result of the looting of these economies by the Stalinist bureaucrats and their business allies.

One of the main reasons for the upturn in the rate of profit since the early 1990s, I would suggest, is the decline in the real wages of the working class. In the US, for example, the decline in real wages from 1973 to 1993 is 10 percent and more in some categories. The figures published in the SEP (US) election statement give an indication of the massive transfer of wealth from the working class to corporate America.

But even with this transfer it has to be said that profit rates throughout the capitalist economy have not returned to their levels in the 1950s and 1960s. And the growth rates in the major economies in the 1990s have not reached those achieved in an earlier period.

There are, of course, many factors that give rise to fluctuations in the rate of profit and I have already pointed to some of them here—falling raw material prices and increased exploitation of the working class. To these could be added improvements in the productivity of labor and new processes, which cheapen the cost of capital.

I do not have any exact figures before me, but it seems, at least from anecdotal evidence and the reports to the stock markets, that profit rates in the US have been on the decline in the recent period. One reason for that could well be that it has not been possible to repeat the cost savings brought about by the downsizing of the early 1990s. Also it is clear that a portion of the increased profits in the recent period was the result of the “bubble economy” which developed in the US from 1996 onwards. With collapse of the bubble, profit rates will also decline, leading in turn to further downward pressure on share prices.

Yours sincerely,
Nick Beams
11 January 2001

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