The World Economic Crisis: 1991-2001

Part 1

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Below we are publishing the first part of a lecture given January 16, 2002 by Nick Beams, national secretary of the Socialist Equality Party (Australia) and a member of the International Editorial Board of the World Socialist Web Site . *The lecture was delivered at an international school held in Sydney by the Socialist Equality Party of Australia. The* second part *was published on March 15 and the* conclusion *on March 16.*

Ten years ago, in the wake of the collapse of the Soviet Union and the Stalinist regimes of Eastern Europe, the International Committee of the Fourth International (ICFI) posed the following question: Has the demise of these regimes established the conditions for a new capitalist equilibrium, or is it the initial expression of processes that are undermining the stability of world capitalism as a whole?

Vastly different perspectives flow from the two answers. If the collapse of the Soviet Union meant that capitalism had, so to speak, taken on a new lease of life, then we would have to say that while socialism may not be dead, the prospects for socialist revolution must be consigned to some indefinite point in the future.

We maintained, on the contrary, that the demise of the USSR was in the final analysis the political expression of vast changes in the world economy—changes that were undermining the political structures on which the stability of bourgeois rule had rested. The globalisation of production, bound up with far-reaching technological developments based on the computer chip, had rendered the national economic perspectives of Stalinism, summed up in its program of “socialism in one country”, completely unviable.

But the collapse of the Stalinist regimes was only the initial expression of the eruption, once again, of the contradiction between the development of world economy—the global expansion of the productive forces driven forward by capitalism—and the nation-state system on which the rule of the bourgeoisie has been based. The re-emergence of this contradiction, we insisted, had far-reaching economic and political implications.

The theoretical and political work of the International Committee over the past decade has centred on working through the implications of this new stage in the historical development of capitalism, and, based upon this analysis, making the necessary changes in the forms of our own work.

From the very outset we recognised that the collapse of the Stalinist regimes—the biggest and most powerful of the labour bureaucracies—had far-reaching implications for the evolution of the labour bureaucracies in all the major capitalist countries. The transformation of the unions and the social democratic and labour parties was, we insisted, not simply the outcome of the betrayals of their various leaderships, but an organic product of their very structure. It was the response of national-based organisations to the new situation resulting from the globalisation of production.

The globalisation of production, likewise, required a critical re-examination and re-working of the perspective of national self-determination. While this demand had a historically progressive content in an earlier epoch, in so far as it was directed against imperialism, vast changes in world economy meant that it had now been transformed. “Self-determination” had become the demand of various sections of the national bourgeoisie and petty-bourgeoisie as they sought to establish their own relationship with global capital.

The International Committee’s analysis developed in opposition to the various petty-bourgeois radical tendencies, which insisted that globalisation was really nothing more than a propaganda campaign conducted by the ruling elite, that the nation-state remained as strong as ever and political perspectives had to be oriented to it. The Spartacist League’s attack on our analysis in 1994 summed up the outlook of all those for whom political perspective is based, in the final analysis, on applying pressure to the national state.

If, as the radicals maintain, the national state has not been undermined by the global development of the productive forces, and if it remains, as they insist, the pre-eminent political and economic entity, then the entire perspective of Marxism can be nothing more than an ethical or moral ideal. The socialist perspective—based on the abolition of the national state and private property—becomes simply a utopia.

This was the major political issue that arose out of the protest movements against globalisation. Following the Seattle demonstrations in 1999, we explained that a distinction had to be made between the globalisation of the productive forces—an entirely progressive development and the basis, in the final analysis, for the establishment of world socialism—and global capitalism—the outmoded and reactionary system, based on private property and the national state, within which the productive forces are being constricted. This distinction lay at the heart of our polemic with Professor Michel Chossudovsky two years ago.

Based on our analysis, the ICFI has undertaken major changes: In 1995-96, the transformation of our leagues to parties and in 1998 the launching of the *World Socialist Web Site*.

We can now pose the question: Has our perspective stood up to the test of events? In other words, has it been possible for capitalism to establish a new international equilibrium on which a further global expansion will be based? Are there tendencies of development in the present situation pointing to that eventuality in the future? Are the storms and stresses of the past 10 years merely the birth pangs of a new stable international order? Or, on the contrary, do they represent a deepening of the disequilibrium signified by the collapse of the USSR? In this lecture, I will attempt to address and answer these questions.

There are two outstanding features of the political economy of the past decade: the eruption of three wars conducted by US imperialism and growing turbulence within the international financial system. The Gulf War of 1990-91 was followed by the war on Serbia in 1999 and now the war against Afghanistan, with Bush promising that 2002 will be a “year of war.” As we enter 2002, we are witnessing the most serious global recession in a quarter of a century, and possibly the entire post-war period.

The coincidence of the Gulf War of 1990-91 with the final disintegration and collapse of the Soviet Union was not accidental. They were two aspects of the same process—the breakdown of the post-war equilibrium of world capitalism. The position of the US, as we noted at the time, was highly contradictory. At the very time it was hailing its victory over the USSR, the US was struggling to maintain its global hegemony over its rivals. The ICFI's manifesto of 1991, *Oppose Imperialist War and Colonialism*, noted, "the drive of American imperialism to restore its position of world dominance constitutes the single most explosive element in world politics." Far more important for the US than the "liberation" of Kuwait was the opportunity for the US to provide an international demonstration of its military might.

The ICFI's statement of May 1999, *World power, oil and gold*, drew out that the roots of the US war against Yugoslavia lay in the struggle by the major capitalist powers to reintegrate the territories of the former USSR and appropriate their resources.

"The greatest untapped oil reserves in the world are located in the former Soviet republics bordering the Caspian Sea (Azerbaijan, Kazakhstan, Turkmenistan). These resources are now being divided among the major capitalist countries. That is the fuel that is feeding renewed militarism and must lead to new wars of conquest by the imperialist powers against local opponents, as well as ever-greater conflicts among the imperialists themselves.

"This is the key to understanding the bellicosity of US foreign policy over the past decade. The bombardment of Yugoslavia is the latest in a series of wars of aggression that have spanned the globe. Though they had certain regional motivations, these wars have been the US response to the opportunities and challenges opened by the demise of the USSR. Washington sees its military might as a trump card that can be employed to prevail over its rivals in the coming struggle for resources."

The ICFI's analysis anticipated the current war in Afghanistan, which was being prepared well in advance of the events of September 11. The terror attacks provided the pretext for the US government to set into motion its long-established military plans.

The global position of the US has been the subject of several discussions during the past decade. In 1992, for instance, leaked material from the Pentagon explained that the key question for US foreign policy was the maintenance of American global hegemony.

In 1997, the Carter administration's National Security Adviser Zbigniew Brzezinski clearly set out his position:

"The last decade of the twentieth century has witnessed a tectonic shift in world affairs.... The defeat and collapse of the Soviet Union was the final step in the rapid ascension of a Western Hemisphere power, the United States, as the sole, and indeed, the first truly global power."

But the question was, how would that supremacy be maintained? According to Brzezinski "the issue of how a globally engaged America copes with the complex Eurasian power relationships—and particularly whether it prevents the emergence of a dominant and antagonistic Eurasian power—remains central to America's capacity to exercise global primacy" (Brzezinski, *The Grand Chessboard*, pp xiii-xiv).

Brzezinski devotes a chapter of his book to what he calls the "Eurasian Balkans", which comprise, roughly speaking, the countries bordering the Caspian Sea and their neighbors.

"The traditional Balkans represented a potential geopolitical prize in the struggle for European supremacy. The Eurasian Balkans, astride the inevitably emerging transportation network meant to link more directly Eurasia's richest and most industrious western and eastern extremities, are also geopolitically significant. Moreover, they are of importance from the standpoint of security and historical ambitions to at least three of their most immediate and more powerful neighbours, namely, Russia, Turkey, and Iran, with China signaling an increasing political interest in the region. But the Eurasian Balkans are infinitely more important as a potential economic prize: an enormous concentration of natural gas and oil reserves is located in the region, in addition to important minerals, including gold" (p. 124).

Brzezinski makes the point that the pursuit of global power and democracy at home are incompatible. "America is too democratic at home to be autocratic abroad. This limits the use of American power, especially its capacity for military intimidation. Never before has a populist democracy attained international supremacy. But the pursuit of power is not a goal that commands popular passion, except in conditions of a sudden threat or challenge to the public's sense of domestic well-being" (p. 36).

One could hardly expound more succinctly both the role of the events of September 11 and the driving force behind the attacks on democratic rights within the US itself.

An article in the *Sydney Morning Herald* on January 7, reprinted from the *LA Times* and Reuters, notes the build-up of US forces over the past decade:

"Behind a veil of secret agreements, the United States is creating a ring of new and expanded military bases that encircle Afghanistan and enhance its ability to strike targets in much of the Muslim world. Since September 11, Pentagon sources say, military tent cities have sprung up at 13 locations in nine countries neighbouring Afghanistan, substantially extending the network of bases in the region. From Bulgaria and Uzbekistan to Turkey, Kuwait and beyond, more than 60,000 US military personnel are stationed in these forward bases."

After the war against Iraq, the article notes, the US built a network of facilities in six Persian Gulf states. Since September 11, the US has established new agreements for the stationing of forces with Kyrgyzstan, Pakistan, Tajikistan and Uzbekistan.

While the events of September 11 certainly ushered in sharp changes in the political situation, had they not occurred, the war in Afghanistan would nevertheless have been launched at another favourable opportunity.

As for the economic situation, the US and world recession was well underway prior to September 11. And, like the military events, it was the outcome of processes that had been unfolding throughout the decade.

In November last year, the National Bureau of Economic Research (NBER) announced, on the basis of a series of statistics, including employment data, that the US economy had entered a recession. According to the NBER, the recession started in the March quarter, exactly 10 years since the end of the last recession in 1990-91.

It is worthwhile subjecting this cycle to closer examination. In the first place, it represents the longest period of expansion in the US economy without a recession. Not even in the post-war boom years of the 1950s and 1960s was there such a lengthy period of continuous economic growth. But this particular 10-year growth has some peculiar features.

As the *Financial Times* of November 1 noted, far from being the dawn of a "new economy" the cycle of the 1990s compares rather unfavourably with previous periods. While the growth rate overall was 3.1 percent per annum, the per capita rate was about one percentage point lower.

"Historically, the latest cycle was by no means exceptional. The 1990s growth rate only just exceeded the lacklustre late 1970s: in the economic cycle between 1973 and 1980, the US notched up average growth of 2.9 percent. It was slower than the 1980s cycle. And compared with the 4.4 percent average growth record of the 1960s, recent US growth performance has been paltry. The conventional wisdom that the 1990s were exceptional grew because the pattern of growth bucked previous trends. Growth was strongest in the second half of the upswing. Recently, it has been too often forgotten that the early 1990s were characterised as the 'jobless expansion'" (*Financial Times,* November 1, 2001).

Another study of the 1990s cycle notes: "Even the most cursory review of the data shows that the 'new economy' was mostly hype. For the business cycle as a whole, the average GDP growth rate of 3.1 percent was much lower than in the fifties and sixties, and slightly below the pace of the seventies" (Dean Baker, *The New Economy Goes Bust: What the*

Record Shows, Center for Economic Policy Research briefing paper).

What of the world economy as a whole? If we examine the G7 countries, we find that only the US and the UK experienced higher growth rates in the period 1993-98 as compared to the period 1983-93. And all countries of the G7 fall well below the growth rates experienced in the period 1964-73.

Growth in the G7

Growth in the G7 percent per year

(Table from Eatwell and Taylor, *Global Finance at Risk*, Polity Press, 2000, p. 107)

What about living standards?

The world's richest 20 percent now receive 86 percent of the world's gross domestic product. The poorest 20 percent receive only 1 percent, and the middle 60 percent just 13 percent. The world's richest two hundred people saw their incomes double between 1994 and 1998 to over a trillion dollars. The world's richest three people have assets greater than the combined output of the forty-eight poorest countries. According to the 1999 United Nations *World Development Report*, it would take $40 billion to extend basic health and nutrition, basic education, water sanitation, reproductive health and family planning to the entire world's population. A yearly contribution of 1 per cent of the wealth of the two hundred richest people (about $7 billion) could provide universal access to primary education and 5 per cent would pay for all the basic social services.

A recent study notes that: "In 1998-99, with the world gross output per capita growing at the rate of 1.5-1.8 per cent, more than eighty countries have lower per capita incomes than a decade or more ago, and at least fifty-five countries have consistently declining per capita incomes. The income gap between the fifth of the world's people living in the richest countries and the fifth in the poorest was 74 to 1 in 1997, up from 60 to 1 in 1990 and 30 to 1 in 1960. The income inequalities have also risen sharply within the rich countries—particularly in the US and the UK—and the global poor are now as or more poor than they were in 1820" (Heikki Patomäki, *Democratising Globalisation*, Zed Books, 2001, p. 100).

Returning to the US economy, there is one area where the 1990s outstripped all previous decades—the growth of debt, particularly external debt.

At the end of 2000, US net debt to the rest of the world was $2.19 trillion. At the end of 2001, net debt totaled some $2.60 trillion. This represented some 22 percent of GDP, up from 16.4 percent in 1999 and nine percentage points higher than the 12.9 per cent recorded in 1997. This means that the US now absorbs about two-thirds of total world savings. In other words, the US has become a giant financial vacuum cleaner, sucking out capital from the rest of the world. And this must create growing economic tensions, because the capital sucked into the US cannot be employed in other areas of the world for economic growth.

These are truly amazing figures when placed in the context of the historical development of US capitalism. The US first became a creditor nation in 1917, when British investments were liquidated to pay for the war against Germany and US banks and finance houses profited from the war indebtedness of the European countries. The US continued as a creditor nation until the late 1980s. Now, in the space of little more than a decade, it has become the largest debtor nation in the world. Let us review some of the indices of this transformation. From 1983 to 1990 the total debt of US non-financial sectors doubled from $5.36 trillion to $10.85 trillion. In the 1990s, it rose by 62 percent, from $11.31 trillion in 1991 to $18.26 trillion at the end of 2000. In every year since 1992, inflows of foreign investment into the US have contributed more than 10 percent of the total funds supplied in US credit markets.

Internal debt is also rising. According to Federal Reserve Flow of Funds data, the ratio of total outstanding debt to disposable income rose from 87 percent in 1990 to more than 101 percent at the end of 2000. Total debt service payments reached a record high of 14 per cent of disposable income. The impact of the growth of indebtedness can be seen in the figures for consumption spending in the US economy. The consumption share of GDP rose by 2.6 percentage points from 1989 to 2000. This was associated with a decline in the savings rate of approximately 7 percentage points from its 1989 level. The savings rate has turned negative in the past few years.

The past period has also been characterised by an increase in the US trade deficit, which is now running at about 4 percent of GDP. The US, at present, requires an inflow of $1 billion from external sources *every day* to finance its balance of payments deficit.

The level of international finance has grown no less rapidly over the past decade and a half. The world bond market stood at around $1 trillion in 1970. By 1980 it had doubled to $2 trillion. Then came the sharp increase: It leapt to $12 trillion in 1990, more than $20 trillion in 1995 and around $25 trillion by 1998.

By the late 1990s, the volume of foreign exchange trading was more than $1 trillion per day. This represented an eight-fold increase since 1986. By contrast, the global volume of exports for 1997 was $6.6 trillion, or $25 billion per day.

The amount of investment funds has similarly expanded. By the mid-1990s, mutual funds and pension funds totaled $20 trillion. This was 10 times the 1980s figure. Likewise, there has been a huge increase in the volume of funds for investment during the 1990s. According to figures compiled by the Organisation for Economic Cooperation and Development (OECD), the value of financial assets held by all investor institutions in member states, comprising mainly insurance companies, pension funds and investment companies, increased by $9.8 trillion or 75 per cent between 1990 and 1995. The annual increase of $1.96 trillion was equal to around 10 per cent of the aggregate national income of the OECD countries during this period.

If we compare and contrast the growth of finance capital with the figures on economic growth for the US and the world capitalist economy, then one of the most important features of the 1990s economic cycle begins to emerge. This is the growing divergence between fictitious capital on the one hand and the growth of GDP on the other.

The significance of this divergence lies in the fact that fictitious capital represents a claim on the surplus value extracted from the working class. To be sure, sections of finance capital can secure a profit from purely financial operations—and this process can go on for a considerable period of time, so long as additional finance keeps flowing into the markets. But at a certain point, finance capital has to appropriate a certain portion of the surplus value obtained from the working class. In other words, to ensure the stability of the system, the real economy must expand fast enough to meet the claims of fictitious capital.

However, what is now happening is the reverse. Rather than growth in the real economy providing sufficient profits to meet the future claims of fictitious capital, we find that corporations are becoming more and more dependent on financial operations to maintain their profits.

As one study of this process notes: "an increasing proportion of the total return on investments since the start of the 1980s has resulted from capital gains (an appreciation in the market value of the securities concerned) rather than earnings (dividend or interest plus reinvested profits), with the former accounting for as much as 75 percent of total returns in the USA and Britain—compared with well under 50 percent (on average) in the 1900-79 period as a whole. This clearly suggests that the rise in value has been driven more by the increasing flow of funds into the market and speculation that prices will continue to be pushed upwards—assuming the maintenance (or restoration) of benign economic conditions—than by the actual income stream produced by the securities" (Harry Shutt, *The Trouble With Capitalism*, p. 124).

The financial structure of world capitalism during the 1990s has come to increasingly resemble an inverted pyramid—a growing mass of fictitious capital resting on a much smaller proportionate mass of surplus value. Like an inverted pyramid, such a financial structure is inherently unstable.

In this case, however, it is not the force of gravity that causes it to overbalance, but the drive for profit, which sees investment funds move rapidly from one market to another. Herein lies the origin of the financial storms that have become so characteristic of the world capitalist economy during the past decade.

To be continued