The World Economic Crisis: 1991-2001

Part 3

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The last decade has been characterised by growing militarism and a deepening disequilibrium of the global capitalist economy. Between these two phenomena there exists a deep-seated connection. To demonstrate this, we need to examine the historical evolution of world economy in the second half of the 20th century: a period marked by the hegemony of the United States.

There are certain parallels between the present period, commencing in the mid-1970s, and the epoch which lasted from 1870 to 1913, concluding with the outbreak of World War I. We could designate 1870 to 1913 as the first period of globalisation—the rise of the world economy as an independent entity. The present epoch constitutes the second phase of globalisation, involving not only the globalisation of capital in the commodity and money forms, but the globalisation of productive capital—the globalisation of the production process itself.

There are many aspects to this development. We are particularly interested in the relationship between the major capitalist powers and, especially, the role of the United States.

In its analysis of globalisation, the International Committee of the Fourth International (ICFI) has opposed those who claim that the national state has become irrelevant, as well as those who maintain that nothing fundamental has occurred and that the nation-state remains the basic economic unit.

We have, instead, sought to establish how, at every stage, this second epoch of globalisation intensifies the contradiction between world economy and the nation-state system. It not only paves the way for a new epoch of wars, but creates the objective conditions for the development of socialist revolution.

In 1991, we wrote: “The old distinctions between the home market and world market are in the process of being entirely effaced. The modern transnational corporation, regardless of the geographical location of its home base, is involved in a life-and-death struggle for dominance in the world market. But even as the national state loses its objective economic significance, its role as the political-military instrument of the competing national cliques of capitalists in the struggle for world domination grows enormously. This fact finds its most powerful expression in the accelerating preparations for a new world conflagration” [*Oppose Imperialist War and Colonialism,* Manifesto of the International Committee of the Fourth International, page 11].

The origins of inter-imperialist conflicts lie in the complex relationships between the major capitalist powers and the development of world economy as a whole. The middle of the 19th century, when the newly emerging capitalist system was expanding, was the heyday of Britain. Britain truly was the workshop of the world. But with the unification of Germany in 1871, the establishment of an expanding American national market in the aftermath of the civil war and the onset of the Great Depression from the mid-1870s, far-reaching changes were set in motion. By the end of the century, new forms of industrial and corporate organisation had been developed, in Germany and the US, and new industrial powers had arrived on the scene. The rise of Germany meant that Britain’s dominance of the continent of Europe, which had begun in the wake of the Napoleonic Wars, was under challenge. Across the Atlantic, the emergence of the industrial corporation and the creation of a vast internal market pointed to the future domination of the US.

Growing conflicts between the imperialist powers erupted in World War I. Britain was able to secure Germany’s defeat, but only at tremendous cost—the loss of its pre-eminent financial position. The period after 1914 saw a massive transfer of funds from one side of the Atlantic to the other, as French and British investments were liquidated to pay for the war. The transfer of wealth, in the space of just a few years, not only erased the debt owed by the US to Europe, but transformed the US into a creditor nation. In 1914, total US private investment abroad was $2.5 billion. By 1919 it had doubled to $7 billion. Over the same period, foreign investments in the US fell from $7.2 billion to $3.3 billion.

In the course of the war, a fundamental shift took place in global economic power. The old system of global trade, based on the financial centre of London and the gold standard, could not be restored. The financial power of Britain which, in the final analysis, had sustained the pre-war system, had been too severely weakened.

In the aftermath of the war, the United States, under the leadership of Wilson and his “Fourteen Points,” attempted a reorganisation of Europe. But the US was faced with the challenge of the Russian Revolution. To economically reconstruct Europe would have necessitated sweeping away the old powers in Germany and Central Europe. The final victor, however, may not have been the US, but Bolshevism. In the event, the US formed an alliance with the old powers under the Versailles Treaty. But this meant that the economic life of Europe was severely constricted.

Only in 1926-27—some 13 years after the war had begun—did production in Europe reach its pre-war levels. But not only Europe was affected. The war revealed that economic power had moved across the Atlantic. Moreover, the entry of the US into the war, and its subsequent attempts to re-organise the old continent, demonstrated that the US could no longer simply base itself on its vast internal market. American capital and American production methods had to be developed on an international scale if the capitalist system as a whole was to expand. But that was not possible in a Europe constricted and criss-crossed by national borders, tariffs, cartels and other restrictions. It was this contradictory state of affairs that led to the Great Depression of the 1930s.

In the 1930s, in a remarkable piece of analysis, Leon Trotsky explained the conflict gripping the world economy and pointed to the future course of developments—the eruption of a new world war and the role the US would play within it.

"The United States," he wrote, "represented the most perfect type of capitalist development. The relative equilibrium of its internal and seemingly inexhaustible market assured the United States a decided technical and economic preponderance over Europe. But its intervention in the World War was really an expression of the fact that its internal equilibrium had already been disrupted. The changes introduced by the war into the American structure have, in turn, made entry into the world arena a life-and-death question for American capitalism. There is ample evidence that this entry must assume extremely dramatic forms.

"The law of the productivity of labour is of decisive significance in the interrelations of Europe and America, and in general in determining the future place of the United States in the world. That highest form that the Yankees gave to the law of the productivity of labour is called conveyor, standardised or mass production. It would seem that the spot from which the lever of Archimedes was to turn the world over had been found. But the old planet refuses to be turned over. Everyone defends himself against everybody else protecting himself by a customs wall and a hedge of bayonets. Europe buys no goods, pays no debts and, in addition, arms herself. With five miserable divisions, starved Japan seizes a whole country. The most advanced technique in the world suddenly seems impotent before obstacles basing themselves on much lower technique. The law of the productivity of labour seems to lose its force.

"But it only seems so. The basic law of human history must inevitably take revenge on derivative and secondary phenomena. Sooner or later American capitalism must open up ways for itself through the length and breadth of our entire planet. By what methods? By *all* methods. A high coefficient of productivity also denotes a high coefficient of destructive force. Am I preaching war? Not in the least. I am not preaching anything. I am only attempting to analyse the world situation and to draw conclusions from the laws of economic mechanics" [Trotsky, "Nationalism and Economic Life," *Writings 1933-34*, pp. 161-162].

The superior productivity of labour developed by American capitalism not only drove it into the war but secured its victory. On the basis of that victory, the US established a new global economic and political framework within which the capitalist system as a whole could expand.

In considering the construction of the post-war order—the financial and monetary mechanisms set in place at a conference in Bretton Woods, New Hampshire, in 1944—there are two important points to emphasise. The first is that while it was carried out under the hegemony of the US, and was certainly aimed at benefiting US capitalism, the Bretton Woods system was, nevertheless, based on the recognition that the needs of the other major capitalist powers had to be accommodated. This was not a "zero-sum game" in which US capitalism gained at the expense of the other powers. Rather, a series of economic and political mechanisms were constructed, ensuring the expansion of capital as a whole. In terms of the modern vernacular, it was that much-sought-after "win-win" situation.

Of course, in the final analysis, this was due, not to the altruism or far-sightedness of the post-war system's American architects, but to the fact that assembly-line production—the conveyor or standardised mass production system, as Trotsky called it—represented a development in the productivity of labour. It ensured an expansion in the mass of surplus value extracted from the working class—the basis for the accumulation of capital.

Most importantly, the US planners recognised that the system of American production required the establishment of new economic and political conditions, above all in Europe. The alternative was that the world would relapse into the conditions of the 1920s and 1930s. And this time, the ruling classes may not have been able to avert the socialist revolution.

The second major aspect of the post-war order was the restrictions imposed on finance capital. The architects of Bretton Woods recognised that a viable framework for international trade had to be reconstructed. The system of tariff barriers and competitive devaluations, which had characterised the 1920s, had to be removed if world capitalism were to have a future. But the post-war system by no means restored the pre-1914 era. In fact, by contrast, the movement of finance capital was severely restricted lest it create imbalances between currencies, leading to tariff barriers and other restrictions, or undermine the economic programs of national governments.

I want to emphasise these two features of the Bretton Woods system, because its breakdown is centred on them.

The collapse of the post-war system of regulation resulted from the interaction between objective economic tendencies and the policy responses of the US and other imperialist powers to them. The Euro dollar market was to play a crucial role in the demise of the system of fixed currencies. It had its origins in the move by Britain to full convertibility in 1958. In order to prevent a run on the currency, the British authorities imposed restrictions on capital movements. But the British banks, anxious to maintain their position in international markets, found ways around these regulations by using their dollar balances to carry out international lending. Later in the 1960s, when the US government imposed restrictions, American financial interests likewise found that the Euro dollar market was a useful mechanism for circumventing them.

The Bretton Woods system was founded on a contradiction that was to eventually bring about its collapse. It was aimed at promoting the expansion of the capitalist economy, which depended on the growth of international liquidity, principally in the form of dollars. But the growth of the dollar pool meant that the currency's gold backing was being undermined. This became a burgeoning problem in the 1960s when the dollar outflow from the US increased, as a result of higher military spending and the flow of investment to the now rapidly expanding European economy. US administrations imposed restrictions on capital movements, with the aim of maintaining the balance between gold and the dollar. But the upshot was only to spur the growth of the Euro dollar market.

The rise of this capital market, outside the control of government regulation, led to the very consequence that the founders of the Bretton Woods system had warned against: currency destabilisation. In 1967 the pound came under pressure, followed by the dollar in 1968. Yet the crisis continued. Not only was the US experiencing a deficit on its balance of payments account, but by the late 1960s the trade balance was moving into deficit.

Within the framework of the Bretton Woods system, the only solution to the growing crisis was for the United States to slash its spending abroad—above all by reducing military spending—and to impose a recession at home to cut imports and boost exports. In other words, to continue with the Bretton Woods system would have meant weakening the international position of the US. This the US was certainly not prepared to do. Moreover, imposing a domestic recession would have provoked opposition in the working class, adding to the growing political crisis over the Vietnam War.

In the final analysis, the collapse of Bretton Woods was a reflection of the growing internationalisation of the world economy. It broke down under the pressure of developing international capital markets and the movement of money-capital around the world, outside the control of national governments, including the US administration.

In the words of one recent study: "There is little doubt that the systemic disintegration [of the Bretton Woods system] would have occurred anyway at some time. It required too much in terms of the coordination of national policies. Countries were more and more committed to domestic growth, while at the same time the technological forces that were driving economic growth required internationalization, of goods markets but also of capital. The crisis of the Bretton Woods system can be seen as a particular and very dramatic instance of the clash of national economic regulation with the logic of internationalism. In the circumstances of 1971, the disruption of the system followed very obviously and directly from the policies of the United States" [Harold James, *International Monetary Cooperation Since Bretton Woods*, p. 207].

The essential content of those policies was to maintain the hegemonic position of the United States.

"Speaking to the Europeans, [US Treasury Secretary John] Connally put the American position in the following terms: 'The dollar may be our currency but it's your problem' An American audience got a cruder version: 'Foreigners are out to screw us. Our job is to screw them first'" [op cit, p. 210].

"A sub-cabinet level interagency group, generally known as the 'Volcker Group', on which the Treasury, the Council of Economic Advisers, the State Department, the National Security adviser were represented, prepared a paper on 'Basic Options in International Monetary Affairs.' It included a review of the past: 'The available financing for our deficits has permitted the United States to carry out heavy overseas military expenditure and to undertake other foreign commitments, and to retain substantial flexibility in domestic economic policy.' But it added that an important goal of policy was to 'free ... foreign policy from constraints imposed by weaknesses in the financial system.' It was inappropriate to adjust foreign policy to a particular monetary system. Later, looking back from the perspective of the 1990s, Volcker concluded that 'Presidents—certainly Johnson and Nixon—did not want to hear that their options were limited by the weakness of the dollar.' Because of this constraint, the United States could not modify its policies substantially in order to satisfy the requirements of the international monetary system" [op cit, pp. 210-211].

Within the US, the conviction grew that the way to maintain, and possibly even enhance, the position of the US was to abandon controls on capital and introduce the principles of the free market into the international financial system. The reasoning behind this argument was that the financial system would continue to be based on the dollar, and other participants would want to hold dollars. The advantage for the US was that its currency would function as international money.

Under the post-war order, political power was used to regulate the global economy and, above all, financial markets. But the very development of the productive forces, produced by the post-war stabilisation itself, gave rise to new contradictions. The growth of the productive forces required the development of international finance, necessitating greater freedom of movement for finance capital—thus coming into conflict with the old regime. In this new situation, the US realised it could only maintain its economic position vis-à-vis its rivals by scrapping the old order.

Contained here, however, was the undermining, if not yet the total destruction, of one of the central pillars of the post-war equilibrium. As we noted, the US constructed the post-war order in its own interests, while, at the same time, *enhancing* the position of the other capitalist powers. Now the post-war monetary system was being torn down in the name of advancing the interests of the US *against* its rivals.

Once the system of fixed currency relationships was scrapped, the genie of finance capital was, so to speak, out of the bottle. Controls on capital flows could no longer be maintained and it became increasingly difficult to pursue a national economic agenda without the accord of the financial markets. The last government to try was the Mitterrand government in France in the early 1980s. It was forced to abandon the attempt in the face of an ensuing financial crisis.

The collapse of the Bretton Woods system, at the start of the 1970s, ushered in a period of global economic turbulence that marked a turning point in the historical evolution of the global capitalist order. Rapid inflation in 1972-73 was shortly followed by a recession in 1974-75, the deepest, to that point, in the post-war period. The recession was the outcome, or the expression, of deep-going structural changes.

The post-war expansion rested, in the final analysis, on the extension of the more productive methods of American capitalism to the rest of the advanced capitalist countries. In this way, the decline in the rate of profit, which underlay the crisis of the 1920s and 1930s, was overcome and reversed. But by the late 1960s, the very accumulation of capital made possible by the post-war expansion, ensured that the tendency of the rate of profit to fall began to emerge once again. According to one estimate, the rate of profit declined by almost 50 percent, from 22 percent in the late 1940s to 12 percent in the mid-1970s.

While the recession of 1974-75 was followed by a recovery, there was no return to the conditions of the 1960s. The latter half of the 1970s was marked by a phenomenon known as "stagflation"—rising unemployment combined with increased inflation. Stagflation spelt, among other things, the end of the so-called Keynesian prescriptions, in which increased government spending was supposedly the cure for unemployment. In the new economic situation, increased government spending only seemed to exacerbate, rather than alleviate, the mounting economic problems. This was because they did not arise from temporary or conjunctural factors. Instead, the problems were rooted in the very structure of the system of production.

The Carter regime completely failed in its efforts to engineer an increase in economic growth, leading to a major crisis for the US dollar, which plummeted in value between 1978 and 1979. The dollar crisis became the spur for a sharp turn in US policy, with the appointment in 1979 of Paul Volcker as chairman of the US Federal Reserve Board.

Volcker's program, and that of the financial interests behind him, was brutally straightforward. Inflation had to be squeezed out of the system through cuts in the money supply and increases in the interest rate. In essence, his program represented the demands of finance capital for a complete restructuring of the US economy. Whole sections of capital, which were now uncompetitive, had to be wiped out. Industry had to be reorganised, both in the US and internationally. This was the start of "globalisation"—not merely the setting up of offshore production, but the disaggregation of the production process and the production of high-labour components in cheap-labour countries.

High interest rates were both the means for effecting a re-organisation of industrial capital and for allowing finance capital to increase its rate of return after real interest rates had turned negative in the late 1970s.

The Volcker program, which was followed by the British Tory government of Margaret Thatcher, meant an all-out offensive against the working class. The Reagan administration sacked 12,000 air traffic controllers in 1981 and destroyed their union, PATCO. In Britain, the Thatcher government launched a series of attacks on the steelworkers and then the miners.

The scrapping of the Keynesian-reformist program of the post-war period, and its replacement with the free market program of finance capital, saw a shift to far more aggressive policies internationally. One of the first expressions of this shift was the intervention of the US into Afghanistan. The Carter regime, at the instigation of National Security Adviser Zbigniew Brzezinski, initiated a program of covert aid to the anti-communist Islamic mujaheddin forces, with the express intention of weakening the Soviet Union by drawing it into a prolonged war.

Turning increasingly to militarism, the US intervened in Lebanon, invaded Grenada and supported the Thatcher government's Malvinas War. Towards the Soviet Union, there was a general policy of destabilisation. The Reagan administration initiated a rearmament program with the intention of applying pressure to the Soviet bureaucracy. Reagan's military budget reached its peak in 1985 when arms spending, after adjustment for inflation, beat previous records, including those of the Korean and Vietnam Wars. Military pressures were also brought to bear on Europe. One of the aims of the program to station Cruise missiles on the continent was to prevent closer relations between the European powers and the USSR.

In 1982 a debt crisis erupted, bringing with it a major turn, so far as the so-called under-developed countries were concerned. Through the IMF, the US began an attack on the national development policies of the various national bourgeoisies. The IMF's new "structural adjustment" programs demanded the opening of markets, the cutting of government spending, currency devaluations, the production of cash crops for the world market and the general dismantling of government controls and regulations.

In 1991-92, the collapse of the Soviet Union created a new situation. Whole areas of the world, which for decades had been off limits to the major capitalist powers, were now opened up. For leading US foreign policy circles, the central issue since then has been to ensure that no other power, or group of powers, can take advantage of this situation and thereby challenge the United States for global hegemony.

In 1990, after backing the Iraqi regime for a decade, the US administration seized upon the pretext of Iraq's invasion of Kuwait to establish its military power in the Gulf. In doing so, it provided a graphic demonstration of its military capacities to any potential rivals of the US.

In the bombing of Yugoslavia, the US war aims were even clearer: to remove all barriers to the reorganization of the world economy on the basis of the principles of the free market, ensuring the domination of American corporations. As Clinton put it: "If we're going to have a strong economic relationship that includes our ability to sell around the world, Europe has got to be a key ... That's what this Kosovo thing is all about." Or as Thomas Friedman put it: "The hidden hand of the market will never work without the hidden fist—McDonald's cannot flourish without McDonnell Douglas."

There are important differences in the way the US has conducted the three major wars of the last decade. Above all, they demonstrate a growing tendency towards unilateralism. The Gulf War was still, to some extent, conducted within the framework of the United Nations. The war against Kosovo was organised under the auspices of NATO. But in Afghanistan, the US has insisted it will conduct the war on its own terms, with the British and others being, at times, pointedly pushed aside.

What will be the policy of the US after Afghanistan? To have another war. As Bush remarked: Afghanistan is the first war of the 21st century. Or, as he put it on a later occasion, the year 2002 will be a year of war. At a certain point, this policy will lead the US into conflict with its rivals.

If we take the last 25 years—the period since the collapse of Bretton Woods and the 1974-75 recession—there is, through all the twists and turns dictated by conjunctural circumstances, a consistent thread to US policy: the ever-more definite assertion of its interests and the abandonment of any long-term management of the capitalist economy as a whole. Here, one could mention the fact that, despite having passed through a decade of financial storms that have threatened the very basis of the global system, the major powers are further away than ever from any agreement on the regulation of global finance.

A truly unprecedented situation has emerged during the past decade. The dominant financial power has become dependent on the rest of the world financially. At the end of the Second World War, the US was the chief supplier of capital to the rest of the world. Now it is dependent on the rest of the world, requiring an inflow of $1 billion a day just to stay solvent. Again, at a certain point, this will give rise to conflicts with the other powers.

The US has entered into a kind of Faustian bargain. In the 1970s, it decided to scrap the discipline of the Bretton Woods system and push for the free market in order to maintain its hegemony over its rivals in Japan and Europe. This did serve to maintain the relative dominance of the US. But, at the same time, the US became subject to another mighty force—the world financial market, which has grown beyond the control of the US or of any group of capitalist powers. In other words, the US, in endeavouring to maintain its hegemony, has made itself subject to all the contradictions of the global capitalist economy. That is going to give rise to rapid and convulsive economic, and, above all, political shifts in the coming period.

In conclusion, I would like to emphasise two points. Firstly, the eruption of militarism is not an expression of the strength of US imperialism, but rather of its profound decay and degeneration. We have documented this in terms of facts and figures.

This decay has a decisive role to play in mass psychology and the development of political consciousness. Right at the point where Bush seeks to win support on the basis of his war program, the very decay that has given rise to militarism expresses itself in the Enron scandal. This crisis reveals that the social backers of the Bush administration are a gang of crooks and swindlers. And it has far-reaching implications, because Enron is not exceptional. It is symbolic of the so-called "new economy," the central activity of which has turned out to be the most dubious financial practices, aimed at trying to boost shareholder value, making possible wholesale financial looting.

The second issue relates to our perspective. Our strategy is the world socialist revolution. It is necessary to consider, and perhaps reconsider, what this means. The danger is that the world socialist revolution is conceived as a kind of quantitative addition of various national revolutions. But to assert that our strategy is the world socialist revolution means that we advance the perspective of world socialism—the international unification of the working class; genuine international planning in accordance with the laws of reason, not the anarchy of the market; social ownership making possible genuine democratic control of the productive forces—as the concrete answer to the growing dangers of imperialist war and the plunge into economic chaos, resulting from the deepening contradictions of the capitalist world economy.

In his famous pamphlet *War and the International*, Trotsky wrote: "The only way in which the proletariat can meet the imperialist perplexity of capitalism is by opposing to it as a practical program of the day the socialist organisation of world economy." That applies with even greater force today.

But what are the prospects? The Fourth International is grounded on the understanding that its perspective is the conscious expression of objective tendencies of development—the deepening conflict between the world economy and the nation-state system. It was this conflict which brought about the collapse of the Soviet Union and now finds its expression in the global struggle for resources and the ever-growing danger of war.

But will this understanding be able to cut for itself a path to the consciousness of the working class? This question cannot be answered outside of the role we play as part of the objective situation.

As Marx put it: "The question whether objective truth can be attributed to human thinking is not a question of theory but is a practical question. Man must prove the truth, i.e., the reality and the power, the this-sidedness of his thinking in practice. The dispute over the reality or non-reality of thinking that is isolated from practice is purely a scholastic question."

This methodological and philosophical insight has been vindicated both by the developments in modern physics— where it is simply impossible to determine the state of a system outside of active intervention in it—and in the sphere of politics.

The perspective of socialist revolution was able to win mass support in the working class. Under what conditions? The eruption of imperialist antagonisms and, ultimately, war—associated with the first epoch of globalisation from 1870 to 1913, and the period of profound disequilibrium that followed. Our perspective, in the second epoch of globalisation, is based on these historical experiences.

Concluded

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