The World Economic Crisis: 1991-2001

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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*

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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

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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

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storms that have become so characteristic of the world capitalist economy during the past decade.

The 1987 stock market crash ushered in the 1990s. While originating on Wall Street, the collapse was, in every sense, a global phenomenon. Conflicts between US government and financial authorities and German bankers over interest rates led to fears about a rapid fall in the value of the dollar, resulting in a withdrawal of funds from the US financial system.

Only through massive intervention by the US Federal Reserve Board and other central banks was a global financial crisis averted. These institutions injected large amounts of liquidity into the global financial system. But, in a pattern that was to be repeated throughout the decade, the very measures they used to combat the crisis created the conditions for even more serious problems to arise. In this case, the injection of liquidity helped further inflate the already growing Japanese financial bubble.

The Japanese bubble had its origins in the Plaza agreement of September 1985, under which the central banks agreed to revalue the world's major currencies against the US dollar. The dollar devaluation and yen revaluation had two immediate consequences. Firstly, Japanese exports became more expensive, leading to a shift of Japanese manufacturing to the East Asian region, where currencies stayed in line with the devalued US dollar. Secondly Japanese assets were revalued, leading to the escalation in Japanese property and land values, and the rise of the Tokyo stock market to unprecedented heights. Eventually, at the end of 1989, the Nikkei index reached over 40,000 (it is around 13,000 today). But the bubble could not continue indefinitely. Its collapse at the beginning of the 1990s was to send Japan into a debt deflation from which it has not recovered.

Indeed, this has been one of the central features of the 1990s: the inability of the world's second largest economy to escape from the vicious circle that was set in motion in the late 1980s. The fall in Japanese land and stock prices led to the increase in bad loans on the books of the Japanese banks and the erosion of their capital base. This, in turn, led to cutbacks in lending and investment and the collapse of financial institutions. The consequent economic downturn has seen further cuts in the value of stocks and property, precipitating a further weakening of the position of the banks and so on.

The first major crisis of the 1990s was the collapse of the European Exchange Rate Mechanism (ERM) in 1992. The British pound—under massive speculation from hedge funds—was withdrawn from the ERM and the Scandinavian banking system faced overnight interest rates of more than 100 percent.

This was followed at the end of 1994 by the collapse of the Mexican peso and the subsequent $50 billion Mexican bailout, organised by the Clinton administration at the beginning of 1995. "Mexican bailout" is something of a misnomer. It could, perhaps more accurately, be described as a bailout of those US financial interests with investments in Mexican bonds.

No sooner had the bailout been carried out than another crisis developed. The Plaza accord of 1985 had been aimed at lowering the value of the US dollar and boosting American exports. In the late 1980s and first half of the 1990s export growth had been responsible for about one third of the total increase in US GDP. But the low US dollar was putting great strains on the international financial system, and creating a crisis in US-Japan economic relations.

By April 1995, the US dollar had plunged to a record low of 79 yen to the dollar. The yen had risen by over 60 per cent against the dollar compared to its level at the start of 1991, and by 30 per cent compared to its level at the start of 1994. But the increase in the yen's value was playing havoc with the export-dependent Japanese economy. With the yen at these levels, Japanese exporters could not even cover their variable costs, let alone return a profit on sales in international markets. The Clinton administration, despite the fact that it had pursued an extremely aggressive policy towards Japan, could not ignore the impact of the rising yen-falling dollar. For the US, the danger was that if the continued fall in the dollar set off a financial crisis in Japan, Japanese funds could rapidly be withdrawn from US financial markets, setting off a rise in interest rates and plunging the US economy into recession. This was at the very moment it had just recovered from the recession of 1990-91 and several years of very low growth.

In April 1995, an agreement was made to drive down the value of the yen and push up the value of the dollar—a kind of reverse Plaza. But this agreement, which averted an immediate dollar-yen financial crisis, was to have longer-term consequences. The dollar's rise was to set in motion a US financial bubble, which continued until April 2000. The increase in the value of the dollar and of US assets resulted in a flow of liquidity into the US from the rest of the world. In 1995 the rest of the world bought US government securities worth $197.2 billion. This was two and a half times the average for the previous four years. In 1996 purchases of $312 billion were made, and in 1997, $189.6 billion. Altogether, a total of more than half a trillion dollars worth in just three years!

There was an immediate impact on the stock market. The S&P 500 index, which had increased by just 2 per cent in 1994, rose by 17.6 per cent in 1995 and a further 23 per cent in 1996. In December of that year, Greenspan made his warning of "irrational exuberance." In 1997, the S&P index rose by a further 30 per cent.

Charting the overall rise of the market, Robert Shiller notes in his book *Irrational Exuberance*: "The Dow Jones Industrial Average ... stood at around 3,600 in early 1994. By 1999, it had passed 11,000, more than tripling in five years, a total increase in stock market prices of over 200 per cent. At the start of 2000, the Dow passed 11,700. However, over the same period, basic economic indicators did not come close to tripling. US personal income and gross domestic product rose less than 30 per cent and almost half of this increase was due to inflation. Corporate profits rose less than 60 per cent, and that from a temporary recession-depressed base" [Shiller, *Irrational Exuberance*, p. 4].

There was a direct connection between the growth of indebtedness, the rise of the stock market and the increase in the value of the dollar. Indeed, they formed a kind of virtuous circle, which kept on expanding the US financial bubble. The inflow of capital, attracted by the rising dollar, financed the growth of debt, much of which was, in turn, used to finance purchases of stocks. The increase in stock market prices attracted more capital into the US to take account of the higher rates of return on financial investments—rates of return determined not so much by income streams, but by the increase in the value of assets, the classic form of a financial bubble.

Some figures illustrate the process. By 1999, the corporate debt to equity ratio of S&P 500 companies was 116 per cent, compared to 84 per cent at the end of the 1980s. Borrowing by non-financial corporations in the period 1994-99 was $1.22 trillion. Of this, only 15.3 per cent was used to finance capital expenditures, while no less than 57 per cent or $694.7 billion was used to buy back stocks.

By the first quarter of 2000—the peak of the market—the value of corporate equities, their market capitalization, had risen to $19.6 trillion, up from $6.3 trillion in 1994. But there was no connection with the underlying economy. Market capitalization as a percentage of GDP had needed only five years—between 1995 and 2000—to triple from 50 per cent to 150 per cent. In the same period, after-tax corporate profits rose by 41.2 per cent. By contrast, it had taken 13 years—between 1982 and 1995—for market capitalization to double from 25 to 50 per cent of GDP, while corporate profits rose 160 per cent over the same period.

There were other consequences of the dollar revaluation. With the Plaza agreement of 1985 and the revaluation of the Japanese yen, the so-called East Asian Tigers—South Korea, Thailand, Malaysia, Singapore, Indonesia and, to some extent, the Philippines—had become the focus of Japanese

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investment. Then, from the early 1990s, US funds began targeting them for investment, looking for new profitable outlets, given the sluggish growth in the US at the time. The so-called "Asian miracle" resulted from the flow of these funds and the establishment of new production facilities by corporations seeking to take advantage of the region's cheaper labour.

This was not simply an Asian question. The region began playing an increasingly important role in the world economy. During the period from 1990 to 1997, the East Asian region accounted for some two-thirds of new global investment and about half of the increase in world GDP. It was increasingly important as a stimulator of the US and European economies.

The following figures demonstrate the significance of the region in terms of investment flows. At the end of 1996, three of the region's countries were among the top recipients of private foreign capital flows. Indonesia received the world's third largest share ($17.9 billion), Malaysia the fourth ($16 billion) and Thailand the sixth ($14.7 billion).

The "miracle" rested on two foundations: the region's ability to compete in export markets and the continued inflow of foreign capital. But these foundations came under pressure with the reverse Plaza agreement of 1995, where the dollar was revalued against the yen. The East Asian economies, whose currencies were tied to the US dollar, suffered an immediate squeeze. Their problems were compounded by the fact that the Chinese currency— the yuan—had been devalued in 1994, and China was becoming an ever-more attractive target for investment funds and offshore production. Removing their link with the dollar, while it might have cheapened exports, was not really an option for the East Asian tigers, because it would have led to a cutback in investment funds. One of the reasons for the region's attractiveness was its currency stability vis-à-vis the dollar.

By 1996, the export growth of the region had begun to fall off and there were growing problems of indebtedness. Then, in 1997, the crisis was sparked by a devaluation of the Thai baht and the collapse of the country's real estate boom.

Between 1994 and 1996 capital inflows to the four most affected countries had more than doubled from around $40 billion to $93 billion. In 1997, however, there was a net *outflow* of $12 billion. This $105 billion turnaround was equivalent to 10 per cent of the GDP of the affected countries.

"The 1997-98 crisis ... meant by the year 2000 a short-term loss of 10-20 per cent of GDP for Thailand, Indonesia, Korea and Malaysia (assuming that the growth of 1996-97 would have continued otherwise). The long-term cumulative loss is bigger. The Asian crisis was deeper and more severe than financial crises usually are. ... It has been estimated ... that the Asian crisis and its global repercussions cut global output by US$2 trillion in 1998-2000. This was perhaps 6 per cent of the global GDP; by far, the worst crisis thus far. It has also been estimated that the Asian crisis made 10 million people officially unemployed. Moreover, some 50 million people in Asia alone fell under the poverty line" [*Democratising Globalisation*, p. 31].

When the Asian crisis broke, Clinton wrote it off as a "glitch". Not long after, however, with the default of Russia in August 1998 and the $3 billion collapse of the US hedge fund Long Term Capital Management (LTCM), the Clinton administration was describing the financial situation as the most serious in the post-war period.

Intervention by the Federal Reserve Board, through the LTCM bailout, prevented a "systemic failure" of the banking and financial system. But not without consequences. Interest rate cuts at the end of 1998 and in the lead-up to 2000 helped inflate the US financial bubble even further, until it reached its peak in April 2000. A year later the US economy had entered a recession.

The most significant feature of the recession is that it is unlike any other in the post-war period. It has not been induced by the Federal Reserve lifting interest rates in response to rising inflation. On the contrary, the general tendency in the recent period has been one of lower prices, if not actual deflation—that is, falling prices.

The root cause of the recession is the fall in investment in the wake of the collapse of the share market boom. This has led to growing fears that, with 11 interest rate cuts in 2001 failing to bring about an upturn, the US economy could be in a situation akin to that of Japan, where monetary policy has no impact because deflationary conditions have developed. These conditions, in turn, are an expression of the over-accumulation of capital.

The extent of this over-accumulation can be seen in the telecommunications industry. The telecom bubble was, in fact, far more significant than the dotcom bubble. An article in the *Financial Times* last September 4 pointed to the extent of the telecom debacle and its impact.

"Failed websites and internet retailers may each have wasted a few tens of millions of dollars before going bust but, according to the European Information Technology Observatory, spending on telecoms equipment and services in Europe and the US amounted to more than $4,000 billion between 1997 and 2001.

"Between 1996 and 2001, banks lent $890 billion in syndicated loans, according to Thomson Financial. Another $415 billion of debt was provided by the bond markets and $500 billion was raised from private equity and stock market issues. Still more came from profitable blue-chips that drive themselves to the brink of bankruptcy or beyond, in the belief that an explosive expansion of internet use would create almost infinite demand for telecoms capacity.

"The global financial system became addicted to fuelling this bonfire. Nearly half of European bank lending in 1999 was to telecoms companies. Moody's, the credit agency, estimates that about 80 percent of all the high-yield, or 'junk', bonds issued in the US at the height of the boom were to telecoms operators. Five of the 10 largest mergers or acquisitions in history involved telecoms companies during the boom.

"The enduring legacy of all this money is a glut of 'bandwidth'—the capacity to transmit volumes of data and the basic raw material of all communications networks. This glut is so great that if the world's 6 billion people were to talk solidly on the telephone for the next year, their words could be transmitted over the potential capacity within a few hours."

The article went on to point out that the collapse in the telecom bubble had been felt in numerous ways. Telecoms loan defaults totalled $60 billion; there were redundancies in the thousands at investment banks; more than 300,000 jobs were destroyed in six months at telecoms equipment manufacturers and as many as 200,000 jobs in components suppliers and associated industries.

"The stock market value of all telecoms operators and manufacturers has fallen by $3800 billion since its peak of $6300 billion in March 2000. To put this into context, the combined loss in value on all of Asia's stock exchanges during the Asian financial crisis of the late 1990s was only $813 billion" [Dan Roberts, "Glorious hopes on a trillion-dollar scrapheap," *Financial Times*, September 4, 2001].

This is only the most graphic expression of the general over-accumulation of capital throughout the world economy. Back in February 1999, the British magazine *The Economist* warned that "thanks to enormous over-capacity" the world was "awash with excess capacity in computer chips, steel, cars, textiles, and chemicals." It concluded that the world output gap—between industrial capacity and usage—was close to its highest levels since the 1930s.

These sentiments were reflected in the annual report of the Bank for International Settlements, issued in June 1999: "The overhang of excess capacity in many countries and sectors continues to be a serious threat to financial stability. Without an orderly reduction or take up of excess capacity, rates of return on capital will continue to disappoint, with potentially debilitating and long-lasting effects on confidence and

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investment spending. Moreover, the solvency of institutions that financed this capital expansion becomes increasingly questionable."

One could go on listing indices of the depth of the recessionary and deflationary tendencies within the global economy. We should also note that considerable doubt is being cast on the claims of expanding profits in the "new economy." The latest figures show that profits, as a share of income, have been falling in every year since 1997. The collapse of Enron was symptomatic of the "new economy" as a whole.

The important point is not just that a recession has emerged, but the nature of the recession. It constitutes, not a transition to a more stable situation within the world economy, but the latest expression of a mounting disequilibrium that has been developing since the beginning of the 1990s.

Let us recall: the decade began with a surge of investment flows into the East Asian region—hailed by the World Bank in 1993 as "miracle economies." The Asian expansion accounted for a considerable proportion of world economic growth and investment. Then, in the second half of the decade, the US financial bubble and investment boom largely supported the world economy. Between 1996 and 2000, it is estimated that the US alone generated just under half of total world incremental demand. But it only did so through the creation of what must rank as one of the biggest financial bubbles in the history of capitalism.

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

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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].

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"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.

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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.

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