

# The invasion of Iraq and the crisis of American and world capitalism

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17 January 2005

*On the weekend of January 8-9, the Socialist Equality Party held a meeting of its national membership in Ann Arbor, Michigan. We are publishing here the remarks of Nick Beams, national secretary of the SEP of Australia and member of the World Socialist Web Site editorial board, who brought greetings from the Australian section of the International Committee of the Fourth International.*

*The opening report to the meeting, by David North, the national secretary of the SEP (US) and chairman of the WSWs editorial board, was posted in three parts on January 11, 12 and 13.*

*A report by Barry Grey, a member of the WSWs editorial board, on the political situation in the aftermath of the US 2004 elections, was posted in two parts on January 14 and 15.*

On behalf of the leadership and membership of the Socialist Equality Party of Australia, I bring the warmest revolutionary greetings to this important meeting. This has been a decisive year for the work of the International Committee of the Fourth International (ICFI) and all its sections. One year ago, we were meeting to discuss the intervention of the SEP into the US election campaign, an event which, we emphasized, was of truly international significance. That assessment has been underscored again and again in the past 12 months.

The US invasion of Iraq and the subsequent occupation of that country have marked an historic transformation in the world political situation and opened up a new chapter in the struggles of the international working class for which we must now prepare through the development of our analysis and perspectives.

The elaboration of a perspective arises from a scientific analysis of the political situation. The first requirement of such an analysis is that it seek to understand events in their historical context, as opposed to the method of short-sighted pragmatism and opportunism, which considers events from a conjunctural standpoint.

The resort to aggressive war by the US, the overturning of all the precepts which governed international relations over the previous six decades, the open justification of torture and appointment of its architects to the highest legal positions in the land, the promotion of outright criminality in every sphere of government and business, and the fact that these developments result in only the most feeble opposition from within the existing political establishment—all of this means that such occurrences have deep-rooted causes. They cannot be the outcome of conjunctural or accidental factors, but must be rooted in far-reaching social and economic processes.

One of the great strengths of our analysis is that we defined the essential, that is, historical causes of the eruption of US militarism. In the SEP election statement we wrote:

“The unprecedented integration and interdependence of the world economy—the phenomenon known as globalization—is incompatible with the nation-state system upon which capitalism is based. The violent eruption of American imperialism—which finds its essential expression in the Bush administration’s doctrine of preemptive war—represents a

desperate attempt to resolve the contradiction between world economy and the nation state by establishing the hegemony of one country—namely, the United States—over all other countries.”

It can be truly said that the struggle to resolve this contradiction—between world economy and the nation-state system—lies at the heart of the politics of the last 100 years. This year marks the 100th anniversary of the initial elaboration of Trotsky’s perspective of permanent revolution, in which he made clear that the socialist revolution takes place on a global scale, driven by global contradictions and processes, rather than as a series of national revolutions and conditions. The national peculiarities of every country, he was to later explain, must be seen as an original combination of basic global tendencies of development.

Trotsky’s perspective was verified in the eruption of World War One. The war, he explained, arose from the revolt of the productive forces, now developed on a world scale, against the constrictions of the nation-state system within which they had hitherto developed, and which, at a certain point, had given them a tremendous impetus. Each of the major capitalist powers sought to resolve this contradiction by establishing itself as a hegemonic world power, setting off a struggle of each against all.

Under capitalism, there could be no resolution to this conflict, for, as Lenin explained in his analysis of imperialism, whatever the immediate outcome of the war, there was no possibility of a permanent peace. This was so because the economic development of capitalism took place unevenly, continually altering the balance of power between the major capitalist centres, thereby creating the conditions for further global conflicts.

It is often considered, mistakenly, that Lenin’s pamphlet is simply concerned with the economic exploitation of the colonial countries by the imperialist powers. It certainly deals with that question. But the central purpose of Lenin’s analysis was to establish the objective historical necessity for the socialist revolution, by demonstrating that the contradiction between the forces of production (now developed on a global scale) and the social relations of capitalism (private property and the nation-state system) had now reached such an intensity that mankind faced the prospect of war and barbarism unless the capitalist order were overthrown by means of the socialist revolution.

Trotsky always emphasized that imperialism was not a policy, but represented what he called the “capitalist thievish” attempt to resolve a contradiction that had arisen in mankind’s development—that between the world economy and the nation-state system. This contradiction could be resolved only by the international working class.

“The only way in which the proletariat can meet the imperialistic perplexity of capitalism,” he wrote, “is by opposing to it as a practical program of the day the socialist organization of the world economy. War is the method by which capitalism, at the climax of its development, seeks to solve its insoluble contradictions. To this method the proletariat must oppose its own method, the method of the social revolution.”

This analysis is almost 100 years old. Has it somehow lost its relevance with the passage of time? That question can be answered only by an historical examination of how this contradiction between world economy and the nation-state has evolved and developed.

In the immediate aftermath of the war, Trotsky remarked, only half-jokingly, that the political struggle had come down to a contest of Lenin versus Wilson. Either the world would be reorganised under the now dominant American imperialism and the precepts laid down by its president, Woodrow Wilson, or it would be reorganised through the extension of the socialist revolution which had begun in Russia under the leadership of the Bolshevik Party.

As we know, neither perspective was fulfilled. The socialist revolution was confined to Russia, and underwent a terrible degeneration in the form of Stalinism, leading eventually to the extermination of the revolutionists. Significantly, and not accidentally, this degeneration took place under the nationalist banner of “socialism in one country.” As Trotsky was to put it, in the conflict between permanent revolution and socialism in one country were contained all the fundamental questions of political perspective.

The socialist revolution was not extended, but neither was Wilson’s perspective for the reconstruction of the world economy implemented. Consequently, the inter-imperialist conflicts continued. The “war to end all wars” did not result in peace, but merely a 20-year armistice, after which the conflict resumed for six years in World War Two. Only in its aftermath was American imperialism able to impose a new world order in which the contradictions which had led to World War One, while not being resolved, were at least contained.

The construction of the postwar order was undertaken with a remarkable degree of consciousness on the part of the ruling classes in the United States. In a major statement published in May 1942, the editors of the magazines *Fortune* and *Time* and *Life* pointed out that “America will emerge as the strongest single power in the postwar world, and ... it is therefore up to it to decide what kind of postwar world it wants.”

There had to be collaboration between business and government both to balance the economy and extend and promote private enterprise. This would promote a context in which barriers to further expansion could be removed. While recognizing that “the uprising of [the] international proletariat ... the most significant fact of the last twenty years ... means that complete international free trade” was “no longer an immediate political probability,” nevertheless it was possible to move towards it, for “universal free trade, not bristling nationalism, is the ultimate goal of a rational world.”

The authors of the document called their program a new American imperialism, but insisted that it could be quite different from the British type.

“It can also be different from the premature American type that followed our expansion in the Spanish war. American imperialism can afford to complete the work the British started; instead of salesmen and planters, its representatives can be brains and bulldozers, technicians and machine tools. American imperialism does not need extra-territoriality.... Nor is the US afraid to build up industrial rivals to its own power ... because we know industrialization stimulates international trade.... This American imperialism sounds very abstemious and high-minded. It is nevertheless a feasible policy for America, because friendship, not food, it is what we need most from the rest of the world.”

The key question in the establishment of the postwar order was the spread of the more productive methods of American capitalism to the rest of the world, or at least to the advanced capitalist countries, and the setting up of a new international framework to accommodate them—starting with the abolition of the trade blocs that had developed in the 1930s and the establishment of a unified European economy, thereby facilitating a general capitalist expansion. In other words, in order to expand the productive forces, it was necessary to alleviate at least some of the

constrictions imposed by the national system. The cornerstones of these new arrangements were the Bretton Woods monetary system, the General Agreement on Tariffs and Trade, and the Marshall Plan.

The resolution of the conflicts between the major imperialist powers was based on the establishment of a Pax Americana grounded on American hegemony. This hegemony rested on three foundations: (1) the superiority of American production methods and the relative strength of the US economy, (2) the primacy of the American dollar, reflecting the higher productivity of the US economy, and (3) the power of the American military.

The postwar arrangements did not, however, overcome the contradictions which had brought war and social revolution in the first decades of the twentieth century. In fact, their very success led to the re-emergence of these contradictions at a higher level.

The expansion of production in the postwar period—the increased productivity of the European and Japanese economies and the expansion of the world market—led to a decline in the relative superiority of the US vis-à-vis its main rivals, Germany and Japan. This relative decline was expressed in the growing balance of payments problems of the US. Already, by the early 1960s, the Kennedy administration was concerned with the problem of the gold drain from the US. But the problem did not become acute until the late 1960s and early 1970s, when the US balance of trade became negative.

The rise of Germany and Japan had started to undermine the relative superiority of the US—that was an inevitable outcome of the postwar settlement. But the alternative, the economic suppression of Germany and Japan, was not an option. The deindustrialization of Germany, as advanced at one point by US Treasury Secretary Morgenthau in the last days of World War Two, would have rebounded against the US. The expansion of American capitalism depended on the expansion of world capitalism as a whole: the bitter experiences of the 1930s had demonstrated that.

At first, the US sought to maintain the Bretton Woods system based on the guarantee to redeem US dollars at the rate of \$35 per ounce of gold. But as dollars accumulated in the rest of the world, vastly outweighing the gold stocks held by the American government, this became impossible. In fact, the very expansion of international economic activity, which the Bretton Woods system had been designed to promote, meant that major corporations and banks began to operate outside of direct national control.

The rise of the so-called Euro-dollar market in the 1950s and 1960s was an expression of this process. Increasingly, both British and then US corporations and financial institutions which wanted to circumvent the national regulations imposed by their own governments resorted to this market. For the US to have maintained the Bretton Woods system would have meant: (1) the imposition of recessionary policies at home to cut the growing balance of payments deficit, and (2) a reduction of military spending abroad to reduce the outflow of dollars into the international financial system.

The collapse of the Bretton Woods system, with its fixed currency relationships and regulation of finance, signified that the very development of the productive forces which it had promoted had come into conflict with the series of national controls within which it had developed. The US moved decisively to try to resolve this contradiction by the shift to a credit-based system. The removal of the gold backing from the US dollar, it was argued, would not weaken the American position, because other countries would have to hold dollars to finance their international transactions since there was no other currency that could replace it.

The demise of the Bretton Woods system took place amidst a decisive transition in the world capitalist economy—the re-emergence of the tendency of the rate of profit to fall. Over the course of the historical development of capitalism there are clearly discernible epochs of

economic development which differ quite markedly from one another—the inter-war period, compared to the post-World War Two boom, for example, or the period known as the Great Depression in the nineteenth century from 1873 to 1895, compared to the two decades prior to World War One which have gone down in history as the belle époque.

These phases are, in the final analysis, bound up with changes in the average rate of profit. The postwar boom would not have been possible without the policy decisions undertaken by US governments and planners, many of them very far-sighted. But those measures would have rapidly come to naught had not the extension of more productive American methods of production not brought about an increase in the accumulation of surplus value for the capitalist system as a whole and an increase in the average rate of profit.

But by the end of the 1960s, the rate of profit had begun to turn down again, and in 1974-75 world capitalism experienced its most serious recession since the 1930s. The complete failure of Keynesian measures to restore economic growth and stability—in fact, they worsened the situation, leading to the phenomenon known as stagflation (high unemployment together with its supposed antidote, inflation)—indicated that there was a deep-going structural problem.

In 1979, the dominant sections of finance capital moved decisively to try to resolve the crisis. This is the significance of what has gone down in history as the Volcker shock—the appointment of Paul Volcker as head of the US Federal Reserve Board, and the lifting of interest rates to record levels. The consequent recession, even more severe than that of 1974-75, was aimed at forcing a restructuring of industry.

Marx once remarked that capital responds to a downturn in the rate of profit in two ways: (1) the revolutionizing of the production process in order to try to increase the extraction of surplus value from the working class, and (2) the development of financial schemes and speculative measures to try to accumulate profit by other means. Both responses arise from the fall in the rate of profit, but are vastly different. One is an attempt to overcome the problem by increasing the extraction of surplus value; the other is an attempt to increase the appropriation of already produced surplus value through financial means.

There is no question that the past quarter-century has brought about a vast transformation in the processes of production. The application of computer-based technology has resulted in a significant increase in the productivity of labour. But we must ask, has this lifted the average rate of profit? Is the world capitalist economy enjoying a new upswing following the downturn which began in the mid 1970s? The answer is clearly no.

The major European economy, Germany, has been experiencing low or negative growth for the best part of the last decade. Japan has experienced deflation since the collapse of the share market and land bubble at the beginning of the 1990s. Periodically, we see reports that the Japanese economy has turned the corner, only to find a short time later that this was a false dawn.

The growth in the American economy is the exception which proves the rule. The growth that has taken place has been largely sustained through the increase in credit. In fact, this has been the central policy of the Federal Reserve Board since the stock market crash of October 1987. The response of the Fed to each crisis of financial markets—the collapse of 1987, the bond market crisis of 1994, the East Asian crisis of 1997-98, the Russian crisis of 1998, the collapse of the LTCM hedge fund in 1998, the ending of the stock market bubble in 2001—has been the same: increased injections of liquidity.

The use of credit to fuel economic growth has resulted in tremendous imbalances and tensions in the world economy. The US balance of payments deficit is now running at more than \$500 billion, approaching 6 percent of gross domestic product (GDP), requiring an inflow of some \$2.5 billion per day from the rest of the world to sustain it. US foreign debt is around \$3 trillion. Since the Asian economic crisis of 1997-98, it is

estimated that the US economy, which constitutes 25 to 30 percent of world GDP, has been responsible for 90 percent and more of increased global demand.

Ultimately, the source of this tremendous imbalance lies in the continued downturn in the long-term rate of profit. In these conditions, growth is more and more a zero-sum game. The US balance of payments deficit can be resolved only through an expansion in the European and Japanese economies. But the growth of these economies is dependent on exports. In the case of Asia, this means exports to the US, above all. But increased exports means that US demand must be sustained, and along with it, the balance of payments deficit.

The US balance of payments deficit could be resolved only if the global economy as a whole started to expand at a much faster rate. Its failure to do so is an expression of the continued depression of average profit rates.

The current imbalances are leading to increased tensions. Former treasury secretary Lawrence Summers has described the situation as a “balance of financial terror.” The US payments position is increasingly being sustained by the inflow of capital from Asian central banks seeking to keep down the value of their own currencies by purchasing US dollar assets. This policy, however, increases their exposure to US markets and the risk of large-scale losses should the dollar continue to fall. In some cases, a 10 percent fall in the dollar against some currencies could lead to a foreign exchange loss equivalent to 10 percent of GDP. Large Asian central banks would like to lessen their dependence on the US market. But they are all aware that a sudden movement could spark a rush for the exits and a collapse.

In recent days, we have become all too familiar with the dynamics of earthquakes, produced by the clash of the earth’s tectonic plates. These plates push into each other, creating enormous tensions and leading eventually to a violent shift. It is not possible to predict exactly when this will take place—in some ways it is accidental. But at the same time it is lawful—the law expresses itself through accident.

In the same way, the processes in financial markets, creating ever greater imbalances, are leading to increasing tensions which, at a certain point, most likely triggered by an accident, will result in a violent financial shift.

What are the political consequences of these economic processes? In order to trace the connection between the economic contradictions of US and world capitalism and the rise of American militarism let us trace the emergence of the invasion and occupation of Iraq.

We should recall the analysis made by the International Committee in 1990 concerning the collapse of the Soviet Union. We insisted that the demise of the USSR signified not the triumph of capitalism and the end of socialism, but rather the eruption of the contradiction between world economy and the nation-state system. The demise of the USSR signified the breakdown of the postwar capitalist order and the re-emergence of all the conflicts and tensions which had marked the first four decades of the twentieth century.

In the wake of the collapse of the USSR, the growth of inter-imperialist antagonisms quickly became apparent. One need only recall the Pentagon’s Defence Planning Guidance document of 1992, which spoke of the need to prevent the emergence of any power or group of powers capable of challenging the US economically or militarily.

In his book *Diplomacy*, published in 1994, Henry Kissinger warned that the end of the Cold War, rather than lessening the problems confronting the US, increased them, despite the designation by some observers of the “unipolar” or “superpower world.” For a start, he wrote, “The United States will face economic competition of a kind it never experienced during the Cold War.”

He continued: “The domination of a single power of either Europe or Asia ... remains a good definition of strategic danger to America .... Such a grouping would have the capacity to outstrip America economically and,

in the end, militarily.... The danger would have to be resisted even were the dominant power apparently benevolent.”

Kissinger noted that: “In the longer run ... a truly politically united Europe would entail a basic shift in the distribution of global power, with consequences as far reaching as those generated by the collapse of the Soviet Empire.... The impact of such a Europe on America’s own position in the world and the Eurasian power balance would be enormous ... inevitably generating severe two-way transatlantic tensions.”

The US invasion of Iraq was not so much directed against Saddam Hussein, as against Washington’s European and Asian rivals. Let us pose a counter-factual. Suppose that, in accord with UN resolutions, sanctions against Iraq had been lifted after its disarmament. Oil production and exports would have resumed, generating large revenues, used both for reconstruction and the opening up of new fields.

The beneficiaries, however, would not have been US companies, but European construction and engineering firms. The oilfields would have been opened by French, Russian, and Chinese companies. Closer economic integration would have inevitably raised the question of whether oil contracts, at least from Iraq, and possibly other producers, should not be priced in euros rather than dollars.

In other words, normalization of relations would have meant the strengthening of the European and Asian powers against the US. Continuation of the sanctions regime was not an option, the system was rapidly breaking down. In order to sustain its position, the US undertook military intervention in order to set up a puppet regime and assert its control over the whole region.

The invasion of Iraq is the particular expression of a general process. The postwar hegemony of the US was based upon the superiority of its production methods, its finances and dominant currency, and, lastly, its military power. The erosion of America’s advantages in production led to the demise of the Bretton Woods system. Thereafter, the US sought to maintain its position through financial means. But this too is coming to an end. After all, history has never seen a situation where the global hegemon is the most indebted nation in the world, dependent on increasing inflows of foreign capital. Herein lies the resort to militarism.

This poses the most important questions of perspective. Can the use of military force somehow overcome the contradictions of world capitalism and establish a new Pax Americana, or will the attempt to do so produce explosive economic and political eruptions? Clearly, the latter is the case. It for this situation that we must now prepare.

How is that preparation to take place? Here the significance of the historical struggle of the International Committee takes on its full significance. What has been at stake in all the struggles of our movement since the split with Pabloism in 1953? The development of an independent perspective for the working class.

We opposed the initial program of Pabloism, which said that socialism would come through the capacity of the bureaucratic apparatuses to project a revolutionary orientation under mass pressure. We opposed the position of the Pabloites that the Stalinist bureaucracy could undergo a process of self-reform, or that petty-bourgeois nationalist forces, such as Castroism, could replace the working class in the socialist transformation. All of these fundamental programmatic questions erupted in the split with the British Workers Revolutionary Party opportunists 20 years ago, when they repudiated the political foundations on which the International Committee had been established.

All the opportunists have denounced our insistence on the political independence of the working class. That is all very well, they maintain, but right now it is necessary to engage in the politics of the “lesser evil” in order to make practical advances. All these tendencies were exposed in the US election: from the radicals such as Chomsky and Tariq Ali, to the anti-globalization protestors like Naomi Klein—all maintained that it was necessary to vote for Kerry. Here is the chief lesson of the US election

campaign: that the struggle for the political independence of the working class, which the opportunists deem as impractical, is the most decisive question of all.



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