The historic decline of US imperialism and the prospects for socialism

Part Three

Nick Beams
3 February 2005

On the weekend of January 29-30, the Socialist Equality Party (Australia) held a meeting of its national membership in Sydney. Published below is Part Three of the opening report delivered by Nick Beams, SEP national secretary and a member of the WSWS International Editorial Board. Part One *and* Part Two *were published on February 1 and February 2. The final part will be published on February 4.*

Bush's Second Inaugural Speech, with its claims of freedom and liberty for the entire world, recalled some of the rhetoric of Woodrow Wilson at the time of World War I. Though one must say with this vital difference: Wilson spoke, with some confidence and with support, at least for a period, of whole sections of the European population, at the beginning of what could be called the American Century. Bush, who invokes the "untamed fire of freedom" reaching into "the darkest corners of the world" and burning "those who fight its progress", speaks as the leader of a besieged regime. But there is an underlying unity between them: the invocation of freedom for both Bush and Wilson means above all the freedom of American capital to move anywhere, nestle everywhere and extract profit from any region of the world.

The entry of America into World War I, which Wilson led, was driven on by the dynamic expansion of the US economy. By the time of World War I, the US economy was becoming increasingly dependent on the international economy as a whole. Its industries had expanded to such a point, Wilson explained during his campaign for the 1912 elections, that "they will burst their jackets if they cannot find a free outlet to the markets of the world." Domestic markets, he insisted, no longer sufficed, America needed foreign markets. Indeed, the demands of the war helped provide these markets, transforming the US from a debtor to a creditor nation.

A constant theme of his speeches in the 1912 campaign for the presidency was that recession and stagnation could afflict the American economy if exports were not lifted. On the eve of his campaign, he told the Virginia General Assembly that "we are making more manufactured goods than we can consume ourselves ... and now if we are not going to stifle economically we have got to find our way out into the great international exchanges of the world" (See N. Gordon Levin, *Woodrow Wilson and World Politics*, p. 14).

In an address to a meeting on salesmanship in Detroit towards the end of his first term, Wilson set out his views on the necessity for American expansion.

"This, then, my friends, is the simple message that I bring to you. Lift your eyes to the horizons of business; do not [look] too closely at the little processes with which you are concerned, but let your thoughts and your imaginations run abroad throughout the whole world, and with the inspiration of the thought that you as Americans are meant to carry liberty and justice and the principles of humanity wherever you go, go out and sell goods that will make the world more comfortable and more happy, and convert them to the principles of America" (Levin, op cit, p. 18).

Wilson promoted his perspective of global expansion under the banner of "democracy" and the "new diplomacy" in which democratic principles and open discussion would replace the intrigues and secret treaties among the great powers. Wilson was attacked for his "idealism." But, as one historian has recently noted, these indictments miss the point. "Wilson's rhetorical idealism was itself a ruthless political weapon applied in the most 'realist' and partisan of causes. ... Wilson's central aspiration was no less than the construction of a liberal capitalist world order providing free economic access. ... He well understood that as much as Britain had benefited from so-called free trade while it dominated the trade routes and markets, now the United States, by dint of its emerging economic superiority, would be the prime beneficiary of such apparent magnanimity. At the Paris Peace Conference, the first moment of the making of the American Century came to a head" (Neil Smith, *American Empire*, p. 140).

There was only one problem: just as America was about to assume global leadership, the overthrow of world capitalism had been announced in the form of the Russian Revolution.

Despite intense efforts, the US and the other capitalist powers were unable to overturn the revolution and the US could not effect the reconstruction of the world economy to provide for the dynamic expansion of production—the European regimes were too powerfully entrenched. Moreover, if the US pressed forward too forcefully, it risked destabilising the fragile European order and opening way for the extension of Bolshevism. Consequently, the peace settlement did not bring about a genuine restoration of either economic or political equilibrium. Indeed, as Keynes pointed out, the Versailles Treaty created a kind of economic madhouse. None of the contradictions of the world capitalist system that had given rise to the war was resolved. The inter-imperialist rivalries deepened and intensified leading to the eruption of the Second World War only two decades after the "war to end all wars" had finished.

Only at the conclusion of World War II with the defeat of Germany and Japan, and the severe weakening of Britain and its empire, was the US in a position, on the basis of its vast economic superiority and dominance over its rivals, to undertake the reconstruction of the world capitalist order.

The essential feature of post-war reconstruction was the establishment of a framework within which the more productive methods developed by American capitalism could spread to the rest of the world.

In his famous article "Nationalism and Economic Life", written in November 1933, Trotsky had pointed to the historic necessity for this expansion. American capitalism, through standardised mass production, had developed the productivity of labour to a new high. These methods were destined to make their way in the rest of the world, he wrote.

"But the old planet refused 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 a 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 its 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 draw conclusions from the laws of economic mechanics" (Trotsky, "Nationalism and Economic Life" in *Writings* 1933-34, pp. 161-162).

The Marshall Plan provided a total of $13 billion in aid to Europe. Aid was necessary but it had to be deployed within a framework that would enable the self-expansion of capital. The Bretton Woods Agreements, which established the US dollar as the main international currency backed by gold at the rate of $35 per ounce, provided the means for an expansion of international trade. But that was not enough by itself—the European economy had to be made more productive.

The significance of the Marshall Plan lay not just in the aid it provided, but in the insistence of its American planners that the European economy had to be reconstructed as a whole. There had to be an end to the cartels, barriers and restrictions that marked the previous period. Only through these measures could large-scale production based on American methods be established.

The key issue was: how to restore the self-expansion of capital. This process depends on the continuous accumulation of surplus value at a rate sufficient to increase or at least maintain the rate of profit. Increased profits provide the means for new investments; new investments mean greater employment of labour and the expansion of consumer goods markets, thereby providing further opportunities for investment and additional profits to fuel the whole process. If that does not take place, then we have the reverse: the constriction of markets, increased conflicts, trade barriers and the formation of blocs.

Movements in the average rate of profit are the underlying force which determines, in the final analysis, the trends and tendencies in what Trotsky called the curve of capitalist development. World War I, Trotsky noted, occurred at a major turning point in the capitalist curve—as the upturn which had begun in the mid-1890s came to an end, opening up a period of depressed profits and restricted markets. It was not until almost a decade after the completion of hostilities that production levels in Europe returned to the levels of 1913—and then only briefly before the onset of the Depression. The 1930s were marked by a series of conflicts as each of the major capitalist powers tried to carve out for itself its own empire—the British established restrictive trade agreements based on the empire, the Japanese sought to set up a bloc in the East, while German imperialism moved to acquire Lebensraum in the East—a process that led inevitably to war.

The post-war reconstruction undertaken by the US, based on the adoption in Europe, Japan and elsewhere of its more productive methods and the opening of new opportunities for American firms, ensured the expanded reproduction of capital. Increased accumulation of surplus value and higher profit rates formed the basis of the post-war boom. The vast resources of American capital had been able to save the system as a whole.

But post-war reconstruction did not overcome the laws of capitalist economy. The revival of the European powers undermined the vast relative and absolute dominance of the US economy on which the Bretton Woods monetary system had been grounded. Furthermore, the expansion of production, trade and investment that the post-war reconstruction promoted meant that the system of national regulation on which the monetary system was based came into conflict with the increasingly global expansion of capital. The demise of Bretton Woods was an expression of both the relative weakening of the US and the increasing conflict between the expansion of the world economy and national economic regulation.

Nixon removed the gold backing from the US dollar in 1971 in order to try to maintain the pre-eminent position of the US. Keeping the Bretton Woods system would have meant bringing about a recession, virtually on a permanent basis and/or severe restrictions on US spending internationally. That alternative was ruled out. While the Europeans would object to the new system, they would have to accept dollars because there was no other currency that could function as international money.

The end of fixed currency relationships spelt the end of national financial regulation and the inexorable rise of the global financial market to the position today where it dwarfs the economy of even the most powerful nations or group of nations.

A few figures illustrate this. Between April 2001 and April 2004, the daily global turnover in foreign exchange markets increased by 57 percent to $1.9 trillion and the daily turnover of complex derivatives grew by 77 percent to $1.2 trillion. The Bank for International Settlements estimates the value of the derivatives market at $200 trillion or some six times the value of global gross domestic product.

The expansion of production in the post-war boom not only disrupted the Bretton Woods monetary system. It led to the re-emergence of the tendency of the rate of profit to fall. Capitalism recovered from the recession of 1974-75, but the rate of profit did not return to the levels of the post-war boom. Persistent pressure on profit rates, which was manifested in the phenomenon of stagflation (high unemployment and high inflation) at the end of the 1970s, induced far-reaching changes in the production process itself.

Capital began a re-organisation and restructuring of the production process, coupled with an attack on the social position of the working class, in order to try to lift the accumulation of surplus value and overcome the pressure on the rate of profit. The outcome of this transformation has been the globalisation of all aspects of production and the application of computer technology in every area of the economy.

There is no question that these changes are as far-reaching as those associated with the development of assembly-line production in the first decades of the twentieth century. But there is one significant difference: despite the widespread application of new and vastly more productive methods, capitalism has not enjoyed a period of expanded reproduction, that is, a period in which the ever greater accumulation of surplus value has lifted the average rate of profit and allowed for an expansion like that which took place after World War II.

On the contrary, the world economy as a whole is marked by slow growth and outright stagnation. The chief source of increased growth in the first half of the 1990s—in the face of recession in the US, low growth in Europe, and the collapse of the Japanese sharemarket and land price bubble—was the "Asian economic miracle." Following the crisis of 1997-98, the main source of additional growth has been the US economy. For example, it has been estimated that over the 1995-2002 period the United States, which represents about 30 percent of world output, accounted for nearly 98 percent of the increase in world gross domestic product. That is, the remaining 70 percent of the world produced only 2 percent of the increase in world GDP over the same period.

If one reviews the world economy over the last 20 years, or the period since the October 1987 stockmarket crash, it becomes clear that the chief impetus for growth has come not from expanding profits as in the post-war boom, but from continuous injections of financial liquidity.

The response of the Federal Reserve Board to the 1987 share crash was to open the financial spigots. There was going to be no repeat of the 1930s. One effect was to create a share and land price bubble in Japan, which eventually collapsed in the early 1990s, sending Japan into a period of deflation and stagnation from which it has not recovered.

In 1994, after pursuing an easy money policy the Fed sought to tighten rates. This led to a bond market crisis in the US. An injection of liquidity provided a significant boost to the sharemarket, prompting Greenspan's now famous remark about "irrational exuberance." But the Fed chairman took no action to deflate the bubble. Rather, he became the chief advocate for the theory of the "new economy", which held that vast increases in productivity and the wonders of the free market meant that the US economy was no longer subject to the workings of the business cycle.

The Asian crisis of 1997-98 boosted US financial markets as capital sought a safe haven. But the chickens came home to roost in September-October 1998 with the crisis of Long Term Capital Management, which required a $3 billion bailout in order to prevent a financial meltdown. The Fed responded to the share market slide in 2001 by further cutting interest rates. But this has only led to the creation of a property and credit bubble.

Where will this process end? We know that the human body can, for a time, continue to function on injections of adrenalin. But the longer the process goes on, the bigger the injections that are needed and eventually the body collapses. Injections of financial liquidity can provide a boost to the real economy but there are limits and there are warnings that they are fast being reached.

The *Financial Times* of January 24 carried an article on a report prepared by the hedge fund group Odey Asset Management. It noted that the growth of credit in both the US and the UK in recent years has led to "illusory prosperity" that threatens to end either in deflation or extraordinary inflation. "Loose credit policy has not shown up in consumer price inflation but in asset prices, with too much money chasing too few assets. ... Eventually the credit bubble will pop because asset bubbles require ever increasing amounts of credit just to sustain them and that may result in deflation, as debtors default or in inflation as monetary authorities pump still more liquidity into the financial system in order to try to reduce the debt burden."

In his report to the SEP (US) aggregate meeting, David North detailed the tremendous imbalances in the financial position of the US resulting from the expansion of credit. Let me just highlight one of those figures. The net international investment position (NIIP) of the United States fell from -$360 billion in 1997 to -$2.65 trillion in 2003 and is expected to drop to -$3.3 trillion in 2004. This represents around 24 percent of the GDP of the United States. However, if the current account deficit remains at the present level, and assuming the GDP grows at the rate forecast by the Congressional Budget Office, the NIIP will grow to -64 percent of GDP over the next decade. Correspondingly, debt service payments will rise from their present levels of almost zero to around 1.7 percent of GDP.

The dependence of the US on financial inflows from the rest of the world is starting to cause concern in some financial circles. In a lecture last October, former US Treasury Secretary Lawrence Summers dismissed claims that the inflow of capital signified the strength of the US economy noting that, "the basic picture that a large fraction of the US current account deficit is being financed by foreign central bank intervention is not one that can be argued with."

This "dependence on foreign governments for short-term financing has to raise questions and create vulnerabilities in both the economic and political realms. The question can be fairly asked: How long should the world's greatest debtor remain the world's largest borrower." How long, we could ask, can empire continue to be financed on the credit card?

So far the situation had remained stable because of what Summers called the "balance of financial terror". That is, if Asian and other central banks were suddenly to transfer their funds out of US financial markets, they would suffer enormous losses themselves as a result of a fall in the value of the dollar. But there is evidence that such a move is underway.

The *Financial Times* (FT) has reported that central banks are shifting their reserves away from the US and toward the eurozone "in a move that looks set to deepen the Bush administration's difficulties in financing its ballooning current account deficit." The article was based on a survey which showed that 70 percent of central bank reserve managers had increased their exposure to the euro over the past two years. Another report noted that in 2003, the latest year for which official data are available, central banks around the world financed 83 percent of the US current account deficit, with Asian central banks accounting for 86 percent of the inflow.

The political significance of both the timing and the placement of the FT report is unmistakeable. It appeared as the lead story on the front page of January 24, just days after the Bush inauguration speech under the headline "Central banks turn from US".

To be continued