WSWS International Editorial Board meeting

Report on US: The Bush administration and the global decline of American capitalism

Part One

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Published below is the first of a two-part report by Barry Grey to an expanded meeting of the World Socialist Web Site*International Editorial Board (IEB) held in Sydney from January 22 to 27, 2006. Grey is a member of the WSWS IEB and the Socialist Equality Party (US) central committee. WSWS IEB chairman David North's* report *was posted on 27 February. SEP (Australia) national secretary Nick Beams' report was posted in three parts:* Part one *on February 28,* Part two *on March 1 and* Part three *on March 2. James Cogan's* report *on Iraq was posted on March 3.*

In addressing the question posed by David North in his opening remarks to this meeting—Is world capitalism on an upward trajectory, or is it in decline and heading for explosive upheavals?—it is particularly important to draw a balance sheet of the trajectory of American capitalism.

The relative strength or weakness, health or morbidity of American capitalism, and its trajectory over an extended historical period, is in the most fundamental and objective sense a world question. The fate of world capitalism over the past century has been linked to that of the United States more than to any other national economy or national state.

Already in 1924, Leon Trotsky, in a famous speech published at the time under the title "The Premises for the Proletarian Revolution," summed up the preeminent role of American capitalism in the affairs of world capitalism:

"Comrades, whoever wishes or tries today to discuss the destiny of Europe or of the world proletariat without taking the power and significance of the USA into account is, in a certain sense, drawing up a balance sheet without consulting the master. For the master of the capitalist world—and let us firmly understand this!—is New York, with Washington as its state department."

The United States became the dominant capitalist power on the basis of its enormous industrial and technological might. By the early years of the twentieth century it had become the industrial powerhouse of the world, and this is what enabled it to eclipse Britain by the time of the First World War.

Even during the Depression years of the 1930s, American capitalism retained enormous economic reserves, above all in its industrial power, which enabled it to emerge as the dominant military power in the Second World War and largely determine the shape of the post-war settlement.

It was to an extraordinary extent American capitalism that put world capitalism back on its feet amidst the bloody ruins left by the war in most of Europe and Asia. It relied on the betrayals of the working class by the Stalinist, Social Democratic and trade union bureaucracies to suppress revolutionary challenges to capitalism in much of the world, but it did possess the industrial and financial means to revive world capitalism, in a manner, of course, favorable to its own interests.

At the end of the war, the US occupied a position of overwhelming economic supremacy. It produced the vast bulk of the world's steel, electricity, autos, etc., and it possessed almost all of the world's gold holdings. This enabled the US, through the Marshall Plan and similar measures, to subsidize an economic revival in Europe and capitalist Asia that made possible two decades of rapid growth of the world economy. The post-war boom provided the economic basis for social reform policies that dampened class antagonisms—at least in North America, Western Europe and Japan.

But the attempt of American capitalism to rebuild world capitalism inevitably ran up against contradictions lodged in the fundamental contradiction between world economy and the nation-state system. In promoting the industrial and financial revival of Europe and Japan, the US was strengthening imperialist competitors and rivals. By the 1960s, the dollar was coming under increasing pressure and countries such as Germany and Japan were gearing up to challenge American dominance in world markets—including the American market.

The social and political shock waves from these tectonic shifts in the economic foundation took increasingly explosive forms in the 1960s within the US. One need only mention the assassination of John F. Kennedy in 1963 and the political assassinations that followed later in the decade, the civil rights struggles, militant wages struggles in virtually every sector of the economy, the urban riots, and the mass movement against the war in Vietnam. These social and political upheavals, in turn, acted upon and intensified the underlying economic crisis.

The erosion of American capitalism's previously hegemonic position in the world economy found definitive expression in Richard Nixon's August 15, 1971 measures. Under conditions of a run on the dollar and dwindling gold reserves in Fort Knox, Nixon ended dollar-gold convertibility, which had served as the lynchpin of the global financial arrangements established by the Bretton Woods agreements of 1944.

This was a major turning point, marking in general terms both the end of the post-war boom and the end of American industrial and financial hegemony. What followed was the oil shock of 1973-74, spiraling inflation and the deepest recession in the US since the 1930s.

Throughout the 1970s the US remained in the grip of a profound economic malaise, which was dubbed "stagflation"—a combination of slow economic growth and steep inflation. At the same time, US capitalism was facing an ever-greater challenge from its major competitors in Europe and Asia—Germany and Japan, in particular. American corporations—in steel, auto, electronics and other industries—were rapidly losing market share internationally, and within the US, foreign auto and steel imports were growing, cutting significantly into the share of the domestic market controlled by the Big Three auto companies and steel giants such as US Steel.

The American working class, despite its political subordination to the capitalist two-party system, which was enforced by the trade union bureaucracy, retained much of the militancy that attended the birth of the mass industrial unions in the sit-down strikes of the 1930s and industry-wide strikes that continued in the post-war period. There were bitter strikes throughout the 1970s, and a marked political radicalization among young workers in virtually every industry.

The high point of this militant upsurge was the 111-day nationwide coal miners' strike of 1977-78, in which the miners rejected contracts agreed to by the top union leadership and dealt Democratic President Jimmy Carter a humiliating blow by ignoring his Taft-Hartley back-to-work order, before they finally and reluctantly accepted a compromise contract.

This militancy was connected to a whole series of social reforms and regulations on business dating back to Roosevelt's New Deal. These were generally seen, with justification, as concessions wrenched by the working class from the American ruling class. Facing a steep and obvious decline in its global economic position, stagnant growth, mounting debt, chronic inflation, falling profit rates, the US ruling elite was compelled to launch an attack on these past reforms and regulations, which in various ways placed restrictions on the operations of the capitalist market, and in that way weaken the position of the working class and undermine its militant resistance.

Deregulation

The first major step in this direction was the policy of deregulation, inaugurated by the Carter administration and promoted by liberals such as Senator Edward Kennedy. Targeting first mass transport industries such as commercial air travel and trucking, deregulation represented the beginning of a ruling class counteroffensive. The political and ideological premise of deregulation was the innate superiority of the market to government regulation and control.

The overthrow of the Shah and the resulting spike in oil prices in 1979 brought the economic crisis in the US to a head, leading to another major turning point with the appointment of Wall Street banker Paul Volcker to head the Federal Reserve Board. Volcker, a Democrat, launched the American version of shock therapy—hiking interest rates to unprecedented levels in order to "wring inflation out of the economy" by plunging the US into a deep recession.

This was a dramatic and highly conscious move to force the closure of plants and factories, drive up unemployment and create the conditions for a frontal assault on the past gains of the working class. Chrysler, the weakest of the Big Three auto giants, was brought to the edge of bankruptcy. It was saved only through a bailout engineered by the Carter administration, which required the agreement of the United Auto Workers union to accept wage cuts and other concessions. The UAW leadership readily agreed, and in exchange got a seat on Chrysler's board of directors.

As auto, steel, rubber, electrical and other industrial plants closed down around the country, business journals such as *Business Week* began openly to speak of the "deindustrialization" of America. Very rapidly, traditional industrial centers such as Detroit, Cleveland, Pittsburgh, Youngstown, parts of Los Angeles were devastated by plant closures and mass layoffs. Whole cities were turned into centers of economic dislocation, poverty and misery. Hundreds of thousands, then millions of workers almost overnight found themselves without a decent-paying job.

This was the birth of the so-called "rust belt," which for the most part persists in large sections of the country. Manifested in abandoned stone and mortar and abandoned human beings was the objective decline in the world position of American capitalism.

The election of the right-wing Republican presidential candidate Ronald Reagan in 1980 signaled an intensification of the anti-working class offensive that had been launched under the previous, Democratic administration. "Reaganomics" became the catchphrase for a ruthless policy of union-busting, wage-cutting, the gutting of social programs, tax cuts for corporations and the wealthy, and the lifting of regulations on industrial pollution, workplace health and safety and many other aspects of economic life.

Economic policy was formulated quite openly to facilitate a vast transfer of wealth from the working population to the richest and most privileged layers, on the essentially parasitic basis of a massive downsizing of industry and a sharp increase in the national debt. The stock market became more than ever the focus of personal wealth accumulation for the financial elite, and driving up share values became a central preoccupation of government economic and social policy.

The decade of the 1980s saw a return to open and violent strikebreaking, employing goon squads, private police, state repression, frame-ups and victimizations—tactics that had largely receded in the post-war period. The working class resisted, waging dozens of bitter strikes in virtually all sectors of the economy. But every struggle was betrayed by the AFL-CIO, which isolated the struggles and then exploited their defeat to repudiate the militant traditions of the past and establish corporatist relations with the employers, all the while opposing any move toward a break with the Democratic Party and an independent political party.

By the end of the decade, the American labor movement had been essentially destroyed as a social instrument of resistance to US big business.

Retrenchment, bankruptcies, parasitism

The retrenchment in basic industry and other sectors has proceeded apace, punctuated by a series of spectacular bankruptcies. Flagship companies which symbolized the power of American capitalism have disappeared: Pan American Airlines and Eastern Airlines immediately come to mind. Since the late 1990s, more than 50 US steel producers have gone into bankruptcy, including such giants as Bethlehem, LTV, Republic, National and Wheeling-Pittsburgh. The Big Three auto companies have relentlessly downsized, slashing their work forces by more than half.

One can speak of a "hollowing out" of the American economy, in which corporate profit-making and the personal enrichment of the ruling elite grew increasingly divorced from the production of useful goods and the expansion of productive facilities, and more and more bound up with speculation in stocks and bonds and other forms of essentially parasitic activity. Outright swindling, accounting fraud and other forms of corporate criminality proliferated. Investment in research and development, maintaining and improving the industrial and social infrastructure—including education, health care, even roads, bridges, ports, levees, the electrical grid, the housing stock, the environment—took a back seat.

To give some indication of the scale of industrial decline, I will cite some statistics from the 1988 perspectives resolution of the International Committee of the Fourth International:

"The US share of auto production fell from 65 percent in 1956 to 20 percent in 1980. Between 1980 and 1984, the United States lost 23 percent of its export market share. The position of the steel industry vividly illustrates America's loss of its once unchallenged supremacy as the premier industrial power. The United States produced 39.3 percent of the world's steel in 1955. By 1975, that percentage had fallen to 16.4 percent. In 1984, it was just 8.4 percent. Between 1973 and 1983, US steel production fell 44 percent. In the 1950s, US integrated steel companies supplied more than 95 percent of the American market. Now their share is less than 60 percent."

This process has continued, and, if anything, accelerated since 1988.

The elevation of the "free market" to the status of political dogma and secular religion continues to produce disastrous results. Recent years have seen a new wave of corporate bankruptcies—from United Airlines and US Air to Delphi, the world's largest auto parts maker. General Motors itself—once the world's largest corporation and symbol par excellence of American industrial might—is flirting with bankruptcy, as is Ford.

These deep-going changes have had a major impact on relations between the classes, and on the social physiognomy of the various classes within the US. The American ruling elite itself has changed. The general process of decline finds a noxious expression in the political, intellectual and even moral decay of the ruling layers. In general, the most predatory, ignorant, short-sighted and reactionary elements have risen to the top.

Further on I will refer to the current list of *Forbes* magazine's 400 richest Americans. For the present, I wish only to note that the current crop of multi-millionaires and multi-billionaires differ, broadly speaking, in one important respect from the robber barons who bestraddled American society a century ago. The Rockefellers, Carnegies, Fords, Edisons, Firestones who dominated economic life back then were ruthless and politically reactionary men. But they made their fortunes by overseeing the construction of industrial empires. Their names are associated with an immense development of the productive forces.

The current batch of moguls has, for the most part, no such relationship to the development of industry or productive capacity. Warren Buffett, Kirk Kerkorian, Carl Icahn, Sumner Redstone leave in their wake no industrial empires. In many cases, they and their peers made their fortunes by downsizing and asset-stripping what the robber barons had built. They are the beneficiaries of leveraged buyouts, mega-mergers and various, often esoteric, forms of speculation.

This parasitism reached new levels in the heady days of the Clinton administration, when the stock market spiraled upward and swindling and accounting fraud assumed malignant proportions. The general plundering of the American economy by the ruling elite was compounded by the wholesale plundering of companies by their own top executives.

Social inequality

The enormous concentration of wealth at the very top of American society and the growth of social inequality are part of the same process of decline, in terms of the world market, and internal decay. That American society ever more openly assumes the form of a plutocracy is a symptom not of health and vigor, but rather the opposite. The previous ability of the American ruling class—under enormous pressure from below, and certainly not without internal friction—to bring about a general rise in working class living standards and a moderation of economic disparities was an expression of economic strength and confidence in the future.

Those conditions no longer exist. There are by now hundreds of studies and thousands of statistics documenting the staggering and ever-widening chasm between the uppermost social layers and the vast majority of the American people. Large sections of the population live in a state of desperation and near destitution. But more broadly, working people and most of the professional, managerial and self-employed population have been swept up in a permanent maelstrom of economic insecurity and dislocation.

Just to cite one statistic: the *New York Times* recently reported that the very wealthiest Americans—some 45,000 taxpayers with incomes starting at $1.6 million, who comprise the top 0.1 percent—saw their share of the nation's income more than double since the 1970s, reaching 10 percent in the year 2000. That is a level of income concentration last seen in the 1920s.

The existence of such obscene levels of wealth and grotesque levels of inequality is noted only on occasion in the media, and even more rarely by the Democratic Party, which still claims to be the "party of the people." The mind set that prevails in ruling circles—"liberal" as well as conservative—was starkly revealed in the recent strike by transit workers in New York. Even as workers who make $50,000 a year were being roundly denounced by politicians and newspapers as greedy thugs and rats, it was reported that Wall Street was planning to hand out some $21.5 billion in year-end executive bonuses.

Within the media and the political establishment this fact evoked no particular reaction. It was seen more or less as the natural order of things. Some spoke out to welcome and defend the Christmas largesse.

"People have had enough of listening to bad news," said Glenn Mazzella of World Wide Yacht Corporation. "They want to go yachting, and they want to go skiing and they want to drive a Maybach (a German car that retails for $325,000). They're tired of feeling embarrassed."

"There's someone on Wall Street that's taking 20 of his closest buddies for his bachelor party, renting a yacht, cruising the Caribbean and ending up in Sandy Lane in Barbados on the golf course," said Tatiana Byron, president of the New York event planner 4PM Events. The cost: $200,000.

Among the top bonus-getters on Wall Street this Christmas was Goldman Sachs chief executive Henry Paulson Jr., who ended up with a $38 million compensation package for 2005. That breaks down to $731,000 a week, or $104,000 a day, or $4,300 an hour. That amounts to 330 times the hourly pay of the average US wage earner.

One has to work hard at spending such sums. One has to be creative and come up with really decadent things.

But such is life for a very small elite, percentage-wise, but not so tiny in numerical terms in a city like New York, where a few blocks separate enclaves of spectacular wealth from impoverished ghettos.

To be continued