

The world crisis of capitalism and the prospects for socialism

Part three

Nick Beams
2 February 2008

Below we are publishing the third part of the opening report given by Nick Beams to an international school held by the International Committee of the Fourth International (ICFI) and the International Students for Social Equality (ISSE) in Sydney, Australia from January 21 to January 25. Beams is a member of the international editorial board of the World Socialist Web Site and the national secretary of the Socialist Equality Party of Australia.

Parts one and two were posted January 31 and February 1. Part four will be posted on February 4.

The concerns about the present situation and the fears of a recession, if not a collapse or breakdown, arise from the enormous increase in indebtedness in the US and world economy as a whole over the previous period. The question which confronts our movement is the following: What is the significance of this crisis for the development of our perspectives.

Two years ago, in opening our discussions, Dave North made the following point: "Any serious attempt at a political prognosis, at an estimate of the potentialities within the existing political situation, must proceed from a precise and accurate understanding of the historical development of the world capitalist system.

"The analysis of the historical development of capitalism must answer the following essential question: Is capitalism as a world economic system moving along an upward trajectory and still approaching its apogee, or is it in decline and even plunging toward an abyss?

"The answer that we give to this question has, inevitably, the most far-reaching consequences, not only for our selection of practical tasks, but for the entire theoretical and programmatic orientation of our movement. It is not a subjective desire for social revolution that determines our analysis of the historical condition of the world capitalist system. Rather, the revolutionary perspective must be rooted in a scientifically-grounded assessment of the objective tendencies of socio-economic development. Detached from the necessary objective socio-economic prerequisites, a revolutionary perspective can be nothing more than a utopian construction" (See "David North: Opening report to meeting of WSWS International Editorial Board").

The eruption of this crisis certainly underscores the central issue we have emphasised in our analysis—that globalisation, far from propelling capitalism into a new epoch of progress, has intensified all the contradictions which afflicted it in the twentieth century, resulting in wars and revolutions.

But our opponents will counter with the argument that, while the capitalist system is undoubtedly experiencing some deep-going problems, perhaps even a crisis, this is one of those "gales of creative destruction" which have proved so vital to the development of the capitalist system over its entire history, and that, after a period of storm and stress, a new,

more stable process of development will emerge and once again all will be for the best in the best of all possible worlds.

After all, they will argue, the stock market collapse of 1987 was overcome. So was the Asian crisis of 1997-98, the collapse of Long Term Capital Management in 1998, and the collapse of the share market and dot.com bubble. Likewise, the problems associated with the collapse of the housing bubble and subprime lending will be resolved.

How then is the present situation to be assessed? Not by putting a plus where the bourgeois places a minus, and vice versa, but through an historical analysis of the processes which have given rise to it.

If Marxism is the science of perspective, then one of the most important tools of analysis is the concept of the curve of capitalist development employed by Trotsky in his famous report to the Third Congress of the Comintern in 1921 and in subsequent reports and discussion in the 1920s.

In that report, Trotsky drew a vital distinction between the changes induced by the business cycle—boom, crisis, recession, revival, boom—which arose at the very birth of capitalism and will continue until its death, and the longer-term phases of capitalist development in which these economic cycles operate.

Citing figures on world trade, he pointed to the different phases of capitalist development over the preceding century. The period from 1781 to 1851 showed a relatively slow upward movement in the "curve of development." Following the revolutions of 1848, which, while defeated, nevertheless extended the framework for the capitalist market in Europe, there occurred a sharp upward movement, which lasted until 1873. The banking and financial crisis of that year eventually passed but that did not bring a return to the previous conditions. Rather, the next 20 years were characterised by depression—falling prices and profits. From the mid-1890s, however there was an upswing in the curve of development which culminated in a crisis in 1913 and the outbreak of war in 1914.

The relationship between the two movements was the following: in periods of an upswing in the basic curve, booms tended to be prolonged while crises were relatively short. On the other hand, in periods of a downswing booms tended to be superficial and speculative while recessions tended to be more protracted.

In a series of articles and discussions in the 1920s Trotsky further clarified his analysis. In particular, he took issue with the analysis of Kondratiev, a bourgeois economist and social democrat, who maintained that the longer phases of capitalist development should also be characterised as "cycles." This was not a difference over terminology, but involved fundamental questions of perspective.

"The periodic recurrence of minor cycles," Trotsky wrote, "is conditioned by the internal dynamics of capitalist forces, and manifests itself always and everywhere once the market comes into existence. As regards the large segments of the capitalist curve of development (fifty

years) which Professor Kondratiev incautiously proposes to designate also as cycles, their character and duration are determined not by the internal interplay but by those external conditions through whose channel capitalist development flows. The acquisition by capitalism of new countries and continents, the discovery of new natural resources, and, in the wake of these, such major facts of 'superstructural' order as wars and revolutions, determine the character and the replacement of ascending, stagnating or declining epochs of capitalist development" (Trotsky, "The Curve of Capitalist Development" in *Problems of Everyday Life*, Pathfinder, 2005, pp. 341-342).

Kondratiev's designation of the longer phases of capitalist development as cycles was bound up with a social democratic perspective which maintained that there was no "breakdown" of the capitalist order, as any period of downswing would inevitably be followed by a new upswing, just as a recession was followed by a revival in the operation of the business cycle.

Analysing the world situation in the 1920s, Trotsky did not rule out the possibility of an upswing in the curve of capitalist development. But it could take place only if the European economy were thrown violently into reverse gear resulting in the death of millions of workers. A new upswing would be possible only if the Communist International and its sections failed to grasp the revolutionary opportunities which would present themselves in the years ahead.

As we know, these conditions, which Trotsky considered only hypothetically, eventuated. Not only were revolutionary opportunities not grasped, but under the domination of the Stalinist bureaucracy the Communist International was transformed into a counterrevolutionary agency of world imperialism.

Following World War Two there was a new upswing in the curve of capitalist development. It resulted from the spread of the more productive methods developed by American capitalism to the rest of the world, which increased the mass of surplus value extracted from the working class and lifted the rate of profit for the capitalist system as a whole.

But this upswing was only made possible, as Trotsky had analysed, through profound developments in the superstructure—in particular, the betrayal of the revolutionary upsurge of the working class in the latter period of the war and in the immediate post-war period by the Stalinist apparatuses and the vast changes in international political relations that had been brought about by the entry of American imperialism into the war.

Trotsky had pointed already to the explosive consequences of the contradiction between the vast development of American capitalism and the division of the world into a series of closed empires during the 1930s—the British Empire, the drive by Japan to conquer Asia and the ambitions of the Nazi regime to dominate Europe—in his famous article published in 1934 entitled "Nationalism and Economic Life."

The article began by drawing out the significance of the development of the productivity of labour for the evolution of human society. The productivity of labour was the most profound criterion on which to judge the nature of social regimes and determined, in the final analysis, the replacement of one form of society by another—the replacement of cannibalism by slavery, of slavery by serfdom, and of feudalism by the system of hired labour under capitalism.

How did this law of the productivity of labour manifest itself in the conditions of the 1930s?

"The United States," Trotsky wrote, "represented the most perfect type of capitalist development. The relative equilibrium of its internal and seemingly inexhaustible market assured the US 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 was already 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 labor is of decisive significance in the interrelations of America and Europe, and in general in determining the future place of the US in the world. That highest form which the Yankees gave to the law of the productivity of labor is called conveyor, standard, 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 itself. With five miserable divisions, starved Japan seizes a whole country [China]. 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 labor 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 throughout the length and breadth of our entire planet. By what methods? By *all* methods. A high coefficient of productivity denotes also a high coefficient of destructive force. Am I preaching war? Not in the least. I am not preaching anything. I am only attempting to analyze the world situation and to draw conclusions from the laws of economic mechanics" (Trotsky, *Writings 1933-34*, Pathfinder, 1975, pp. 161-162).

For American capitalism the fundamental question in World War Two was not democracy, but the reconstruction of the world economy to ensure the free movement of commodities and capital and the ending of the old empires.

Post-war reconstruction of the world economy made possible a new upswing in the curve of capitalist development. That is, it ensured the development and extension of more productive methods which could increase and sustain the rate of profit.

But all the contradictions of the profit system remained, and by the middle of the 1960s were beginning to manifest themselves in a downturn in the rate of profit.

The end of the post-war boom was marked by an upsurge of the working class. As David North rightly pointed out in his remarks to the national aggregate meeting of the SEP in the US, the fundamental feature of this period was not the rise of the students and a "new vanguard," as the theorists of the New Left maintained, but the emergence of the working class.

Marcuse's book *One Dimensional Man*, published in 1964, which summed up the theories of the Frankfurt School, maintained that the working class was no longer a revolutionary force in the advanced capitalist countries.

He wrote: "The critical theory of society was, at the time of its origin, confronted with the presence of real forces (objective and subjective) in the established society which moved (or could be guided to move) toward more rational and freer institutions by abolishing the existing ones which had become obstacles to progress. These were the empirical grounds on which the theory was erected, and from these empirical grounds derived the idea of the liberation of inherent possibilities—the development, otherwise blocked and distorted, of material and intellectual productivity, faculties, and needs. Without the demonstration of such forces, the critique of society would still be valid and rational, but it would be incapable of translating its rationality into terms of historical practice. The conclusion? 'Liberation of inherent possibilities' no longer adequately expresses the historical alternative."

That is, the working class had been completely incorporated into the framework of the capitalist order. Other forces, a substratum of outcasts and outsiders, provided the only revolutionary opposition.

Four years later, France was convulsed by the largest general strike in

history. All the major countries of the world were rocked by a series of economic and political struggles. As Trotsky had explained in an earlier period, the development of political activity among students was not the emergence of a new social force, but rather an expression, in the more volatile elements of society, of deeper movements taking place in its foundations.

The revolutionary upsurge of 1968 to 1975 was betrayed by the Stalinist and social democratic leaderships of the working class, with the crucial assistance of the Pabloite tendencies which had worked to weaken and undermine the Fourth International in the post-war period. They played a critical role in stabilising the bourgeois order in the upsurges of the 1960s and early 1970s. In the case of Sri Lanka, it should be noted, they played the decisive role in stabilising the political situation, not only in that country, but across the whole sub-continent and in the Asian region as a whole with their entry into the Bandaranaike government in 1964.

The end of the post-war upswing in the curve of capitalist development was marked by the onset of inflation in 1973 and the recession of 1974-75, the deepest to that point in the post-war period. There was a recovery in the business cycle after 1975, but this did not bring a return to the rates of growth and the profitability of the 1960s. On the contrary, a new phenomenon emerged—stagflation, a combination of persistently high unemployment levels and high inflation.

The Keynesian measures—which the social democrats maintained had rendered Marxism redundant because the capitalist economy could now be managed by governments—worsened the situation. Their official burial can be said to have taken place at the September 1976 British Labour Party conference at which Prime Minister James Callaghan declared: “We used to think that you could spend your way out of a recession and increase employment by cutting taxes and boosting government spending. I tell you in all candour that that option no longer exists....”

Having stabilised the political situation, the bourgeoisie went on the offensive. The response to the fall in profit rates was two-fold; to drive down the wages and conditions of the working class on the one hand, and carry through a massive destruction of loss-making sections of capital on the other. This was the essential content of the program implemented by Reagan and Thatcher. It commenced in 1979 under the presidency of the Democrat Jimmy Carter, who appointed Paul Volcker as chairman of the Federal Reserve Board to squeeze inflation out of the system.

This was never simply a question of economic policy, but was intimately connected to the development of the class struggle. Almost as soon as he took office, Volcker was directly involved in the Chrysler bankruptcy proceedings in 1980 that set the stage for a series of wage cuts in return for loans. He later acknowledged the importance of the smashing of the strike by air traffic controllers and the destruction of their union (PATCO) in 1981. “The most important single action of the (Reagan) administration in helping the anti-inflation fight,” he maintained, “was defeating the air traffic controllers’ strike.”

The defeat of the air traffic controllers—their betrayal by the AFL-CIO—was the start of an offensive against the working class in the US and internationally. In Britain, one of the key turning points was the defeat of the miners’ strike in 1984-85. In Australia, the offensive against the working class was spearheaded by the Hawke-Keating Labor government after the collapse of the Fraser Liberal government in 1982-83.

The interest rate hikes introduced by Volcker helped set in motion the recession of 1982-83, which remains the deepest since the 1930s. The extent of the hikes is indicated by the following graph.

(Source: International Monetary Fund)

The interest rate hikes had a major impact on the so-called developing countries, which had gone heavily into debt as a result of the increases in oil prices in 1973-74. Debt repayments escalated at the same time as prices on export commodities began to fall in real terms. This was to set in motion a process which continues to this day—the transfer of resources

from some of the poorest countries of the world to the coffers of the major banks and financial institutions.

The results of this process are indicated by the following figures: In 1970, the world’s poorest countries (roughly 60 countries classified as low-income by the World Bank), owed \$25 billion in debt. By 2002, this was \$523 billion. For Africa in 1970, it was just under \$11 billion. By 2002 it was \$295 billion. In the past three decades, \$550 billion has been paid in both principal and interest on \$540 billion of loans, and yet there is still a \$523 billion dollar debt burden (See <http://www.globalissues.org/TradeRelated/Debt/Scale.asp>).

To be continued



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