The world crisis of capitalism and the prospects for socialism

Part five

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Below we are publishing the fifth and final 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.*

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What are the implications of this analysis for the development of our perspective?

Does the development of an upswing in the curve of capitalist development since 1992 mean that socialist revolution is put off the agenda, at least for the foreseeable future if not indefinitely?

Or, on the other hand, does the very development of this upswing introduce new tensions and contradictions into the world capitalist system which are laying the objective foundations for a new period of political upheavals and revolutionary struggles?

Let us begin our analysis of this question by noting at the outset that an upswing in the curve of capitalist development does not rule out social revolution. On the contrary, the First World War of 1914 and the Russian Revolution of 1917 came at the end of an upswing in the capitalist curve which had begun in the middle of the 1890s. At the beginning of those processes, Eduard Bernstein had noted the changes in the economy and concluded that revolution was no longer a valid perspective and that socialism would come about only through a series of reforms. How wrong that perspective turned out to be.

Likewise, the upsurge of the working class in the period 1968-75, which, under different leadership, could most certainly have led to social revolution, came after the longest upswing in the history of world capitalism. It erupted, as we noted earlier, right at the point where the theoreticians of the New Left, such as Marcuse, had concluded that the working class had been so thoroughly integrated into the capitalist order, at least in the advanced capitalist countries, that it was no longer capable of playing a revolutionary role. That perspective also proved to be utterly bankrupt.

Having said that, our task here is not to engage in some kind of phrase-mongering or simply to put a plus where others place a minus, but to undertake a sober assessment of the changes in objective conditions which have taken place, examine their implications and prepare for the political developments to which they will give rise.

In analysing the prospects for the struggle for socialism, we must examine what Trotsky once referred to as capitalist equilibrium. Capitalism, he noted, produces an equilibrium, disrupts it, then restores it anew in order to disrupt it again. He pointed to three key components: economic processes, class relations and relations between the capitalist states. Let us examine each of these in turn, separating them here for the purpose of analysis, but remembering that they react and interact with each other.

In the economic sphere, it is clear that the expansion over the past 15 years has produced a highly unstable situation—accelerated economic growth in some regions, albeit on unstable foundations, as in the case of China, coupled with far-reaching changes in the economic structure of the most advanced capitalist countries.

America, still the most powerful capitalist nation and the largest single market, has run up such large balance of payments deficits that it is dependent on an inflow of 75 percent of the savings of the rest of the world in order to sustain them. For the past 15 years, 20 if we go back to the stock market collapse of 1987, the American economy has been sustained through the creation of a series of asset bubbles. This has now reached the stage where there are serious threats to the stability of the financial system.

The restructuring which started in the 1980s and which accelerated by means of the processes of globalisation from the 1990s to the present day has changed the physiognomy of American capitalism.

The rise of American capitalism in the twentieth century was associated above all with the dominance of its manufacturing industry. By the end of the twentieth century, however, the finance, insurance and real estate (FIRE) sector comprised 20 percent of the US economy, compared to 14.5 percent for manufacturing.

In his book *American Theocracy*, Kevin Phillips writes: "Financial-sector profits shot past those of manufacturing in the mid-1990s, thereafter moving farther ahead. By 2004 financial firms boasted nearly 40 percent of all US profits. The financial sector commanded a quarter of America's stock market capitalization that year, up from just 6 percent in 1980 and 11 percent in 1990. Historically, this transformation is as momentous as the emergence of railroads, iron and steel and the displacement of agriculture during the decades after the Civil War" (Kevin Phillips, *American Theocracy*, Penguin, 2006, pp. 265-266).

These vast changes in the American economy have not simply meant the ascendancy of finance vis-à-vis manufacturing industry, but have involved profound changes in the way the financial system itself has operated.

During the post-war boom, finance capital in the United States accumulated profit through the provision of loans to industry and other forms of commercial banking, as well as providing home loans according to the 3-6-3 model. That is, there was a fairly direct relationship between the extraction of surplus value and the appropriation of a portion of that surplus value by finance capital. Now there are very different mechanisms in place. The profits of finance capital do not so much involve a direct appropriation of surplus value as they are accumulated through changes in asset values—that is, by operations in financial markets.

What brought about this change? In a nutshell, the downturn in the rate of profit in the 1970s and the failure of profit rates to sufficiently recover in the 1980s. In other words, the downswing in the capitalist curve not only brought about changes in the structure of industry and an offensive against the working class, but also the restructuring of finance capital.

A recent study outlines these processes as follows:

"Following the decline in the earnings of commercial banks in the United States in the 1980s, regulations limiting banks to deposit-taking and short-term lending were relaxed to allow a wider range of capital market activities, in particular, the creation of affiliates not previously engaged in these activities."

The author notes that Section 20 of the Glass-Steagall Act of 1933 had prevented such involvement, but through the 1980s these provisions were relaxed.

"Thus, the banking system that emerged from the 1980s real estate crisis no longer primarily served business lending, nor was it primarily dependent on net interest margins for its income. Rather, the system was based on the ability of the banks' proprietary trading desks to generate profits and on... affiliates to produce fee and commission income...

"This system has produced a new set of bank operations now known as 'originate and distribute,' in which the banks seeks to maximize its fee and commission income from originating assets, managing those assets in off-balance-sheet affiliate structures, underwriting the primary distribution of securities collateralized with these assets and servicing them" (Jan Kregel Minsky, "Cushions of Safety," Levy Institute Public Policy Brief No. 93, 2008, pp. 10-11).

In this model, the bank makes its profits from its ability to sell the asset it has originated, not from holding that asset in its loan portfolio and securing profits from the interest margin—the difference between the interest on the money it borrows and that charged on the loans it makes.

In the "originate and distribute" system, the amount of lending is determined by the ability to distribute the debts—that is, by the demand of the financial markets for securitised loans. Under low interest rates that demand remained high, with the pressure coming from financial markets for new, and riskier, lending.

The low interest rate regime which was so crucial to this process depended, in turn, on the continuation of low inflation, even in the face of expanding credit. This was made possible through the incorporation of China, India and the former Stalinist regimes into the world market.

Now there are clear signs that this low inflation regime is coming to an end, and this poses major problems for the administration of economic policy.

The favoured method of former Fed chairman Alan Greenspan in countering recessionary tendencies and the fallout from financial crises was to reduce interest rates and fire up the financial markets. But increases in inflation now pose major problems.

On the one hand, as Fed Chairman Bernanke indicated in his speech on January 10, the Fed stands ready to do whatever is necessary to try to counter recession. But on the other hand, inflationary pressures are increasing and any tendency for "inflation expectations to become unmoored" could "greatly complicate the task of sustaining price stability and reduce the central bank's policy flexibility to counter shortfalls in growth in the future."

This is not a short-term problem. In his recent autobiography, Greenspan explained that he was very fortunate during his term because the deflationary impact resulting from the incorporation of China into the world market meant that he did not have to worry about the inflationary impact of interest cuts. But in subsequent interviews he made clear that his successors may not be so fortunate, because cost and inflationary pressures would inevitably start to rise.

It is clear that on the economic front there are major factors tending to break up the relative equilibrium of the past period. The contradictions which confront those in charge of monetary policy may well be a sign that the boost to profit rates provided by the lowering of labour and capital costs over the past 15 years is lessening and the capitalist upswing is coming to an end.

The second key question is the relationships among the major capitalist powers. The upswing of the world capitalist economy, which has translated into a growth spurt since 2000, has proven to be a highly destabilising process.

The rise of China, as well as other powers such as Russia, is disrupting the old equilibrium which was established after World War II, just as in an earlier period the rise of Germany, Japan and the US at the end of the nineteenth century disrupted the equilibrium that has earlier been established by Great Britain and her empire. In that case the result was three decades of war. A new inter-state equilibrium was finally established under the aegis of the United States only in 1945. It was grounded not merely on American military might, but above all on its economic superiority. Now that economic hegemony has been eroded. One striking statistic sums it up: The American economy is the same proportion of the world economy as it was in 1940.

American imperialism now seeks to counter its loss of economic dominance and maintain its global position through military means. This is the historic significance of the eruption of US militarism, of which Iraq is merely the most bloody front in a global conflict. From the Arctic to the Middle East, Central Asia, Africa, Eastern Europe and the Balkans, there are a series of potential flashpoints where the interests of two or more capitalist powers collide.

Reviewing the history of the twentieth century it is clear that the Pax Americana established after World War II was of decisive significance in stabilising the world capitalist system after three decades of turmoil. Now the decline of American capitalism as it faces challenges from old powers and rising new ones is the most explosive factor in international relations.

There has been a major change in the economic structure of the world economy. Fifteen years ago, the G7 economies accounted for something approaching 70 percent of global economic activity (in nominal terms). Now they account for only 62 percent of economic activity, and only 43 percent on a PPP (purchasing power parity) basis.

Now let us turn to the question of class equilibrium.

The overriding feature of social life in all the advanced capitalist economies is the growth of social inequality. The figures for the United States are the most graphic, but they are not an exception. They express a general process.

As David North noted in his report to the SEP (US) aggregate meeting: "Recent studies by Edward N. Wolff of the Levy Economics Institute of Bard College document the extreme levels of social inequality in the United States. The statistics relating to the allocation of wealth and income reveal the extraordinary degree of social stratification. The top 1.0 percent of the population holds 34.3 percent of the net worth of households in the USA. The next 4.0 percent holds 24.6 percent, and the next 5.0 percent holds 12.3 percent. All in all, the richest 10 percent of the population holds just about 71 percent of the national household wealth. The next 10 percent holds just 13.4 percent of the wealth. The bottom 80 percent of American households accounts for just 15.3 percent of wealth. Those who fall in the third quintile own just 3.8 percent of the wealth. The bottom 40 percent of households possesses just 0.2 percent of wealth!

"When non-home wealth is considered, the stratification is even greater. The top 1.0 percent of households owns 42.2 percent of non-home wealth. The top 10 percent owns just under 80 percent of non-home wealth. The bottom 80 percent owns 7.5 percent of non-home wealth. The poorest 40 percent report a -1.1 percent of non-home wealth.

"Measuring income, the top 1.0 percent receives 20 percent of the total. The top 10 percent receives 45 percent of total income. The bottom 80 percent receives 41.4 percent. The poorest 40 percent accounts for just 10.1 percent of income."

There are some other figures from this study which underscore the significance of these processes. The first years of this century have seen an explosion of household debt. Median wealth—that is, the wealth of the households in the middle—declined by 0.7 percent in the years 2001 to 2004. The only time this has happened previously is during a recession. Median non-home wealth (total wealth less home equity) fell by 27 percent from 2001 to 2004. Median income dropped by almost 7 percent from 2000 to 2003.

Taking a longer view, the average wealth of the poorest 40 percent declined by 59 percent between 1983 and 2004. Over the same period, the top 1 percent received 35 percent of the total growth in net worth, 42 percent of the total growth in non-home wealth, and 33 percent of the total increase in income. For the three middle wealth quintiles, there has been a huge increase in the debt-income ratio, from 100.3 to 141.2 percent from 2001 to 2004, and a doubling of the debt-equity ratio from 31.7 to 61.6 percent.

The financialisation of the American economy—a process which has been duplicated in other major capitalist countries—has been the central mechanism through which wealth has been transferred up the income scale. It has rested on low interest rates and the expansion of credit, which have fueled the growth of asset values and the accumulation of vast profits as a result of financial transactions. These low interest rates, in turn, have been made possible only by the deflationary impact of the integration of China and other low-cost producers into the world capitalist market.

This makes clear the connection between the growth of social inequality and the formation of a social constituency which has a direct material interest in the extension of the domination of the "free market," under the aegis of the US, to every corner of the world.

As David North outlined in After the Slaughter: Political Lessons of the Balkan War, there is a layer in the advanced capitalist countries which has directly benefited from the eruption of imperialism and militarism. This social constituency is not a product of the Bush administration. Its origins lie further back.

Clinton alluded to the economic foundations of American militarism on the eve of the bombing of Serbia in April 1999. He said, "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."

The *New York Times* foreign affairs correspondent, Thomas Friedman, put it somewhat more crudely: "The hidden hand of the market will never work without a hidden fist—McDonald's cannot flourish without McDonnell Douglas, the builder of the F-15. And the hidden fist that keeps the world safe for Silicon Valley's technologies is called the United States Army, Air Force, Navy and Marine Corps... Without America on duty, there will be no America Online" (*New York Times Magazine*, March 28, 1999).

The development of the objective processes we have outlined lays the basis for the eruption of class conflict and decisive shifts in the political orientation of the working class. All the historical and objective indices point to the onset of a new period of revolutionary struggles.

Our task is to undertake the political preparations to meet the challenges which these developments will bring. Central to this preparation is the clarification and exposure of the ideological and political mechanisms which are being developed to divert the movement of the working class, block the development of a revolutionary orientation and bring the movement back under the control of the bourgeoisie.

I want to conclude my remarks by examining some of these trends in the sphere of political economy.

The academic David Harvey has written a number of books on political economy, and his work contains important insights. But like so much of what could be called, for want of a better term, "academic Marxism," it completely misrepresents and distorts the history of the struggle for Marxism in the working class.

In his book *The New Imperialism*, Harvey takes issue with what he calls the "classic view" of the Marxist left which defined wage workers as the key agent of historical change. To view the proletariat as the unique agent of historical transformation ignored social movements such as feminism and environmentalism, and this "single-minded concentration of much of the Marxist- and communist-inspired left on proletarian struggles to the exclusion of all else was a fatal mistake" (Harvey, *The New Imperialism*, Oxford University Press, 2004, p. 171).

In Harvey's view this is what was responsible for the setbacks suffered after the ending of the post-war boom. The real problem was not where Harvey claims to find it, but in the leadership of the workers' movement and the betrayals of the struggles in the period 1968 to 1975 which opened the way for the offensive of the bourgeoisie over the past 30 years.

Harvey's analysis brings to mind that of Marcuse in an earlier period. Right at the point where the processes of global capitalist production have created a staggering increase in the proletariat—that class which, whatever type of work it performs, is separated from the means of production and receives a wage—he insists that an orientation to new social movements must be developed.

Harvey identifies a turn to the working class with the trade union struggle over wages. In fact, genuine Marxism has always opposed such conceptions, insisting that the socialist movement can be developed only on the basis of a political struggle which takes up all forms of oppression.

One need only recall Lenin's remarks that the revolutionary leader must fight as a "tribune of the people," who is able "to take advantage of every event, however small, in order to set forth before all his socialist convictions and his democratic demands, in order to clarify for all and everyone the world-historic significance of the struggle for the emancipation of the proletariat." In other words, the social movement is grounded on the conception that only through the taking of political power by the working class can all the problems bequeathed to humanity by capitalism and class society begin to be resolved.

In place of such a struggle what does Harvey propose? After noting that the surge of militarism is a desperate attempt by the US to preserve its global dominance, he writes: "The only possible, albeit temporary, answer to this problem within the rules of any capitalistic mode of production is some sort of 'New Deal' that has a global reach. This means liberating the logic of capital circulation and accumulation from its neo-liberal chains, reformulating state power along much more interventionist and redistributive lines, curbing the speculative powers of finance capital, and decentralizing or democratically controlling the overwhelming power of oligopolies and monopolies (in particular the nefarious influence of the military-industrial complex) to dictate everything from the terms of international trade to what we see, read, and hear in the media. The effect will be to return to a more benevolent 'New Deal' imperialism, preferably arrived at through the sort of coalition of capitalist powers that Kautsky long ago envisaged" (David Harvey, *The New Imperialism*, p. 209).

"There are, of course," he continues, "far more radical solutions lurking in the wings, but the construction of a new 'New Deal' led by the United States and Europe, both domestically and internationally, in the face of the overwhelming class forces and special interests ranged against it, is surely enough to fight for in the present conjuncture" (Harvey, pp. 210-211).

The depredations of finance capital and the neo-liberal "free market" doctrine have produced numerous calls for a return to regulation.

In the words of one writer, it is time to "make a strong stand" and demand the return of the visible hand, but no longer on a nation-state level—that is clearly insufficient—but on a global scale. "The time has come to establish a global social contract and work to build a world with room enough for everyone... The historical moment has come for the visible hand to take control and reorganize market relations to reintegrate them with people's lives" (Wim Dierckxsens, *The Limits of Capitalism*, Zed Books, 2000, pp. 126-127).

The French political economists Dumenil and Levy, associated with the ATTAC movement, leave no doubt about their reformist political orientation, notwithstanding all their references to Marx. They insist that their analysis of the crises of capitalism at the end of the twentieth century has demonstrated "the correctness and significance of the Keynesian diagnosis: the control over the macroeconomic situation and financial institutions must not be left in private hands, that is, those of finance."

They continue: "This Keynesian view of the history of capitalism, including its current problems, is very sensible. One can only regret that the political conditions of recent decades have not made it possible to stop the neoliberal offensive, and put to work alternative policies—a different way of managing the crisis—in the context of other social alliances...

"Should Keynes be denounced for his reformism by those who still dream of a revolutionary future?... Keynes's work is indeed that of a reformist. His brilliantly open, but socially limited perspectives were nevertheless the only alternative to a more radical road... that we have known for decades to have gone wrong, everywhere" (Dumenil and Levy, *Capital Resurgent*, Harvard University Press, 2004, pp. 201, 204).

Others such as Panitch and Gindin of York University, associated with the journal *Socialist Register*, maintain that far from undergoing a decline, American imperialism is able to contain and manage the crises of the world capitalist order. "In China, in North America and everywhere else," they write, "the central question for socialists remains how to develop the kind of resistance that can transform capitalism." The fight to overthrow it is clearly off the agenda.

Naomi Klein, the radical Canadian author, explains that her latest book, entitled *The Shock Doctrine*, "is a challenge to the central and most cherished claims in the official story—that the triumph of deregulated capitalism has been born of freedom, that unfettered markets go hand in hand with democracy." Rather, she argues that this "fundamentalist form of capitalism", championed by the right-wing "free market" economist Milton Friedman and the so-called Chicago School, has been "midwifed by the most brutal forms of coercion inflicted on the collective body politic as well as on countless individual bodies" (Naomi Klein, *The Shock Doctrine*, Penguin, 2007, p. 18).

But Klein insists she is not arguing that "all forms of market society are inherently violent." She writes: "It is eminently possible to have a market-based economy that requires no such brutality and demands no such ideological purity." There can be a free market in consumer products, alongside free public health care and public schools, a large segment of the economy held in the hands of the state, laws requiring corporations to pay decent wages and respect the rights of unions, and wealth redistribution to lessen sharp inequalities.

"Keynes proposed exactly that kind of mixed, regulated economy after the Great Depression, a revolution in public policy that created the New Deal and transformations like it round the world. It was exactly that system of compromises, checks and balances that Friedman's counterrevolution was launched to methodically dismantle in country after country" (Klein, p. 20).

In an interview on her book, Klein made clear that she advocated a Keynesian "mixed economy" because she was a "realist."

But there is nothing more unrealistic than the notion that it is possible to turn back the wheel of history and reinvent a twenty-first century version of the post-war boom.

First of all, the advocates of such a proposal ignore the fact that the boom did not arise because of Keynesian policies, but was bound up with vast changes in the structure of world capitalism, resulting, not least, from the violence and destruction wrought by World War II. And with the collapse of the boom—a result of objective processes—Keynesian measures were unable to alleviate the ensuing crisis. In some ways they worsened it, and thereby provided a social base in sections of the middle class for the offensive against the workers' movement.

Secondly, even if a significant movement for social reform developed along the lines proposed by Klein and the other advocates of Keynesianism, it would very quickly run up against an entrenched a ruling elite determined to use all measures to defend its interests.

The proponents of such policies claim to be realists in opposition to the Marxists who insist that the only way forward is the mobilisation of the working class in a political struggle against the capitalist order and who undertake the fight for social consciousness on the basis of this perspective.

In fact, they follow the same procedure as the radicals criticised by Marx more than 150 years ago. That is, rather than examining objective processes and developments, and drawing out the necessary political program from such an examination, they work out a series of measures most convenient and most comfortable for them, and then proclaim that these measures are a universal solution.

The perspective of world socialist revolution and the reorganisation of world economy is not some distant perspective. An examination of the logic of objective economic processes and tendencies demonstrates that it is the only viable basis on which the working class and the mass of humanity can confront the deepening crisis of the global capitalist order and the catastrophes it is producing. Our task over the next five days is to undertake an important theoretical and political clarification in order to develop the political consciousness needed to take this struggle forward.

Concluded