Nick Beams opening report to SEP summer school

The crash of 2008 and its revolutionary implications

Part 1

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The following is Part 1 of the opening report delivered by Nick Beams, national secretary of the Socialist Equality Party (Australia) and a member of the International Editorial Board of the WSWS, to a summer school held by the SEP in January, 2009 in Sydney. Parts 2, 3 *and* 4 *will be published over the next three days.*

In beginning this report, I would urge that close attention be paid to its title: The crash of 2008 and its revolutionary implications.

The use of the term "revolutionary" is not some kind of rhetorical flourish to be simply passed over. It is aimed at drawing attention to the historical implications of the global economic crisis and the new tasks it poses for our party.

There have been many references in the media to the Great Depression of the 1930s, and there is no question that what is now underway is the most serious economic crisis since that time. But if one is to make historical comparisons, then I think the reference should be to 1914 rather than 1929.

The year 1914 saw the breakdown of the world capitalist order. It took the form of a war, but underlying the eruption of military conflict among the European powers was the collapse of the economic foundations on which the previous relative stability had rested.

The capitalist breakdown of 1914 was to usher in an epoch of revolutionary struggles, although this was far from apparent at the time. The name of Lenin was known only to a relative handful of people when, in 1915, he examined the objective components of a revolutionary situation, insisting, against the betrayals of the social democrats who had lined up in support of their "own" ruling classes, that the war had placed socialist revolution on the historical agenda.

A breakdown of capitalism is not simply an economic crisis. It signifies the opening of a new epoch, in which the fate of society is decided for decades to come. We have entered such a period. The year 1914 signaled the first great breakdown of the capitalist order. The year 2008 marks the second.

The year 2009 has opened with a graphic demonstration of the political consequences of this breakdown. The Israeli onslaught on Gaza is not just a continuation of the more that 60-year war of repression against the Palestinian people, it is a warning about the character of international relations and politics in the coming period.

The Zionist state is being driven forward not least by the explosive contradictions within Israeli society itself, which have assumed new force because of the global economic crisis. The recalling of the greatest crimes committed in the 1930s and the 1940s—Guernica and the liquidation of the Warsaw ghetto—as the Gaza onslaught proceeds is the surest sign of the character of the historical epoch into which we have now entered.

And the response of all the so-called democracies to the onslaught recalls nothing so much as their attitude in the 1930s to the attack of the Italian fascist state on Abyssinia.

Since the full force of the global financial crisis erupted in August-September, it has become apparent that the world capitalist economy is confronted not merely with a series of massive losses and a major recession, but a collapse of an entire mode of capital accumulation.

In his departing interview with the *Financial Times,* US Treasury Secretary Henry Paulson said that since last August he had feared a collapse of the global financial system on three occasions. That danger has not passed. On December 21, the governor of Spain's central bank Miguel Angel Fernandez Ordonez warned in a newspaper interview that the world faced a "total" financial meltdown, the like of which had not been seen since the Great Depression.

"The inter-bank (lending) market is not functioning and this is generating vicious cycles: consumers are not consuming, businessmen are not taking on workers, investors are not investing and the banks are not lending. There is an almost total paralysis from which no-one is escaping."

Now there is news that the Bank of America needs more funds from the government to go ahead with its takeover of Merrill Lynch, amid fears that if it pulls out there will be a new round of financial collapses.

Every piece of economic and financial news points to a deepening of the global crisis. So far the total financial losses in the US are estimated to be $4 trillion in housing and $9 trillion in the share markets.

The *Washington Post* reported on January 3 that the US national debt was projected to jump by as much as $2 trillion this year alone, raising the question of how long foreign investors, who hold major portions of this debt, will continue to provide finance. At present there is strong global demand for US Treasury notes—itself an expression of the fear gripping world financial markets—but how long this will continue no one knows. According to one analyst cited in the report: "There's a time bomb in there somewhere, but we don't know exactly where on the calendar it's planted."

According to the most recent figures, foreign investors hold about $3 trillion of the total US debt of $10.7 trillion. If significant portions of this capital flow out, it will spark a financial collapse.

The recession in the US, which, according to the National Bureau of Economic Research, started in December 2007, has now lasted 12 months—longer than the post-war average. If it continues until April 2009, it will be longer than any recession in the post-war period. The total number of jobs lost in the year reached 2.6 million in December, making it the worst year for job losses since 1945. Most of these losses have occurred in the past four months: September 403,000, October 320,000, November 533,000 and December 524,000.

Data on the manufacturing industry in the US and around the world point to the accelerating slump. In the US, the Institute for Supply Management reported that its index for December was down to 32.4 compared to the lowest-ever level of 30.3 in June 1980. New orders had fallen for 13 consecutive months and were now down to the lowest point since records began in 1948.

In Europe a closely watched index hit 33.9 in December, down from 35.6 the previous month, with a figure of below 50 indicating contraction. The story is the same in Asia, with Japan and Korea both recording sharp contractions. Toyota, the benchmark for the car industry, is set to make its first ever loss in the year to April. China, which only a few months ago was supposedly going to prevent a slide into global recession, is experiencing the most serious downturn since so-called "market opening" was begun 30 years ago. The manufacturing sector has contracted for the third straight month and Chinese growth may have fallen to a rate of 5.5 percent, well below the level of 8-9 percent that the regime considers is the minimum necessary to maintain social stability.

The latest report from JP Morgan Global Research begins: "We are in the midst of a deep global contraction, one that is likely to produce the sharpest four-quarter decline in global GDP in the post-World War II era." It estimates that average growth in the G-3 is down 5 percent.

As if to try to cheer itself up in the face of this gloomy situation, the *Financial Times* started the New Year with an editorial entitled "Drawing on the rich legacy of 1989."

"In a decade grimly dominated by Islamist terrorism, global warming and financial crisis, it is difficult to recall the heady days of 1989 when Communism collapsed in Europe and the world seemed set for a sunny future.

"'Bliss was it in that dawn to be alive,' wrote Wordsworth of the French Revolution. His thoughts were echoed by millions who participated, 20 years ago, in the destruction of the Berlin Wall, the overthrow of Soviet rule in eastern Europe and the subsequent disintegration of the Soviet Union."

Of course, as the editorial was forced to acknowledge, "joy soon gave way to disillusion as economic restructuring tore through people's lives." Nevertheless there was still something to celebrate with the legacy of the destruction of the Soviet Union, which, the editorial continued, should provide inspiration for the times ahead.

"Twenty years is more than a convenient anniversary. With the world economic crisis striking ex-Communist Europe hard, it is the end of an era. The eastward advance of the western alliance has reached, for now, its limits. Russia will resist, with force if necessary, any further gains. But governments will be preoccupied with the economic turmoil. As they struggle to chart their futures, they must seek to preserve the legacy of 1989-2009. Yes, times were often tough. But in most of the region there was a pervasive sense of progress. Would that this sense is not lost in the difficult years ahead."

The fact that the "legacy of 1989" is all that the *FT* has to offer its readers for the stormy times ahead is a sign of the lack of confidence and perspective, not to say considerable nervousness, with which the bourgeoisie confronts this global crisis. And with good reason, for the world economic crisis has not only cut a swathe through the vast economic structures that were built over the past two decades, it has shattered the free market dogma that formed the ideological foundation of governments around the world.

The real legacy of 1989 is not where the *FT* seeks it. Rather it lies in the global financial and economic crisis itself. The end of the Cold War order, while providing a limited short-term boost to global capitalism, served, in the longer term, to unleash all the contradictions within it.

The *FT*'s economics commentator Martin Wolf had a somewhat different slant in his first column for the year on January 7.

"Welcome to 2009. This is a year in which the fate of the world economy will be determined, maybe for generations. Some entertain hopes that we can restore the globally unbalanced economic growth of the middle years of this decade. They are wrong. Our choice is over what will replace it. It is between a better balanced world economy and disintegration. That choice cannot be postponed. It must be made this year.

"We are in the grip of the most significant global financial crisis for seven decades. As a result, the world has run out of creditworthy, large-scale, willing private borrowers. The alternative of relying on vast US fiscal deficits and expansion of central bank credit is a temporary—albeit necessary expedient. But it will not deliver a durable return to growth. Fundamental changes are needed."

In other words, the problem confronting world capitalism is not that staggering losses have been incurred, but that an entire regime of accumulation has broken down. Wolf's call for a "better balanced world economy", however, cannot be delivered. The real imbalance is not between the so-called deficit countries and the surplus countries such as China. It is more fundamental than this. The imbalance goes to the very heart of the economic system itself: it is between the massive accumulation of fictitious capital throughout the global capitalist economy and the surplus value needed to sustain it. This imbalance can only be resolved by wiping out vast areas of capital, bringing economic devastation to the working class all over the world—from the US and Europe to China, India and the rest of the so-called "emerging" economies.

In a recent discussion with the *Financial Times,* the chief executive of JP Morgan Chase, Jamie Dimon, warned not only of further trouble ahead but pointed to the more far-reaching implications of the collapse. "When we look back at industry excesses in areas such as highly leveraged lending and securitization, it is clear that some of these markets will never come back," he said. But it was precisely these markets that played such a crucial role in the expansion of the US and world economy during the past 20 years.

While the *FT* editorial writers cling to the rather tattered legacy of 1989 in the face of this situation, the events of the past two decades constitute a powerful vindication of the analysis of the International Committee of the Fourth International. It was our movement, and only our movement, which explained that, far from opening up new vistas for the development of capitalism, the collapse of the Stalinist regimes was but the initial expression of an historic crisis of the entire world capitalist order.

I shall examine this in more detail somewhat later, but at this point let me underscore the fact that the events of the past year demonstrate the power of the method of Marxism.

One year ago, at our meeting here in Sydney in January 2008, we discussed a document written by David North, "Notes on the political and economic crisis of the world capitalist system and the perspective and tasks of the Socialist Equality Party", published on the *World Socialist Web Site* on January 11, 2008.

The document began: "2008 will be characterized by a significant intensification of the economic and political crisis of the world capitalist system. The turbulence in world financial markets is the expression of not merely a conjunctural downturn, but rather a systemic disorder which is already destabilizing international politics. ... Sixteen years after the dissolution of the Soviet Union, an event which supposedly signaled the definitive and irreversible triumph of global capitalism, the world economy is in a shambles. The bursting of the housing market bubble in the United States, which had been fueled by uncontrolled speculative investments in sub-prime mortgages, has resulted in global losses of hundreds of billions of dollars for international banks and other financial institutions. ... The result is an international financial crisis which, in the words of one analyst, has called into question the viability and legitimacy of the Anglo-American system of capitalism."

In my report to that 2008 meeting, I noted that the financial crisis in the US, and the economic expansion of China and other less developed countries, were not separate events but different aspects of a single process.

"To put it in a nutshell: The expanded growth of China (along with other countries) would not have been possible without the massive growth of debt in the US. But this growth of debt, which has sustained the US economy as well as global demand, has now resulted in a crisis."

Of course, one could argue that by this time last year, the financial crisis had already emerged and it was therefore not so difficult to draw such conclusions. So let us go back further.

In a report to a meeting on June 5, 2000 I made the following point about the implications of the growth of fictitious capital.

"In the Christian religion, according to the priests, the soul takes leave of the body and ascends into heaven. The high priests of the market preach a similar doctrine, claiming that money can separate itself from the production process and enter a financial heaven where money endlessly begets money.

"Is it possible for capital to realize its dream of turning money into more money indefinitely? Or are there inherent limits to this process? Share values can continue to rise and profits can be made on share transactions so long as more capital keeps pouring into the market. In other words, income and profit can be accumulated in the manner of a pyramid scheme, or a chain letter.

"While it continually rises above and dwarfs productive capital, however, fictitious capital cannot escape its origins. At a certain point it is confronted with the fact that it is a claim on surplus, and this surplus value has to be extracted from the working class. ... [T]he structure of global capitalism increasingly takes the form of an inverted pyramid as the mass of fictitious capital claiming a portion grows by leaps and bounds in relation to the productive capital that must ultimately meet these demands."

The report went on to point to the financial crisis that, some eight years later, was to explode to the surface: "This inverted pyramidic structure of global capital is the source of its extreme instability. Hundreds of billions of dollars of capital, seeking to sustain its rate of return, surge through world markets in search of profit.

"When the prices for property titles—stocks, bonds, real estate, etc.—are rising, capital pours in, seeking to make profit by buying cheap and selling dear. Everyone makes hay while the sun shines. But when the market falters, and it becomes apparent that capital values have been vastly inflated, the rush to exit assumes the form of a stampede and overnight capital values are destroyed—not only fictitious capital, but productive capital as well."

To be continued