Nick Beams opening report to SEP summer school

The crash of 2008 and its revolutionary implications

Part 2

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The following is Part 2 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. Part 1 *was published yesterday. Parts* 3 *and* 4 *will be published over the next two days.*

I began by pointing out that the real significance of the global financial crisis could only be grasped by placing it in its historical context. In other words, we have to lay bare the logic of the economic and historical processes out of which it has arisen.

How then to approach this task? It is necessary to utilise the method of historical analysis developed by Karl Marx. Some of you, no doubt, have read or heard them many times before, but the passages from the *Preface to the Critique of Political Economy* in which Marx outlines the method of historical materialism bear repeating.

"In the social production of their existence, men inevitably enter definite relations, which are independent of their will, namely relations of production appropriate to a given stage in the material development of the productive forces. The totality of these relations of production constitutes the economic structure of society, the real foundation, on which arises a legal and political superstructure and to which correspond definite forms of social consciousness. ... At a certain stage of development, the material productive forces of society come into conflict with the existing relations of production or—this merely expresses the same thing in legal terms—with the property relations within the framework of which they have operated hitherto. From forms of development of the productive forces these relations turn into their fetters. Thus begins an era of social revolution."

In the capitalist mode of production, the contradiction between the growth of the productive forces and the social relations of production develops in two interconnected forms.

There is the conflict between the global development of the productive forces—the inherent tendency of capital to leap over borders, barriers, time zones, countries and continents—and the nation-state system in which the political power and property forms of the capitalist ruling class are historically rooted. That is, there is a contradiction between the global character of the productive forces as developed under capitalism and the division of the world into rival conflicting nation-states.

Then there is the contradiction between the growth of the productive forces, as expressed in the increasing productivity of labour—which lies at the very foundation of the progress of civilisation—and the social relations of production based on wage labour. This contradiction manifests itself in the law of the tendency of the rate of profit to fall—a law characterised by Marx as the most important law of political economy, above all from an historical point of view.

Our task is to trace the historical development of these contradictions. Herein lies the importance of the method of analysis developed by Trotsky in his famous report to the Third Congress of the Communist International in June 1921, and outlined in his article *The Curve of Capitalist Development* and in other articles and speeches in the first half of the 1920s.

Trotsky's great contribution to the development of the historical materialist method was to distinguish two distinct features of capitalist development. The first was the operation of the business cycle—the ups and downs in economic activity—that would accompany capitalism from its birth until its death. The second were those longer term periods of history, extending over many years, even decades, that marked distinct phases in the capitalist system's development.

Looking back from the mid-1920s, one could discern such distinct phases. The period up to 1848 was marked by relatively slow growth, culminating in an economic crisis in 1847-48, which preceded the mass revolutionary upheavals of 1848.

While these revolutionary struggles resulted in defeats for the newly emerging working class, they did nevertheless clear away the remaining feudal obstacles to the development of capitalism in Western Europe. A powerful period of capitalist expansion followed: railways were built, immeasurably broadening the scope of the capitalist market; Britain became the workshop of the world; shipping underwent a rapid growth and the world market expanded. This upswing in the curve of capitalist development continued for 25 years.

A new period began in the aftermath of the financial crisis of 1873. While this crisis eventually passed, the conditions of the mid-Victorian boom did not return. The next two decades have gone down in economic history as the Great Depression of the nineteenth century. They were characterised above all by falling prices and profit rates. Not that this was a period of stagnation. On the contrary, the downward pressure on profit rates was the driving force behind major changes in the scale and scope of capitalist production, especially in the United States, and new forms of management that began to be developed there, as well as the growth of industry in Germany.

Vast changes in the structure of the world economy were also underway. The last quarter of the nineteenth century saw the great scramble for colonies, as the European powers sought to secure markets and sources of minerals and other raw materials. Major developments in banking also took place with the emergence of international loans and other forms of financing. This period is sometimes described as the first wave of globalisation.

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The Great Depression lasted until the mid-1890s, whereupon the capitalist curve begins an upswing. Profits start to rise, markets expand and the bourgeoisie enters the new century with an air of confidence. The new conditions famously found their expression in the leadership of the Second International in the form of the revisionist theories of Eduard Bernstein, who concluded at this time that Marx's theory of capitalist breakdown had been refuted by events. It was now necessary, he argued, for the party to abandon its revolutionary perspective.

But far from providing a stable base for bourgeois rule, as its representatives imagined at the dawn of the twentieth century, the vast changes taking place in the structure of world capitalism were laying the basis for revolutionary convulsions. Leon Trotsky, the young Russian Marxist, was among the first to explain their significance. His analysis of this transformation formed the basis of his Theory of Permanent Revolution, elaborated in 1905.

"Binding all countries together with its mode of production and commerce, capitalism has converted the whole world into a single economic and political organism. Just as modern credit binds thousands of undertakings by invisible ties and gives to capital an incredible mobility which prevents many small bankruptcies but at the same time is the cause of the unprecedented sweep of general economic crises, so the whole economic and political effort of capitalism, its world trade, its system of monstrous state debts, and the political groupings of nations which draw all the forces of reaction into a kind of world-wide joint-stock company, has not only resisted all individual political crises, but also prepared the basis for a social crisis of unheard-of dimensions" (Leon Trotsky *The Permanent Revolution and Results and Prospects*, New Park, pp. 239-240).

The crisis of "unheard-of dimensions" erupted in August 1914 with the outbreak of World War I. In his book *War and the International* Trotsky explained that, at the most fundamental level, the war was a revolt of the productive forces against the nation-state structure of world capitalism.

The development of the world economy posed the necessity for a new political structure. But the way the various bourgeois governments proposed to resolve this problem was "not through the intelligent, organised cooperation of all of humanity's producers, but through the exploitation of the world's economic system by the capitalist class of the victorious country; which country is by this war to be transformed from a Great Power into the World Power."

The war proclaimed not only the downfall of the nation state, but also of the capitalist economy. It was the most colossal breakdown in history of an economic system destroyed by its own contradictions.

"In these historical circumstances," Trotsky concluded, "the working class, the proletariat, can have no interest in defending the outlived and antiquated national ‘fatherland', which has become the main obstacle to economic development. ... The only way in which the proletariat can meet the imperialist perplexity of capitalism is by opposing to it as a practical program of the day the socialist organisation of the world economy. War is the method by which capitalism, at the climax of its development, seeks to solve its insoluble contradictions. To this method the proletariat must oppose its *own* method, the method of the social revolution."

In his work on perspectives in the early 1920s Trotsky returned to the relationship of World War I to the curve of capitalist development. The outbreak of war signified the end of the upswing that had started in the mid-1890s. It was not, however, that the war brought the upswing to a close, but rather that the upswing ended, resulting in the eruption of war.

This is how Trotsky explained the relationship at a meeting in December 1922:

"In the technological sense, Europe developed with unprecedented speed and power from 1894 to 1913, that is to say, Europe became economically enriched during the 20 years which preceded the imperialist war. Beginning with 1913—and we can say this positively—the development of capitalism, of its productive forces, came to a halt one year before the outbreak of the war because the productive forces ran up against the limits fixed for them by capitalist property and the capitalist form of appropriation. The market was split up, competition was brought to its intensest pitch, and henceforward capitalist countries could seek to eliminate one another from the market only by mechanical means.

"It is not the war that put a stop to the development of productive forces in Europe, but rather the war itself arose from the impossibility of the productive forces to develop further in Europe under the conditions of capitalist development" (Trotsky, *The First Five Years of the Comintern*, Volume 2, New Park, p. 306).

Europe's economic trajectory in the 1920s verified Trotsky's analysis. The war's conclusion failed to bring about a return to pre-war economic conditions. The European economy as a whole struggled to return to the levels of production it had attained in 1913, only achieving that goal by 1925-26. And, after three years of growth, the German economy, Europe's largest, started to move into recession by 1928-29.

In the United States, the situation was very different. After a severe recession in 1920-21, the US economy experienced a burst of productivity, the like of which has probably not occurred since. In the period 1919 to 1929, while there was no increase in the manufacturing labour force, output rose by over 60 percent. In the late 1920s, US manufacturing accounted for just over 40 percent of the world's total: with only 6 percent of the global population, the US produced 57 percent of the total world output of machinery. In the decade of the 1920s, manufacturing industry's consumption of electricity doubled, while household consumption tripled.

By contrast, in 1920 European manufacturing production was 23 percent below its 1913 level and, in 1923, still 18 percent below.

Given this situation it might have appeared, at first sight, that the perspective on which the Bolsheviks launched the struggle for power in October 1917—the perspective of world socialist revolution—had been invalidated. While Europe was stagnating, the productive forces were advancing under American capitalism.

But the problem with that appraisal was that it ignored the world economy, or, to put it perhaps more accurately, insofar as it considered the world economy, it did so not as a "mighty and independent reality", to use Trotsky's phrase, but as the sum of various national parts. (This mistake was repeated, by the way, last year in the myriad claims that so-called "decoupling" would somehow enable the rest of the world to escape the impact of the global financial crisis that erupted in the United States.)

Viewed from a global—the only correct—perspective, the picture was very different. American capitalism in the 1920s certainly looked far stronger and more stable than European capitalism. Moreover, it was developing at Europe's expense. But American capitalism was no longer self-contained. It had risen to global pre-eminence by exploiting its massive internal market, unencumbered by the kinds of restrictions that dominated the European nation-state system.

That period had now, however, come to an end. American capitalism depended on the world market. That was, after all, the underlying reason for its intervention in World War I, when the doctrine that had prevailed since the foundation of the United States—that it should not become involved in European wars—was overthrown.

And that was also why, in the aftermath of the war, American banks and financial authorities were so heavily involved in the 1924 Dawes Plan, which sought to resuscitate German capitalism, thereby providing an outlet for American investment capital. Europe certainly depended on America, but America was even more dependent on Europe.

To be continued

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