

Nick Beams report to SEP founding congress—Part 2

Nick Beams
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The following is the second and concluding part of the opening report delivered by Nick Beams, national secretary of the Socialist Equality Party (Australia), to the SEP's founding congress, held in Sydney on January 21–25. Part 1 was published on February 25.

14. I come now to the global economic and financial crisis that erupted in 2007–2008, and which arose from the globalisation of production and finance over the past 25 years. The most significant feature of this crisis is that it developed out of the very mechanisms and processes that had been established to overcome the crisis of profitability that rocked world capitalism in the late 1960s and early 1970s.

15. The crisis of 2007–2008 brought to an end a whole regime of accumulation that had arisen over the previous 20–25 years, based on financialisation, above all in Britain and the US, and the exploitation of cheap labour in China, India and Asia in general. In the past nine months or so, the financial meltdown has been halted with the greatest injection of government funds into the financial system seen in history. But none of the underlying problems has been overcome. In fact, they are being exacerbated.

16. According to an analysis prepared at the Bank of England, the intervention to support banks in the US, UK and Euro-area during the crisis was \$14 trillion, or almost a quarter of global gross domestic product (GDP). As the report's authors note, this intervention "dwarfs any previous state support of the banking system".

17. Far from resolving the crisis, the intervention has led to the growth, in an even more grotesque form, of the financial parasitism that gave rise to the crisis in the first place. Take the situation in the United States. As a result of the actions of the US Treasury and the US Federal Reserve Board, the major banks, supplied with unlimited amounts of cash at virtually zero interest, have been able to boost profits. Writing in the *Financial Times* of January 12, Robert Reich noted: "It has been more than a year since all hell broke loose on Wall Street and, remarkably, almost nothing has been done to prevent all hell from breaking loose again. In fact, close your eyes and you could be back in the wilds of 2007. Bankers are still making wild bets, still devising new derivatives, still piling on debt. The big banks have access to money almost as cheaply as in 2007, courtesy of the Fed, so bank profits are up and bonuses as generous as at the height of the boom." The five major banks have been strengthened by the elimination of some of their competitors and will be backed by future bailouts. As Simon Johnson, the former International Monetary Fund chief economist, put it: "Goldman Sachs has become the world's biggest hedge fund underwritten by the US government." Under legislation now going through Congress, the Fed will be authorised to provide up to \$4,000 billion to the banks—that is twice as much as was pumped into financial markets last year. The banks are not making money

because of some revival in the US economy. Since the start of the recession, more than seven million American workers have lost their jobs. In the past decade there has been no net increase in employment and real median wages have declined.

18. One of the most significant features of the global crisis was the inability of the central banks to bring about a recovery by reducing interest rates. That is what had taken place in the series of financial crises since the October 1987 share market plunge. The cutting of interest rates had overcome the Mexican bond crisis, the Asian financial crisis, and the collapse of the tech bubble, but in 2007–2008 the policy failed. Since March 2009, with the official Fed rate at or near zero, the Fed has been engaged in a policy known as "quantitative easing". This policy involves the massive injection of liquidity into the financial system through the purchase of government debt by the central bank. It is estimated that as much as \$2 trillion has been pumped into the financial system by means of this policy. What has this money been used for? The short answer is that the purchase of government debt, through a series of financial operations in which the major banks earn hundreds of millions of dollars in fees, has led to a gigantic creation of money and debt.

19. The fiscal deficit in the US for 2009 totalled nearly 12 percent of GDP. It required \$1.5 trillion of new debt to finance it. The Chinese bought about \$100 billion, and foreign investors as a whole about 20 percent of the total. The balance was purchased by the Fed. US treasury notes are issued to finance the government debt. But rather than this debt being purchased by foreign capital, it is increasingly being bought up by the Fed, which is printing dollars or, to put in more accurately, creating huge amounts of additional money electronically, to purchase the debt. This process is inherently unsustainable. The financial system has been kept afloat by a creation of a new financial bubble—this time in government debt.

20. The regime of accumulation that developed through the 1990s and over the past decade had two aspects: the financialisation of the US economy and the expansion of the Chinese economy. The response of the Chinese government to the crisis was a \$570 billion stimulus package. This spending, together with the expansion of bank credit, has created a colossal capital investment bubble in China. According to most estimates, nearly 90 percent of GDP growth in the first seven months of 2009 was the result of fixed asset investments financed by the expansion of debt and government spending. Chinese bank lending increased by over \$1.35 trillion. But this is leading to the build up of explosive contradictions in the Chinese economy. One indication is provided by the export and import statistics. While exports increased by 17.8 percent in the past 12 months, imports were up by 56 percent. This shows that the Chinese economy is being sustained by a massive internal infrastructure and investment boom. As one recent comment in the *Financial Times* noted, asset investment

now comprises 50 percent of GDP—this compares with a rate of 30 percent for Japan in the years of its economic expansion. This cannot continue indefinitely. As the *Financial Times* explained: “Just as there has never been a bubble that hasn’t burst in the end, so there has never been an investment boom that hasn’t been followed by a bust. If China’s investment-to-GDP ratio were to drop to the levels of 1960s Japan—not an absurd idea, since that is also where it was in China ten years ago—the impact would be catastrophic. China itself would face slump and the mother of all banking crises. A domino reaction would hit the commodity exporters and other emerging economies. The deflationary impact of Chinese overcapacity would be felt everywhere, potentially putting the world trading system at risk.” Another study warned that “the coming slowdown in China has the potential to be a similar watershed event for world markets as the reversal of the US subprime and housing boom”.

21. This analysis has particular relevance for Australia. In some ways, Australian capitalism was insulated from the first impact of the global financial crisis. This gave rise to a resurgence of Australian exceptionalism. It was claimed that the sound regulation of the Australian banks—a model for the rest of the world—lessened the impact of the financial crisis. In fact, the impact of the crisis was determined by the combination of world processes that characterise Australian capitalism. What protected the banks was not sound regulation but the fact that rather than supplying money to the American financial markets, they were borrowing money from overseas to invest in the Australian domestic housing market. And the Australian economy, as one of the chief exporters to China, benefitted directly from the Chinese government’s enormous stimulus package. But this very dependence means that even a significant downturn, let alone a crisis, in the Chinese economy will reverberate in Australia with explosive force.

22. In our analysis of this economic crisis, we have made clear that it is the form through which a vast restructuring of capitalism is taking place, a restructuring that is based on the impoverishment of the working class. The ruling class cannot rule in the old way and the working class cannot live under the new economic, social and political order that is being prepared. The objective conditions for social revolution are being created.

23. The process of capitalist restructuring is already well under way. The bailout of the banks has led to an unprecedented increase in government debt, which is now to be paid for by the working class. Since 2007, government budget deficits in the OECD countries have increased by 7 percent of GDP and now stand at more than 8 percent. An amount equivalent to 8 percent of GDP is being added to total government debt every year. Total government debt has already risen by 25 percent of GDP to more than 100 percent of GDP.

24. The implications of these massive debts are being spelled out very clearly by all the financial spokesmen of the bourgeoisie. George Magnus, the senior economics adviser at the UBS investment bank, for example, writes of the “pain of protracted fiscal restraint”. So severe is the crisis that the “spectre of sovereign default has returned to the rich world”. That is, so large is the increase in debt that governments of major capitalist countries could default. Magnus is in no doubt about who must pay, insisting that slogans like “raid the rich” will no longer do. The McKinsey Global Institute in a report on global financial deleveraging, published last week, pointed to a grim climate of austerity for the next decade. Martin Wolf, the economics commentator of the *Financial Times*, writing on the situation in Britain, noted that the UK was much poorer than it thought it was and that “the struggle over the distribution of losses is going to be brutal”. The political implications of this struggle are now being discussed in ruling circles. In a recent article on the growth of government and the

pressing need to reduce it, *Financial Times* columnist Gillian Tett noted: “What is becoming clear is that hard numbers do not tell the entire tales. What will be equally crucial in the coming years is not the sheer scale of debt, but whether governments can implement a rational way of cutting it—and potentially allocating pain—without unleashing (at best) political instability, or (at worst) full blown revolution.”

25. The first phase of the economic breakdown has passed. But there is no return to the status quo ante. Rather what lies ahead are further economic upheavals and, above all, the eruption of social and class conflicts, and social revolution. The last period of revolutionary conflicts, from 1968–75, ended when the working class in country after country, including Australia, was blocked from entering the struggle for political power by its own leaderships. Consequently, the bourgeoisie was able to stabilise its rule and then launch an offensive against the working class. It carried out a sweeping restructuring of the world economy in an endeavour to resolve the economic contradictions that had brought an end to the post-war boom. Now that very restructuring has raised to a new peak of intensity all the contradictions of the world capitalist system, posing once again the struggle for political power before the international working class. The question therefore arises at this point: what is the relationship between the working class and the organisations that blocked it from the struggle for power in the last period of revolutionary upheaval? What has been the impact of globalisation on the politics of the workers’ movement?

26. The past 25 years are often characterised as a “difficult” period from the standpoint of the development of the socialist movement. But such a characterisation remains at the level of immediate appearance. There have been great difficulties and problems, of that there is no question. But it is necessary to probe deeper to reveal the essential processes taking place. Here it becomes evident that the difficulties were the initial expression of more profound processes—the decay and disintegration of the old organisations that dominated the workers’ movement throughout the twentieth century. True, our movement may have enjoyed more support in the past, but I would venture to suggest that support for our tendency among the more class conscious workers came from those who saw our party as the most left-wing component of a broader workers’ movement. That movement no longer exists and its collapse created problems. However, in the final analysis, its decay was a necessary, if painful process, because the old workers’ movement, dominated by the reformist and Stalinist apparatuses, was the means by which the working class was subordinated to the bourgeoisie. Our task therefore is nothing less than the reconstruction of the socialist movement of the working class. The disintegration of the old apparatuses is a necessary precondition for the accomplishment of this task.

27. We have noted that the victory of the Trotskyists over the opportunists in the International Committee of the Fourth International (ICFI) reflected a shift in the balance of political forces. It was not just that our arguments were true and theirs were false. That of course is absolutely true. However, the Open Letter of 1953 was also absolutely correct and so were the documents of the British Trotskyists against the SWP reunification in 1963. But we were not able to defeat the opportunists in these struggles. The victory of the Trotskyists in the split of 1985–86 and the strengthening of our tendency in the subsequent 25 years is an expression of the changed relationship between the ICFI and the working class. Initially this changed relationship expressed itself in the collapse of the old organisations and was not immediately reflected in the growth of our movement. But this period has come to a close and the founding of our parties on the clarification of our history, program and principles signals the opening of a new one. It is not simply that we have

been able to clearly formulate our program and clarify long outstanding issues. The fact that we are able to do this has itself an objective significance. The owl of wisdom flies at dusk, that is, when one period is ending and a new one beginning.

28. The change in the relationship of our movement to the working class is the outcome, in the final analysis, of vast changes in the economic base of society over the past quarter of a century. The old organisations of the workers' movement based themselves on a program of national reform and, to the extent that such a program remained viable, were able to subordinate the working class to the capitalist order. But the globalisation of production has shattered this program. The trade union apparatuses and the labour and social democratic parties function as open agents of the capitalist class for the suppression of the working class. We began to deepen our analysis of this process in the aftermath of the collapse of the Soviet Union. That event posed the question: if the greatest labour bureaucracy in the world has disintegrated, what are the implications for all the others? Our assessment of their role brought a hue and cry of outrage from the so-called "lefts" about how the Socialist Equality Party was renouncing the unions and what a crime we were committing against the working class, socialism and everything that is holy, by refusing to advocate a preference vote for the Australian Labor Party in elections. Our analysis has been completely vindicated. Lenin once said that the value of every crisis is that it strips away the superficial features of a given phenomenon and reveals its essential characteristics. The crisis in the US, to name just one example, has certainly revealed the essential character of the United Auto Workers union as it suppresses the working class and takes its place on the executive boards of the auto companies.

29. Most importantly, the past quarter century has made clear the essential role of all the Pabloite tendencies and their offshoots, and the historical significance of the founding of the ICFI in 1953 and its unrelenting struggle against opportunism in the subsequent period. All of the one-time "left" tendencies are now seeking to organise a regroupment through which to enter the framework of official bourgeois politics. In some cases, most notably Brazil and Italy, they have already done so. This perspective is spelled out most clearly in the documents for the 16th world congress of the Pabloites to be held next month. At the same time last year, the Pabloite section in France, the LCR, was dissolved into the anti-capitalist party, the NPA. Now this perspective is being developed more broadly.

30. As soon as one begins to read their documents one is struck by their unabashed nationalist outlook. In the past one had to uncover the essentially nationalist outlook of Pabloism by removing the veneer of seemingly orthodox phrases. Now they openly proclaim it. In a document titled "Our International", they write: "[O]ne can only build organisations which can fight for socialist revolution by rooting oneself in each national context, and in drawing on the best traditions of all the currents of the local workers movement." And in the next sentence: "It also means participating in, and learning from, the main revolutionary experiences of this century: Castr[o]ism, Maoism, Sandinismo, revolutionary populism, liberation theology, and others."

31. They set out their perspective as the reorganisation and reconstruction of an anti-capitalist workers' movement through the building of broad anti-capitalist parties. How broad is indicated both by the role played by different sections of the Pabloite movement and the perspectives set out in the main congress document. "The common goal, via different paths, is that of broad anti-capitalist parties. It is not a question of taking up the old formulas of regroupment or revolutionary currents alone. The ambition is to bring together forces beyond simply

revolutionary ones," it states.

32. In the course of this process, they write, the question of a new International will be posed, but it will not be the Fourth International, which does not have the legitimacy to represent itself as the new International that is needed. How will such an International be built? "We act and we will continue to act," the document explains, "so that it is not posed in terms of ideological or historical choices, which are likely to lead to splits and divisions." So who is going to take part? This new International must bring together currencies of various origins: "Trotskyists of different kinds, libertarians, revolutionary syndicalists, revolutionary nationalists, left reformists." The document insists that the Fourth International should "play the role of a 'facilitator' of convergences in the perspective of new international groupings".

33. The political meaning of all this is very clear. As the Pabloites' document notes, from 1992 onward, that is, following the collapse of the Soviet Union, they proceeded with the triptych "new period, new program, new party". The past period has seen the decay, disintegration and collapse of all the parties and organisations upon which the bourgeoisie has directly relied to block the working class in the struggle for political power. New mechanisms have to be constructed and this is the program of the Pabloites. Cliff Slaughter, when he was a Marxist, made the point that in the next period of revolutionary struggle the bourgeoisie would rely directly upon the revisionist organisations that had broken from the Fourth International. That prediction is being played out today.

34. The documents presented here for adoption are the basis on which we will go forward to build our international movement, the ICFI, as the world party of socialist revolution, creating, to use Trotsky's words, "a single international proletarian organisation of revolutionary action having one world centre and one world political orientation". These documents provide the basis for building the SEP in Australia and establishing new sections of our international movement. They provide the foundation, the framework, the scaffolding for the building of our movement in the struggles now unfolding. I commend them to you for adoption by this founding congress.

Concluded



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