

The US credit downgrade

Barry Grey
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The downgrade of United States debt is a turning point in the crisis of American and world capitalism.

The rating agency Standard & Poor's made clear in its statement Friday that it was taking the unprecedented step of stripping US Treasury bonds of their AAA rating because the Obama administration and Congress had failed in their budget-cutting deal to meet the demands of it and the Wall Street banks for which it speaks.

S&P reiterated its call, initially made last April, that the US government approve at least \$4 trillion in deficit reduction measures, including massive cuts in entitlement programs such as Medicare, Medicaid and Social Security, in advance of the November 2012 elections.

Beyond the political motives behind Standard & Poor's action and its immediate impact on international financial markets, the loss by the United States of its top credit rating has immense historical, economic and political implications. It will further erode the status of the US dollar as the world reserve and trading currency, destabilize global economic relations and accelerate the growth of national antagonisms.

The downgrade of US debt is an acknowledgment of the vast decline in the world position of American capitalism. One week from today, Monday, August 15 will mark the 40th anniversary of the breakdown of the Bretton Woods system of currency relations established at the end of World War II. That monetary order was the cornerstone of the post-war restabilization and expansion of world capitalism.

At the heart of Bretton Woods was the role assigned to the US dollar as the world reserve and trading currency. The dollar, exchangeable for gold at the rate of \$35 to an ounce, became the anchor of a system of fixed currency exchange rates.

The privileged position of the US dollar was an acknowledgment that the US had emerged from the wreckage of the war as the global economic hegemon. Its industry dominated world markets. The US share of world auto production in 1950 was 79 percent. In 1955, America accounted for nearly 40 percent of world steel output. The vast bulk of the world supply of gold was in Fort Knox.

However, this arrangement contained a fundamental contradiction—the attempt to make a national currency

perform the functions of a world currency. Even the colossal economic resources of the United States could not override the basic contradiction of the capitalist system between the global economy and the nation-state system.

By the late 1960s, the quantity of dollars held overseas far outstripped US gold reserves and the US faced growing competition from resurgent Germany and Japan. The Bretton Woods system collapsed on August 15, 1971 when the Nixon administration, facing a run on the dollar, removed the gold backing from the US currency.

This tacit accommodation to the erosion of US economic dominance was a major turning point in postwar economic and political relations. It ushered in Bretton Woods II, a system of floating exchange rates tied to the dollar—an arrangement that was even more dependent on international confidence in the strength of American capitalism.

That confidence has progressively eroded as the US has gone from being the world's biggest creditor nation to its biggest debtor. Its industrial base has withered, leaving its economy increasingly dependent on financial speculation.

The period since 1971 has seen ever more serious international financial crises and declining working-class living standards, first in the United States and then in Europe and Japan. Underlying these developments has been the increasingly palpable decline in the global position of the United States and the decay of its industrial infrastructure.

One measure of this process is the decline of the dollar. Against the Japanese yen, for example, the US currency has gone from 360 in 1971 to 77 today—a loss of some 80 percent of its value. If one takes gold as the standard, the fall is even starker—from \$35 an ounce in 1971 to over \$1,600 today, a decline in the dollar's value of 98 percent.

For the past thirty years, American capitalism has based itself on the creation of one financial bubble after another. The wild and semi-criminal speculation in subprime mortgages of the 2000s brought the process of financial parasitism to a head, resulting in the Wall Street crash of 2008, which precipitated the most serious world economic crisis since the 1930s.

In important ways, the current crisis is even more deep-going than the Great Depression. At that time, the US was

still a rising economic power, potentially a force for economic restabilization. Today, the US is the center of world economic decline and the source of instability and crisis.

The world today is operating without a viable currency system. This has catastrophic implications.

Mohamed El-Erian, the chief executive of PIMCO, the world's biggest bond fund, writing Saturday in the *Financial Times*, said: "... Friday's downgrade will erode over time the standing of the global public goods [the US] supplies—from the dollar as the world's reserve currency to its financial markets as the best place for other countries to outsource their hard-earned savings. This will weaken the effectiveness of the US as the global anchor, accelerating the unsteady migration to a multi-polar system while increasing the risk of economic fragmentation."

China's state news agency Xinhua issued an unusually truculent statement following the downgrade, denouncing the US for its "addiction to debt" and warning that unless Washington cuts its "gigantic military expenditure and bloated welfare costs" another downgrade is inevitable. The statement called for the printing of US dollars to be supervised internationally and reiterated China's contention that a new world currency system is needed to replace one dominated by the US dollar.

But despite calls by China and other countries for a new currency system, there is no serious candidate to replace the US as the cornerstone of a new world capitalist order and the dollar as the anchor of global currency relations. China, still a relatively backward country riven by explosive social and political contradictions, cannot play that role. Europe is itself in disarray and the euro is on the verge of collapse. Japan remains mired in economic stagnation.

Economic slump, currency and trade wars and the downgrading of US debt are all expressions of what is undeniably a historic crisis of the world capitalist system. It is this crisis that underlies the deep divisions between the major capitalist powers and the political crises in the US and every other imperialist country.

The only thing the ruling elites of the world can agree on is the need to escalate the assault on the American and international working class. They are seeking to extricate themselves from the consequences of the breakdown of their system by carrying out a ferocious attack on the living standards and democratic rights of working people.

At the same time, the breakdown of any basis for international coordination and stability among the capitalist powers ushers in a new period of virulent nationalism and inter-imperialist economic warfare that leads inexorably in the direction of a new world conflagration. As in the 1930s so once again the insoluble conflict between global economy

and the nation state threatens mankind with the specter of world war and fascist barbarism.

What conclusions must be drawn? First, the financial crash of 2008 was an expression not simply of conjunctural conditions, but of a historic breakdown and failure of American and world capitalism.

Second, this crisis has ushered in a new period of revolutionary upheavals, the initial stages of which have already been seen in the revolutions in Tunisia and Egypt and the rising tide of working-class protest in Europe and the US.

The truth of the proposition that the working class cannot defend its vital interests within the framework of capitalism and that socialism offers the only basis for a rational, planned and progressive development and distribution of man's productive forces is being vindicated.

The working class in the US and all over the world must tear itself away from all of the political representatives and agencies of the bourgeoisie, including the official trade unions, and undertake a conscious struggle for the overthrow of the profit system, the establishment of workers' governments and the building of socialism on a world scale.

This is the perspective of the Socialist Equality Party in the US and the International Committee of the Fourth International.

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