

A turning point in the crisis of world capitalism

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11 August 2011

The downgrading of the credit rating of the United States last Friday means that August 5, 2011 will be recognised as one of the key turning points in the historic crisis of US and world capitalism along with September 15, 2008, the day Lehman Brothers collapsed, and August 15, 1971, the day President Nixon withdrew the gold backing from the US dollar.

These three dates are linked by a causal chain of events which records the historic decline of US capitalism, and with it, the entire global capitalist order.

The short-term motive for the Standard and Poor's downgrade was clearly spelled out in the rating agency's announcement: dissatisfaction with the extent of the cuts to Medicare and other entitlement programs announced in the agreement between the Obama administration and Congress.

The downgrade has been followed by a bloodbath on international share markets as rumours sweep through financial circles of credit downgrades to other countries—France was one of those mentioned—and the collapse of major banks.

The decision by the US Federal Reserve Board on Tuesday to extend its ultra-low interest rate policy for at least another two years—itself an admission that its policies have failed and there is no prospect for “recovery” in the American economy—boosted the markets for one day before another 500-point fall on Wall Street yesterday.

While the share market falls were triggered, at least in part, by the S&P downgrade, the decision itself was the outcome of far-reaching historical processes that are reflected in the growing financial turbulence. Underlying the market chaos is the protracted and irreversible decline in the economic power of the United States, which played the key role in stabilising world capitalism after World War II. Hence the waning of the US is not simply an American phenomenon. It is a concentrated expression of the crisis of the global capitalist order.

The initial marker of the US decline appeared exactly 40 years ago next Monday when President Nixon went on

television on a Sunday evening to announce to the world that henceforth America would no longer honour its commitments under the Bretton Woods Agreement of 1944 to redeem US dollars circulating in the rest of the world for gold at the rate of \$35 per ounce. The decision shattered the system of fixed currency exchanges that had played such a decisive role in reviving post-war trade and global investment after the devastation of the 1930s.

The immediate cause of the decision was the emergence of a US balance of trade deficit. But this was the outcome of a more fundamental problem in the Bretton Woods system that had been noted a decade earlier by the Belgian economist Robert Triffin. Triffin had pointed out that in conditions where the US dollar effectively functioned as world money, the maintenance of international liquidity dictated the need for an outflow of dollars from the US. But that very outflow and the building up of dollar holdings outside the US, far in excess of its gold stocks, effectively undermined the foundation of the Bretton Woods system—the American commitment to redeem dollars for gold.

The removal of the gold backing did not end the dollar's role as the global reserve currency. But it did mean that the international monetary system had lost its anchor and would become increasingly volatile. That instability was reflected in a series of financial storms: the plunge of the US dollar in 1979, leading to the imposition of record interest rate hikes by Federal Reserve chairman Paul Volcker; the Latin American debt crisis of the early 1980s; and the global stock market crash of October 1987 sparked, at least in part, by differences between US and German authorities over interest rate policies.

In response to the 1987 crash, the newly-appointed head of the US Federal Reserve Board, Alan Greenspan, instituted the policy that would be deployed henceforth—any financial crisis would be met by opening the credit spigots of the central bank to supply cheap money to the major banks and financial institutions.

While this policy helped fuel the growth of the US economy

over the next 20 years, it did so by promoting ever-more parasitic forms of wealth accumulation. US capitalism had risen to global pre-eminence on the basis of industrial production and the great advances it facilitated in the productivity of labour. Now industry was being destroyed and outsourced as financialisation replaced production as the chief source of profits—a process that assumed grotesque forms in the housing and sub-prime bubble.

Even as the US economy underwent expansion in the 1990s and 2000s, this very growth masked a deepening contradiction: the global reserve currency, the dollar, was the currency of the world's most indebted nation. This had never happened before in the history of global capitalism.

In the decades before the outbreak of World War I in 1914, the global economy rested on the British pound. Sterling was effectively as good as gold because Britain was the chief supplier of capital to the rest of the world. While it had been eclipsed as the “workshop of the world”, it was still the world's chief financier, both because of the global role of its banks and finance houses, as well as the vast financial resources it was able to draw from its colonies, above all India.

World War I struck a major blow to Britain's financial position from which it never recovered. In the absence of a currency that could function as world money, the international finance system disintegrated in the inter-war period and the world economy fractured into rival trade and currency blocs. Only with the rise to global dominance of the US after World War II was a new international financial system established. This system is now in an advanced state of disintegration as a result of the decay and rot in its central pillar, the US economy.

The significance of the credit downgrade has been dismissed by some commentators because, in the words of Greenspan, there is “zero probability” of default because the US can “always print money” to pay its debts. Such an ignorant outlook passes over the fact that even before the question of a US default arises (and given the default of August 15, 1971 such an event may take place sooner than many may think) the decision further undermines the global financial system.

World capitalism is now operating without a stable monetary system. Under capitalism, money has to perform two major functions: it is a medium of exchange and a store of value. Both of these functions are being completely disrupted by the plunging value of the US dollar, with far-reaching consequences.

The impact on the medium of exchange function is reflected in the escalation of prices for globally-traded basic commodities such as food and fuel, leading to inflation across

the world—above all in the so-called less developed countries, provoking an eruption of the class struggle as can be seen so clearly in the Middle East.

Likewise, the store of value function is being undermined as the dollar falls against all major currencies as a result of the Fed's cheap money policies. Little wonder that Chinese authorities, responsible for more than \$1.2 trillion invested in US debt, have issued demands that US monetary authorities bring the currency under control. Every day that the value of Chinese financial assets invested in US markets melts away, brings closer the time when these losses impact on the stability of the already fragile Chinese banking and financial system.

Chinese authorities have again called for the establishment of a new global reserve currency, not tied directly to the US or any single national currency. But as the fate of the euro, now being torn apart by national rivalries and conflicts among the eurozone powers, demonstrates, there is no prospect for such a development. No currency, grouping of currencies or synthetic currency can replace the dollar as world money.

There is no set of economic policies or regulatory mechanisms that can resolve the present crisis. Historical experience points to the return—in an even more explosive form—of the conditions of the 1930s.

At that time, the world fractured into rival economic blocs, leading to world war—the most destructive in history. Today, as that prospect looms once again, the working class must intervene. The chaos of the capitalist system and the dangers it poses to the future of mankind—mass poverty, depression and war—must be ended through the taking of political power by the working class and the overturn of the profit system through the establishment of international socialism. The fulfillment of this perspective requires the building of the International Committee of the Fourth International as the world party of socialist revolution.

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