

Behind the political warfare in the US: Rising fears of financial collapse, social unrest

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There are growing concerns in US and global financial circles that the rise in the US stock market that accelerated with the election of Donald Trump is heading for a major downturn. These concerns shed a revealing light on some of the underlying forces driving the virtual civil war in the US political establishment.

The growing view among Wall Street speculators and corporate executives is that the “Trump trade”, which sent the Dow Jones and other market indexes to record highs, has run its course, with the president increasingly becoming an economic liability. The tipping point in business sentiment came in the wake of the conflict over the Charlottesville Nazi rampage. Trump’s remarks defending neo-Nazis were seen as undermining the interests of American imperialism internationally and threatening to unleash social and political instability at home.

However, concerns over the instability caused by Trump reflect deeper fears. The American ruling class confronts problems that extend far beyond the current occupant of the White House.

In a comment published yesterday, Ray Dalio, the head of Bridgewater, the world’s largest hedge fund, said that politics was now set to “probably play a greater role than we have experienced before in a manner that is broadly similar to 1937.” Whether the US was able to overcome political conflicts would have a greater effect on the economy than “classic monetary and fiscal policies.”

The reference to 1937 is significant. The first half of that year saw a major downturn in the US economy—the decline took place at an even faster rate than in 1932, in the midst of the Great Depression. The year also saw the eruption of the class struggle in the auto and steel industries.

Dalio wrote that the economic and social divisions in

the US are similar to the revolutionary upheavals of this previous period. “During such times conflicts (both internal and external) increase, populism emerges, democracies are threatened and wars can occur.” He added that he could not say how bad it would get, but he was not encouraged. “Conflicts have now intensified to the point that fighting to the death is probably more likely than reconciliation.”

Almost 170 years ago, in his work *The Class Struggles in France*, Marx noted that the eruption of the class struggle has a major impact on the financial system because it calls into question confidence in the very viability of the economic system over which the ruling class presides.

In his comment, Dalio wrote that, when one looked at average figures, “one might conclude that the United States economy is doing just fine, yet when one looks at the numbers that comprise those averages, it’s clear that some are doing extraordinarily well and others are doing terribly, with gaps in wealth and income being the greatest since the 1930s.”

Dalio and others couch references to the growing social and political divide in terms of “populism,” but their real fear is the emergence of overt class conflict. “The majority of Americans,” he wrote, “appear to be strongly and intransigently in disagreement about our leadership and the direction of our country” and were “more inclined to fight for what they believe in than to try to figure out how to get beyond their disagreements to work productively based on shared principles.”

In other words, the nostrums of the “American dream” and America as the “land of economic opportunity,” which functioned historically as a kind of political glue, have disintegrated. What terrifies the ruling class is that the working class will intervene, under conditions in which all signs point to a collapse

of the financial bubble created by the world's central banks since the financial crisis of 2008.

The complete disintegration of financial markets nine years ago was only prevented by the injection of trillions of dollars into the global financial system—the US Fed alone poured in more than \$4 trillion. But the chief effect of these measures has not been to stimulate a significant recovery in the “real” economy—investment rates in the US and other major economies remain at historically low levels—but to facilitate a financial market boom.

The latest expression of the speculative mania is the rise of the crypto currency Bitcoin. After taking more than 3,000 days to reach a level of \$2,000, the currency, which is used in Internet trading, went from \$2,000 to more than \$4,000 in just 85 days. The overall market valuation of Bitcoins has expanded to \$140 billion, as major investors, including Goldman Sachs, move in.

This is only one expression of bubbles that have developed in virtually every financial asset.

With the provision of ultra-cheap money by the Fed and other central banks, one of the chief mechanisms by which companies have been able to maintain share values is by using borrowed funds to organise share buybacks. But this process is reaching its limit, as already over-leveraged companies cannot borrow more to sustain their share values.

As the *Financial Times* noted in a comment yesterday, based on longer term historical valuations, US stocks “appear more expensive than at any time bar the months before the great crash of 1929, and the bursting of the dotcom bubble in 2000.”

Under what were once considered to be “normal” circumstances, money would move into bond markets to take advantage of higher rates of return. However, bond markets are also in a bubble, trading at historical highs, with interest rates (which move in an inverse relationship to the price) at record lows.

In 2008, the American ruling class responded to the financial collapse through political and economic mechanisms. On the one hand, they installed Obama to the US presidency—proclaiming the “audacity of hope” and “change you can believe in”—with the support of the trade union bureaucracy and the various organisations of the privileged middle class, who hailed his election as a “transformative” moment.

On the other, they undertook the greatest injection of

money into the financial system seen in economic history to finance an orgy of speculation and organize a massive transfer of wealth from the working class to the rich. Far from resolving the contradictions, these measures have reproduced them at a higher level.

While sections of the ruling class are terrified of the growth of class conflict, they can propose no measures to address the conditions that are leading inexorably toward social explosions. While Trump has pursued a policy of developing an extra-parliamentary movement of the extreme right, his critics within the ruling class are working to reorganize his administration to place it even more firmly under the direction of the military and the financial elite.

A new period of economic and political convulsion is emerging, for which the working class must prepare through the building of a revolutionary leadership, based on an internationalist and socialist program, to resolve the historic crisis of the capitalist profit system in its interests.



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