The true legacy of US central banker Paul Volcker (1927–2019)

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With the death Sunday of former Federal Reserve Chairman Paul Volcker (1979-1987), the American ruling class has lost one of its most dedicated and ruthless servants.

Under the banner of fighting inflation, Volcker was the chief architect of the class war against the working class in the United States and internationally that continues and deepens every day. All over the world, politicians, central bankers and the corporate media have hailed his "legacy."

The *New York Times*' Neil Irwin gushed: "His life is a testament to what dedicated public servants can do when they put their heads down and are guided not by how things worked in the past, or how they might wish them to be, but by the world as it is. And the right answer isn't always the most popular."

The supposedly "left" Democratic presidential candidate Elizabeth Warren attempted to portray Volcker as an opponent of the financial elite, tweeting: "Paul Volcker fought to rein in Wall Street banks making risky financial bets, and we came together as the Volcker Rule was signed into law…"

Former treasury secretary under Bill Clinton, Lawrence Summers, described him as the "model for every financial official who followed him." Former Fed Chairman Ben Bernanke said he personified the idea of "doing something politically unpopular but economically necessary." Bernanke's successor at the Fed, Janet Yellen, said he was an "inspiration to me and the Federal Reserve."

The current Fed chair, Jerome Powell, said his "contributions to the nation left a lasting legacy."

What is this "legacy?" It consists of the destruction of vast swathes of industry and the malignant growth of social evils such as declining life expectancy, falling wages, rising part-time and contingent employment, the opioid crisis, record suicide rates, soaring financial speculation, and the accumulation of massive wealth in the hands of a financial oligarchy amid ever widening social inequality.

The specific mission undertaken by Volcker was to jack up interest rates and plunge the country into recession, creating mass unemployment as a means of breaking the social resistance of the working class.

A full accounting would reveal that his policies, imposed on behalf of the American ruling class, resulted in untold social misery and the premature death of millions of people, not only in the US but around the world, as he charted the path for ruling classes to follow everywhere.

The social counterrevolution that he inaugurated was from the start and remains today the bipartisan policy of the entire political establishment. Volcker embodied the unity of the Democrats and Republicans on essential issues of economic policy relating to the basic interests of the ruling class. A Democrat, he was appointed Fed chairman by a Democratic president, served under the Republican Reagan, and was brought into the Democratic Obama administration to help oversee the bailout of the banks and the post-2008 intensification of class war against the working class.

Volcker was named to head the Federal Reserve on July 25, 1979 by President Jimmy Carter. It was a time of immense crisis for US and global capitalism. The post-war economic boom had ended, Keynesian policies had failed, the Bretton Woods monetary system had collapsed, the US was in the grips of "stagflation," the dollar was falling and the consequent runaway inflation had led to an upsurge by the working class seeking to defend its living standards.

In 1977-78, US coal miners struck for 111 days, defying a no-strike order issued under the Taft-Hartley Act. Miners publicly burned Carter's back-to-work orders on their picket lines. The administration drew the conclusion that this was only the start and a war would have to be waged against the working class to ensure the stability of American capitalism.

The globalization of the world capitalist economy had made it possible for American corporations, which were losing market share at home as well as abroad, to shift production to cheap-labor havens around the world. They relied on the nationalist and pro-capitalist trade union bureaucracy to pit workers against their class brothers and sisters internationally and push through layoffs and wage cuts to bolster the profits of "their" US-based companies.

The signal for the start of class war and social counterrevolution came with the election of the Thatcher government in Britain in May 1979. Volcker was appointed less than three months later.

In an article on Volcker's appointment that appeared two days after the event, the *Bulletin*, the newspaper of the Workers League (forerunner of the Socialist Equality Party) wrote: "The appointment of conservative banker Paul Volcker as chairman of the Federal Reserve Board is a declaration of war against the working class."

He had been installed, the article continued, to "carry out savage tight-money policies… and impose full-scale Depression conditions on working class and middle class families."

That prediction was quickly verified as millions of jobs were axed and the US economy plunged into two recessions, the likes of which had not been seen since the 1930s.

The new regime was soon to make its impact. In December 1979, the Carter administration organised the bailout of the Chrysler Corporation, in which the company received loan guarantees in return for concessions from the United Automobile Workers union, including direct wage and benefit cuts. It was the first time a union had imposed such measures on its members, setting the pattern for what was to come throughout the 1980s.

The instrument for this program was the lifting of interest rates. A month after his appointment, Volcker lifted interest rates twice, and by December 1980 the Fed's base interest rate was at a record 21.5 percent.

The result was economic devastation, particularly in industrial cities such as Detroit, Buffalo, Pittsburgh, Akron, Youngstown, Gary and many others—a process that has continued to this day.

The election of Reagan, following that of Thatcher, was to see an acceleration of this industrial civil war as the working class fought back. In August 1981, Reagan ordered the sacking and blacklisting of 12,000 striking air traffic controllers. He was able to enforce the firings because the AFL-CIO bureaucracy blocked any effective support for the controllers and allowed their union, PATCO, to be destroyed.

Volcker was later to praise Reagan for his strikebreaking, declaring that the defeat of the PATCO workers was the most important factor in bringing inflation under control. The PATCO outcome, he said, was decisive in its "psychological effect on the strength of the union bargaining position on other issues—whatever the issues were."

A member of the Fed's interest rate-setting Federal Open Market Committee put the issue even more directly, saying at a meeting in February 1981 that "inflation would not be securely defeated… until all those workers and their unions agreed to accept less. If they were not impressed by words, perhaps the liquidation of several million more jobs would convince them."

The PATCO strike set the pattern for the industrial struggles that followed in the copper mines, coal mines, meatpacking plants, airlines, steel mills and auto plants. Workers fought tenaciously to defend their wages and conditions, defying the violence unleashed against them by the government, only to be left isolated and defeated by the corporatist trade union bureaucracy, which took its philosophy of business unionism to its logical conclusion by openly siding with management and the capitalist state. The result was the destruction of the trade unions as organisations for the defence of workers and their transformation into the agencies for the enforcement of the dictates of the corporations and the banks that they are today.

There is another aspect of Volcker's "legacy" which has assumed ever greater importance with the passage of time. The destruction of key sections of industry in the 1980s was the start of a process in which profit accumulation took the form of ever greater financial parasitism, such as the buying up of companies in hostile takeovers and then hollowing them out and selling off the component parts. The accumulation of wealth was carried out not through productive activity, but by means of financial manipulation financed by debt—a process that today has reached unprecedented heights.

Volcker finished his term as Fed chair in 1987, to be replaced by Alan Greenspan, the consummate representative of the new mode of wealth accumulation for which Volcker's class war against the working class had paved the way. The Greenspan agenda was made clear from the very beginning of his term when, in response to the October 1987 stock market crash, he declared that the financial spigots of the Fed were open to the banks and finance houses—a policy continued and deepened by his successors.

But Volcker's role was not finished. In November 2008, in the wake of the global financial crash, this inveterate enemy of the working class was appointed by President Obama to head a White House advisory board to devise measures to deal with the crisis. One of its major initiatives was the bailout of Chrysler and General Motors, in collaboration with the UAW, which consolidated the now infamous two-tier wage system that has slashed the pay of American workers and opened the way for all the precarious working conditions that have since followed.

In the last period of his life, Volcker was somewhat critical of the rampant deregulation of the financial system. With his eye firmly on the future of the profit system, he feared that it could lead to financial instability and an eruption of the class struggle he had sought to suppress.

However, the so-called Volcker rule, which made a very limited attempt to curb some of the more egregious parasitic measures of financial capital, is in the process of being scrapped.

One of the themes of the praise being heaped on Volcker upon his death is that he brought stability to the capitalist economy and financial system. Nothing could be further from the truth.

American and world capitalism is sitting on a mountain of debt, estimated to be $255 trillion, or $32,500 for every man, woman and child on the planet, which threatens to implode. And the social inequality that he helped create is bringing about an international upsurge in the class struggle.

In these new conditions, what lessons must be drawn by the American and international working class from the life and times of Paul Volcker?

Leon Trotsky once wrote that in times of crisis, when it has its back to the wall, the ruling class draws upon all its counterrevolutionary historical experience as it seeks to remain in the saddle. Such experiences were embodied in Volcker's role in the class conflicts of the 1980s.

Now, as the class struggle assumes even more explosive and widespread dimensions, with the bourgeoisie seeking to develop authoritarian and outright fascist forms of rule to counter it, the task facing the working class consists, as Trotsky wrote, "in counterposing to the thoroughly thought-out counterrevolutionary strategy of the bourgeoisie its own revolutionary strategy, likewise thought out to the end."