A revealing comment on the Boeing crisis

Nick Beams
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Every so often there is an incident which draws attention to the deep-going rot within American capitalism which is the essential driving force behind its volcanic eruption of militarism over the past 30 years that now threatens to plunge mankind into World War III.

The head of Emirates Airline, Sir Tim Clark, did not intend it to be so, but his recent interview with the *Financial Times* (FT), warning that the US aircraft manufacturing giant Boeing was in the "last chance saloon" to fix its major manufacturing problems, is one of these.

It pointed to the decline of American industrial power and the threat this poses to its global hegemony which it is desperately seeking to counter with the use of military force.

Clark would like to ascribe the problems of Boeing to the outlook of its executives.

He indicated the two crashes of Boeing's Max 737 plane in 2018 and 2019, killing 346 people and the blowout of a section of the fuselage of the Boeing 737 Max 9 last month, which could have led to a similar disaster, were caused by major manufacturing problems that had their roots in the very financial and profit structure of the company.

However, Boeing's modus operandi was no means atypical. It is symptomatic of what has taken place more broadly.

Clark told the FT the airline would now send its own engineers to observe production processes at Boeing and its supplier Sprit AeroSystems.

"The fact that we're having to do this is testament to what has happened," he said. "This would not have happened in the old days. You know, we trusted these people implicitly to get it done."

The fact that his remarks and actions were directed at Boeing, at one time an icon of American manufacturing prowess, points to deeper historical processes.

Clark called for a "root and branch" examination of manufacturing at the company and directly pointed to the reasons it has been so severely undermined such that airlines which purchase its planes have no confidence in it.

This examination, he said, had to be based not on "'what is the return on investment? What is the bottom line? What is the free cash flow? What is shareholder value? What is my bonus?'"

He also noted that one of the company's cost-cutting moves—the shift of parts of 787 production from Seattle, Washington, to South Carolina had led to manufacturing problems because Boeing had lost "skills and competencies" as a result of the decision.

In its interview article, the FT noted that Aengus Kelly, the chief executive of Aercap, the world's biggest aircraft leasing company, said last month that Boeing needed to put aside financial targets and focus solely on the quality and safety of its planes.

Both men expressed the hope that Boeing would undertake the necessary refocus away from finance to the production of high quality and safe planes.

That flick-the-switch approach might be considered a viable option were it not for the fact that the policies undertaken by successive Boeing executives did not arise from their individual mindset but were a response to powerful forces emanating from the very centre of the capitalist profit accumulation process itself.

Over the past 40 years these forces have led to the rise and rise of financialisation—that is the ever-increasing shift towards the accumulation of profit, not by production as such, but through what is known as "financial engineering."

One of the central features of this turn has been the ever-increasing use of share buybacks in which companies purchase their own shares either using their profits, or, in some cases by taking on increased debt in order to do so. Apple is an example of the latter.

The chief beneficiaries are the private equity firms and hedge funds which hold an increasing portion of company shares, placing them in a powerful position to determined corporate practices.

Rather than having to wait for the company to spend money on developing a new product that will keep profits flowing in and face the risk that, because of market conditions or the development of a better product by a rival it may not, they obtain an immediate boost from the increased stock price that share buybacks bring.

These demands are enforced by the ever-present threat that any company which does not obey the command to increase "shareholder value" will be the subject of a hostile takeover, made possible by the mobilisation of tens of billions of dollars, sometimes hundreds, on financial markets.

The demands of finance capital are not primarily transmitted to corporate executives in the form of salary packages, even though they may run into the millions or even tens of millions. Rather executive wealth is more and more grounded on stock options which can often bring in billions so long as the share price keeps rising, thereby ensuring that executives are aligned with financial market demands.

The recent case of Tesla chief Elon Musk is illustrative. He receives no salary directly but stood to gain $55 billion from a remuneration package based on stock options. While this was disallowed by a Delaware court last month, it is certain ways will be found to get around the decision, at least to some extent.

So far as share buybacks are concerned, Boeing has been a world leader.

Between 1998 and 2018, according to data compiled by the economist William O. Lazonick, Boeing outlaid $61 billion in stock buybacks, equivalent to 81.8 percent of its profits. The addition of dividend payments meant that shareholders received in total 121 percent of its profits.

The bulk of the share buybacks—some $43 billion—came between 2013 and the beginning of 2019, when it retired 200 million shares, or 25 percent. This was the period in which Boeing was developing the 737 Max. And in order to meet the demands of finance capital, Boeing decided to save money on the plane.

As the FT reported in August 2019: "Instead of building a wholly new aircraft, Boeing simply bolted new fuel-efficient engines on to a tweaked existing airframe. That significantly reduced the airframe development costs of the project, according to company insiders. Boeing was able to redirect some of those 'savings' to repurchase stock instead."

As another comment recently published on the website Common Dreams, noted: "Boeing facing the obsolescence of its 737 planes, could have created an entirely new airplane from scratch with fully modern technology. Instead, the company decided to re-engineer the older model, name it the 737 MAX, and save $7 billion. Perhaps not coincidentally, the $7 billion ‘saved’ is the amount of stock buybacks Boeing made each year between 2013 and 2019.”

The decision to tack the new engines on to the old air frame was the ultimate cause of the problems in the plane’s operating system which resulted in the “nosedives” which led to the two crashes.

Another way of making “savings” was to cut the workforce—between the end of 1998 and the beginning of this year Boeing has laid off a total of 45,000 workers—and outsourced key areas of production.

Boeing’s chief subcontractor is Spirit AeroSytems, which was responsible for securing the door panel that blew off in mid-flight last month. According to a preliminary report issued by the National Transportation Safety Board earlier this week, “four bolts that prevent the upward movement of the plug were missing” before it detached from the plane.

There is a litany of malpractices too numerous to detail here. But the full meaning of the Boeing experience can only be grasped if it is placed within the nature of capitalist production itself and its historical development.

The aim and driving force of capitalist production is not material wealth as such—the production of commodities—but the accumulation of money. The circuit of capital begins with money and ends with an expanded quantity of money, which then resumes the circuit. It is its alpha and omega of the capitalist system.

As Karl Marx noted: “The production process appears simply as an unavoidable middle term, a necessary evil for the purpose of money making.”

And as Frederick Engels commented, this explained why all nations were periodically seized by “fits of giddiness in which they try to accomplish money making without the mediations of the production process.”

But increasingly from the 1980s onwards rather than a fit of giddiness these efforts became the dominant feature of capitalist accumulation, above all in its heartland the US.

This was because the method of profit accumulation of the post war boom—the expansion of productive investment and the exploitation of a larger industrial workforce—had run into one of the fundamental laws of capitalist production, uncovered by Marx, the law of the tendency of the rate of profit to fall.

Strenuous efforts were made to overcome it, including the globalisation of production to take advantage of sources of cheaper labour and the development of what is called financial engineering.

The first, however, has only resulted in the creation of ever more “gravediggers” for capitalism—the expansion of the working class around the world—unified by their participation in a truly global production process on a scale never seen in the past.

The second has resulted in the development of vast financial conglomerates to the extent that hedge funds, private equity funds, the investment arms of banks and the like now dominate over every area of the capitalist economy, extracting wealth without lifting a finger.

This week, for example, the FT reported that US private equity firms were loading debt on to their portfolio companies and using the cash to pay dividends to themselves and their investors. In the month of January alone $8.1 billion worth of junk bonds, paying higher interest rates, were issued to fund such payments.

Down the road, and not far down it at that, this money will be raised through increased exploitation of the workforce as workers are told cost cutting is necessary, not least because the company must pay off debt to remain viable.

To facilitate this kind of systematic looting vast changes were made to the legal system so that practices considered criminal in the past could be carried out.

Share buybacks are a case in point. Up until 1982 they were regarded as unlawful manipulation of the stock market, but were legalised under the Reagan administration as one of the first of many legislative changes to meet the new demands of finance capital.

Economics of course does not determine politics immediately and directly. But the impulses emanating from major changes in the economic base do find their expression in the political superstructure. And the rise and rise of financialisation has had a major impact on world politics, the significance of which can be seen when placed in its historical context.

The historic crisis of capitalism, posing the objective necessity for its overthrow and replacement by international socialism, erupted in the form of World War I and the development of barbarism on a scale hitherto unimaginable. The war was the expression of the fundamental contradiction between the development of the world economy the nation-state system.

The three decades that followed produced one horror after another, culminating in World War II. Emerging from the war as the victorious imperialist power the US, resting on the betrayals of the revolutionary struggles of the working class by Stalinism and Social Democracy, was able to use its great industrial strength to rebuild the world economy and mitigate the inter-imperialist conflicts. But it could never overcome them.

Thus, in the latter part of the 20th century the essential contradiction of global capitalism—that between world economy and the nation-state system—intensified with the development of globalised production. At the same time, the industrial strength of US capitalism—the basis of the previous stabilisation—was steadily undermined.

These processes emerged in a highly contradictory form in the liquidation of the USSR in 1991. This was not, as the bourgeoisie proclaimed, the end of socialism but the reemergence at a higher level of the contradictions that exploded in the first four decades of the 20th century. They found their initial expression in the crisis of the Stalinist regime, that had been based so directly on the nationalist dogma of “socialism in one country.”

The US, having lost its industrial hegemony, its economy hollowed out and made rotten with financial parasitism, bearing no resemblance to the powerhouse it was in what Clark termed the “old days,” unable to manufacture vital goods that do not all fall apart, seeing threats from rivals on all sides, above all China, and confronted with a truly global working class, its historical nemesis, has only one means of trying to maintain its global dominance.

That is through war in which it wields it military might with ever-greater force and on an ever-expanding scale, as is now taking place, bringing the very destruction of civilisation ever closer.

The struggle to end capitalism by means of world socialist revolution by the international working class, the perspective advanced solely by the International Committee of the Fourth International is the only means to stop war and the establishment of a global socialist economy based on human need not profit, is therefore not one “option” among others but a burning necessity.