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# Taking the measure of the crisis

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## **Description:**

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**Evening Standard, London, headline in October 2008** This file is licensed under Creative Commons Attribution ShareAlike 2.0 License

In fact, this crisis of 2007-2008, is at the crossroads of several historical changes.

## 1. Generalized systemic crisis

A new depression of the recessionary long wave which started at the end of the 1960s has, combined with the world ecological crisis, reached the "historical limits" of the capitalist system. Immanuel Wallerstein is correct to locate this crisis at the crossroads of a systemic crisis and a historical phase of capitalist decline which started nearly forty years ago, but we cannot speak, as he does, of an "end of capitalism", because there is no "situation without exit for capitalism"... until its overthrow. This crisis is not a crisis of short cycle, an economic crisis, it is a structural crisis. It illustrates well the historical limits of the capitalist system. For the first time in history this system covers the whole

planet: there is a world market of generalized commodity production and a world market in labour power. No sector of the economy escapes not only domination but integration into the capitalist system. And this extension/generalization of capitalism occurs in a world economy marked by a recessionary wave which has lasted for nearly 40 years. It is a system where "production for production" runs up against the limits of the solvent demand of millions of employees, peasants, and workers, and where its logic of search for capitalist profit rather than the satisfaction of the social needs of the peoples leads to ever stronger crises of over accumulation of capital and overproduction of goods. The explosion of fictitious capital, of a financialisation of the world economy, a generalized debt can up to a certain point push the limits of the system, defer the reckoning, but sooner or later its major contradictions lead to crises.

They succeed each other, at increasingly close intervals. Six crises in fifteen years: the Mexican crisis in 1994, the Asian crisis in 1997, the Russian crisis in 1998, the Argentine crisis in 2001, the Internet bubble crisis in 2001, the subprime crisis in 2007... The current crisis is qualitatively more important because it is no longer the periphery but the centre of the capitalist system which is affected. More importantly, something new in history is the conjunction of an economic crisis with multiple dimensions like the food crisis, that of raw materials and a major ecological crisis in which global warming is one of the most serious dimensions. The ecological crisis will worsen because it combines with a capitalism in crisis. "Green capitalism" is the response of the dominant classes to this crisis. But the logic of the search for profit above all else combined with the capitalist mode of management and the destruction of the public services can only lead to new catastrophes as in New Orleans or in poorer countries.

From this point of view, you do not have to be a catastrophist to envisage catastrophes...

I do not know if we are or are not at the end of the recessionary long wave that started at the beginning of the years 1970, but in any case we are in a systemic generalized crisis ... A crisis which will last.

Because to exit from the recessionary wave factors exogenous to economic logic are needed, in general political factors, wars and/or revolutions... These big breaks are not yet on the agenda, immediately, this will last, will get worse and while waiting, the cost of capitalist domination is likely to be ever higher, with increasingly significant recurrent crises, situations of stagnation and economic and social degradation, ecological or human disasters, in particular for the poorest countries and people. The productivist choices of a capitalist economy in crisis, with recession, devalorization of capital, reduction of public budgets, will also worsen the world ecological crisis.

## 2. Exhaustion of the neoliberal model of accumulation

This historical change is expressed in the crisis and exhaustion of the global neoliberal model of accumulation which has been exploded by the US economy. The origin of this crisis is the Washington consensus, a series of defeats and social setbacks of the 1980s and the early 1990s, a clear degradation of the overall relation of forces between the classes to the detriment of the world of labour. There has been a considerable fall in real wages and the share of wages in wealth produced, generalized deregulation, privatizations of the public services. Between 1980 and 2006 the share of wages went from 67% to 57% of wealth produced in the majority of the fifteen OECD countries. It thus lost 10 points and the share of profits increased by the same amount. According to the International Labour Organisation (ILO) in its 2008 "World of Work Report" "The largest decline in the share of wages in GDP took place in Latin America and the Caribbean (-13 points), followed by Asia and the Pacific (-10 points) and the Advanced Economies (-9 points)". It is an "exceptionally low level by historical standards", according to Alan Greenspan, former director of the US Federal Bank.

Profits thus increased considerably but they were not reinvested in production, they went where there were more "profits", namely the financial markets. This logical mechanism led to a durable fall in investment: in 2005, for the

United States, Europe and Japan the rate of profit increased by 5.5% and the rate of investment by only 2%. This mass of profits not reinvested in production flooded the financial markets: in the USA, in 2005, financial investment increased by 21% and financial profits by 150%. In 2006, at the apogee of the financial markets, the transactions on these markets represented 50 times the amount of the gross domestic product (GDP) of all the countries of the world! Whereas world GDP rose to 45,000 billion dollars, transactions rose to the astronomical sum of 2,100,000 billion dollars. These differences between wages and profits as between profits and investments were thus filled by the explosion of finance, the luxury goods industry and the search for new markets in China and in the ex-eastern bloc countries. In the United States, generalized debt substituted for the fall in wages: household debt went from 62% of disposable income in 1975 to 127% in 2006. And the trade deficit - 700 billion in 2008 - was financed by the investments of Chinese capital or "sovereign" funds which replaced the decline of US industry... of which a good part relocated to Asia.

This approach to the crisis is important because it does not counterpose a "financial capitalism" predatory on the economy to a healthy "entrepreneurial" capitalism. It is the internal logic of capitalism which seeks maximum profit, punctures wages and leads financial capital (which, for decades, already amounts to the merger of industrial and banking capital) into ever more speculation.

This model is today exhausted. The billions of the Paulson Plan have contained the banking and financial crisis... but until when? We will know only in several months the breadth of "toxic" products throughout US and world banking structures, especially after the last modifications of the Paulson plan which consist in leaving the "toxic" credits on the banking markets.

The Stock Exchanges have broken down: down by 50% on the main markets, or 25,000 billion losses in stock exchange capitalization. The injection of thousands of billions into the banks and the fall in interest rates have not restarted the economic machine. The hypothesis of an acceleration of the fall of the British pound can lead to a situation where Great Britain cannot continue to borrow and thus refund its debt. The Icelandic bankruptcy is today the nightmare of the dominant classes in the world. The economic deceleration, recorded before the financial crisis, and maintaining the contraction of credit (the "credit crunch"), transforms the crisis into generalized economic recession: lower activity, lower consumption, restructuring, dismissals. Unemployment is rising in all the advanced capitalist countries. The International Monetary Fund (IMF) envisages for 2009 world growth of around 3%, even less, which would pan out in the form of growth of 0% in the United States and in Europe and 6% in the rest of the world. It estimates the number of unemployed at 25 million. In the United States nearly 1.2 million jobs have been destroyed since the beginning of the year, including 240,000 in October alone. The cars sector has broken down. General Motors and Ford require public funds to start again! Thousands of dismissals are envisaged at Renault, Volvo, Seat as well as among equipment suppliers and subcontractors.

We referred previously to the crisis of 1929: there are many common points in the extent of the current crisis but also great differences. The first is that, fortified by experience, states and the governments have intervened to contain it. The second - as we have already indicated, and we cannot measure all its consequences - is the interpenetration of the national economies in a globalized world capitalist economy. This internationalization amplifies the crisis. The global commodity economy has penetrated all the sectors of the economy, the rural world, the countries of the ex-third - world and, because of the restoration of capitalism, what was known as the "second world" (the ex-USSR and its "bloc", China, Indo-China). The shock waves of the crisis are global. But this "internationalization" can also absorb the shock and defer its effects. It is within this framework that a question arises: can capitalist development in China and the BRIC countries (Brazil, Russia, India and China) limit the effects of the world-wide crisis?

There are already the elements of a response. The growth of the BRIC countries cannot avoid the crisis. The theory of "decoupling" between the world recession and China has not been confirmed. Growth in China and Asia is also affected by the world recession: the dependence of Chinese exports on the capacity of absorption of the US and European markets weighs directly on their economic equilibrium. The forecasts for Chinese growth have gone from

11% to 7%. It is a significant reduction. In recent months more than 3,000 factories have been closed in the area of Canton. Will this growth, even reduced, be sufficient to absorb the shock of the world-wide crisis? That raises another question: will the Chinese domestic market have developed sufficiently to restart the world economic machine? That supposes a certain level of wages, a certain development of infrastructures and public services in China. Political questions which relate to the class struggle and the political struggle inside society and the ruling party (the CPC).

But beyond the questions on the place of China in its relationship with the world economy, the crisis in the United States and in the Euro zone has only begun. We are in its first phases. The bourgeois economists are themselves in panic. Pessimistic forecasts abound. The cumulative effects of the crisis are difficult to envisage. But in the coming months, activity will be increasingly reduced, credit conditions will harden, company bankruptcies will multiply, dismissals and unemployment will explode, and consumption will be reduced. This will be also the occasion for the great capitalist groups to restructure, intensify productivity, lay off employees and lower wages. That will have effects on world trade with greater competition. The transformation of the recession into deep depression is not excluded. We cannot envisage the rhythms, the comings and goings, but the prospect for the months ahead is crisis.

### 3. Decline of the United States?

The USA remains the dominant power in the world economy and politics. But a series of factors have degraded this position. The crisis at the very heart of the Empire, the evolution of the relationship between the USA and China, and the weakening of the dollar pose a central question: is US hegemony over the world called into question... Is the political cycle opened in the 1980s-1990s, around the fall of the Berlin wall, now being closed again?

The victory of Obama is a historic event. It is necessary, from this point of view, to distinguish two things, the immense significance of the victory of Obama for African-Americans, for black people and more generally the poorest, for the whole world, and the policy which he will carry out, that of the capitalist class and the US political-military machine. The latter, as well as the leadership of the Democratic Party, chose Obama because the US position was so weakened that what was needed was not only a new face but a new team which in a certain way reflect the new relationship of forces and again takes the initiative. It is too early to measure all the consequences of Obama's coming to power, but this historical event - the election of a black president in the USA - can be understood only by recording the US retreat in the world. This retreat required a significant change - this is what explains the choice of Obama rather than that of Hillary Clinton within the Democratic Party. It is also the reason for the support of the main sectors of the dominant classes for Obama. The crisis did the rest... Because for millions of Americans, to vote Obama was also to sanction the Republican right and the Wall Street elite. What will Obama's policies be? He has spoken a lot about social security, a new tax policy, new environmental policies, withdrawal of the troops from Iraq. On withdrawal, the timescales are being diluted over time. On the economic and social questions, it is probable, in the continuity of his support for the Paulson plan, that he will make wage earners and the popular classes pay for the crisis.

But beyond the US elections, there is a decline of the US share in world GDP, a decline accentuated by the current crisis (let us recall that the IMF envisages zero growth for the United States, Japan and the Euro zone in 2009). A decline expressed by the inversion of flows of capital on a world scale: the latter now come from China, the emergent countries and their "sovereign" funds towards the United States.

The weakening of the US position is also reflected when we discuss the hypothesis of accompanying the dollar as currency of reference by other currencies, the euro or the yuan. At this stage the dollar is holding up well, supported by the value of the investments made in the USA. But the crisis is likely to weaken the position of the US currency. Because, beyond these monetary discussions, there are new relations of economic forces which are emerging in the world economy. The economic crisis will also lead to a new phase of competition which will sharpen relations

between the United States, Europe and Asia. Multipolar relations are restructuring the world. The US position is weakened, in particular from the economic point of view, but let us not forget that it remains decisive on the political-military plane. Even if the United States meets sizeable obstacles in Iraq and Afghanistan and their capacities of intervention in other parts of the world are weakened (as in Latin America or on the borders of Russia), they remain hegemonic at the military level.

And they will make use of it. The sharpening of economic competition, the fight for control of the oil resources or the production of raw materials, the strategic requirements in relation to China and Russia, and the control of Latin America in relation to Cuba and the "progressive regimes" (Venezuela, Bolivia, Ecuador) can lead them into new military interventions. The Georgian crisis is a good example of US military adventurism in a context of accentuation of inter-imperialist contradictions. The situation in Iran will be, from this point of view, decisive in the months to come.

## 4. "Return of the State"?

Behind this question, there is the discussion about the assumption of a change in bourgeois economic policies, of a certain break with neoliberal policies. The dominant classes will try to respond to the historical changes produced by the crisis. Their "model" and even more, the political and ideological representation of the model, do not function any more. But at this stage, it is necessary to distinguish discourse from facts. The discourse can be very "regulationist", but to our knowledge, none of the US or European government decisions call into question the hard core of neoliberal policies. The only initiative which deserves to be stressed is the renationalization of pensions in Argentina, even if it also helps the Argentine authorities to manage debt servicing. As for the nationalizations of the Banks, these are partial and temporary nationalizations which only serve to socialize the losses.

We are very far from the political relations which had dominated, for example, the situation in the post-war period. There are, indeed, a series of official interventions, in particular on the banking level, where the State comes to the aid of the capitalist economy, or in some way "socializes the losses" but there is no return of the state... because the State never left. There were changes in the modes and functions of the state but it always remained an instrument of neoliberal policies. All the theories of Negri and Hardt on the "disappearance of states in the Empire" are again invalidated by the facts. What is true is that neoliberal policies pushed back "the social state" notably to the benefit of "the penal State", but the hard cores of the state remained and the return of "the social State" is not on the agenda.

To our knowledge there is no Keynesian revival, in the sense where priority would be given to increasing demand through wage increases or a policy of defence and extension of the public services. On the contrary the pressure on wages, employment and public services will continue.

Therefore, no "New Deal", no recovery plan in Europe, no neo-Keynesian return! The dominant classes, beyond speeches or gesticulations, remain committed to their neoliberal policies. No significant measure to "re-regulate" either. It is true that the "New Deal", like the Keynesian changes, resulted from waves of struggle in the United States at the beginning of the 1930s, or in Europe. To exit from the capitalist crisis of the period, the Second World War was needed... thus enormous changes in socio-political relations... There will be no changes without broad social struggles. That relativizes all the discourse on this "return of the State".

On a more general political level, the crisis will accentuate class polarizations and could put on the agenda, for the dominant classes, authoritarian solutions which will take immigrants in particular for their target,

Another question about inter-state relations concerns Europe. We have heard and above all seen a number of gesticulations, in particular from Sarkozy, on the revival of political Europe. We have seen many European meetings,

but not the equivalent of a Paulson plan on the scale of the European Union and above all a revived competition, for example between France and Germany, on the level of operations of banking reorganization and concentration. Each state apparatus takes care of its own interests.

## 5. New configuration for the labour movement and the social movements?

Here again it is too early to analyze all the consequences of the crisis on the labour movement. The dominant classes have just undergone a political and ideological defeat. That gives new space for anti-neoliberal and anti-capitalist ideas, but this is within an overall relation of forces which remains unfavourable to the world of labour. It is necessary, now, to follow in detail what will occur at the level of social struggles in the societies affected by the crisis, in the cars sector for example. But also more broadly in all the sectors of the world of labour. In general in the first months of the crisis, there is fear, paralysis, disorganization. But then the accumulated potential, the existence of a strong public sector can give points of support to resistance to neoliberal governments of the right or the left. The existence of partial struggles against dismissals in France, like the exceptional mobilization of youth in Italy show that in countries which have until now had combative social movement, there is social resistance. The two month strike by the mechanics of Boeing in Seattle goes in the same direction.

We said that there was no change of course for the dominant classes but nor is there any change of orientation by social democracy and its allies. The crisis will involve upheavals throughout the left and the labour movement, and the gap between the elementary defence of the living and working conditions of millions of wage earners and the adaptation by the apparatuses of social democracy and its allies to the management of liberal capitalism will deepen. There may be some oscillations to the left but at this stage social democracy will maintain its overall social liberal orientation, in relation to privatization, wage increases and relations with financial capital. The confirmation of the social-liberal orientation of the leaders of social democracy could deepen the internal crisis of certain social-democrats, indeed cause the emergence of left currents of left and even of small left splits as in the PS in France. This evolution is often presented a return to a traditional social democracy. Some of these currents take a step to the left but they have as reference the policy of Die Linke and in particular its policy of alliances with social democracy to govern.

The crisis also will strike the global justice movement: some currents will be radicalized while orienting towards a break with capitalism, others to centre on "realistic" proposals. This is the case of the president of ATTAC-Germany who recommends new regulations of capitalism through the governance of a "G23", i.e. a "G20" extended to the new powers of Asia and Latin America.

In the same direction, that of adaptation, it is necessary to underline the extent of the process of integration of the trade-union leaderships in the economy and the institutions, in particular in Europe. The strategy of the ETUC and the trade-union leaderships is confined, faced with the crisis, with proposals which are presented more in the form of good intentions than as concrete measures: less credit for speculation, better control of the banks, control of tax havens, reform of the rating agencies, changes in accounting standards, regulation of speculation funds. As the leaders of the European Union have just rejected any plan for economic recovery and any mechanism constraining the financial markets, the trade-union leaderships remain stuck within the neoliberal framework.

## 6. Some programmatic axes in relation to the crisis

The situation requires a "programmatic redeployment". With the crisis neoliberal policies have undergone a stinging

failure. Two questions are again central, the distribution of wealth and the question of ownership. In the coming social struggles, there is a formidable point of support: thousands of billions of dollars granted to the banks... in a few hours or a few days... whereas the coffers are always empty for wage earners, the unemployed, and the people. It is necessary to reverse the tendency taken for 25 years in the distribution of wealth, to devote this wealth to employment, wages, social security, public services and not to financial speculation. The management of the crisis, the bankruptcies of banks and companies place on the agenda the problems of organization of the economy: by whom? And at the service of who? Will we leave the fate of millions of people in the hands of the profiteers, speculators, and the creators of mass unemployment? We need public and social intervention, public ownership or the nationalization of the banks and companies under the control of the workers.

Many questions, topics and demands can pass from propaganda to agitation, from general explanations to specific proposals, to objectives of mobilization or struggle.

a) The starting point on the social emergency: defence of employment against dismissals, creation of public employment, wage increases, a halt to privatizations. It is not the workers who should pay for the crisis, it is the capitalists. "Save the people, not the banks!"... This is the approach which must be ours: to defend the working and living conditions of millions of workers who are hit by the crisis and to state this policy in concrete demands which will mobilize in unity the whole of the labour movement and the social movements.

b) On the financial and banking crisis, there are a series of documents which can be points of support: the Caracas declaration, interventions and documents from left economists in Argentina, the Beijing appeal. These documents stress demands against financial deregulation, for taxes on financial transactions and tax havens, non-payment of the debt, control of capital, the lifting of bank and commercial secrecy, the nationalization of the banks without compensation and their creation as state and para-state bodies, like the Bank of the South supported by Cuba and the progressive regimes. We must support this programme of demands and partial rupture with imperialism and globalized financial capitalism, in particular by the expropriation of the imperialist trusts which have appropriated the natural resources and the key sectors of the economy in many countries of Eastern Europe, Africa, Asia and Latin America.

This program must be counterposed to nationalization or state control of a "temporary" or "partial" kind. It must be accompanied by a questioning of the private ownership of banking, by full nationalization of the whole banking, financial and credit structure. This nationalization, so as not to revert to the "old" nationalizations, must be accompanied by the control of the workers, employees and people.

c) Facing the bankruptcy of the banking structure or the collapse of certain sectors like large companies, if it is necessary, to save employment, to make incursions into the private ownership of these large companies, we should not hesitate to go in this direction by defending their nationalization under workers' control.

In the discussion between reformists or regulationists and anti-capitalists or revolutionists there is the question of challenging property. We do not defend only a new distribution of wealth but also a change in the relations of ownership. We want to replace the private ownership of capital and the big companies by the public and social appropriation of the economy through control or management by the workers. That must impel us to restore life not only to a series of transitional measures but also to the actuality of socialism, with the taking in charge of the economy by the workers.

In this socialist combat, there is an ecosocialist dimension, in connection with another economic model, based on the struggle against global warming, another organization of transport policy, energy policy, the struggle against pollution and the degradation of neighbourhoods and the countryside. It is necessary to start from the demand for durable development in the ecological area to restore some meaning to the idea of economic planning. Here too the crisis will

lead to clarifications.

The implementation of these programmes requires governments at the service of the workers, relying on the mobilization and self-activity of the popular classes. This battle - and it is a central battle today - implies the rejection of any participation or any support for social liberal governments managing the business of the state and the capitalist economy.

More than ever, this crisis must lead us to combine the social emergency plan, measures of radical transformation of the economy and socialist solutions around the management of the economy by the workers and the people, it is the content which we give to the socialism of the 21st century

*François Sabado presented this introductory report at the debate on the international situation at the meeting of the Executive Bureau of the Fourth International on November 15, 2008.*