The capitalist crisis and the return of history

By David North
26 March 2009

David North, the national chairman of the Socialist Equality Party (US), spoke last week at San Diego State University (March 19) and University of California, Berkeley (March 22) on "The Capitalist Crisis and the Return of History." We publish here and in PDF the notes upon which his lectures were based.

1. It is acknowledged by serious bourgeois economists that the global economic crisis—the worst since the 1930s—has dealt a devastating blow to the international legitimacy of the capitalist system. The free-market nostrums that have been exalted as unchallengeable truths by politicians, media talking heads and many academic economists for nearly three decades have been discredited, intellectually and morally. There is growing apprehension about the future that awaits the capitalist system. Martin Wolf of the *Financial Times* wrote on March 8:

> It is impossible at such a turning point to know where we are going... Yet the combination of financial collapse with a huge recession, if not something worse, will surely change the world. The legitimacy of the market will weaken. The credibility of the US will be damaged. The authority of China will rise. Globalization itself may founder. This is a time of upheaval.

2. In another column, the *Financial Times* quotes the following statement by Bernie Sucher, the head of Merrill Lynch operations in Moscow:

> Our world is broken—and I honestly don't know what is going to replace it. The compass by which we steered as Americans has gone. The last time I saw anything like this, in the sense of disorientation and loss, was among my friends [in Russia] when the Soviet Union broke up.

A failure of explanation

3. The present debate within the ruling class and its political establishment is centered on how the system is to be saved. And yet, notwithstanding the gravity of the situation, the historical and economic origins of this crisis are not understood. It is widely recognized that the implosion of the subprime mortgage industry, the collapse of asset values, and the freezing up of credit markets are significant components of the crisis that have brought the American banking system and, with it, the world economy to their knees. But references to these elements of the crisis do not provide us with an explanation as to why and how these phenomena have developed. Recently the *Wall Street Journal* asserted that "defaulting loans" and "soured assets" were the "root causes" of the crisis. Here we have a tautology being palmed off as an explanation. "Defaulting loans" and "soured assets" are manifestations of the crisis, whose "root causes" have still to be explained.

4. There are definite reasons why serious explanations of the origins of the crisis—that is, explanations that go beyond descriptions of the present situation, and even beyond the identification of the *proximate* causes of the unfolding disaster—are not be to be found. First, the fundamental viability of the capitalist system, particularly within the United States, and its historical immutability cannot be questioned. As Martin Wolf declares categorically in the column quoted above, "no credible alternative to the market economy exists..." This view, held even by more thoughtful analysts like Wolf, is bound up with another conception: that this crisis is the product of circumstances that, however dreadful in their cumulative impact, are somehow external to the economic system. The cause of the crisis is not to be found in the essential nature of the profit system. Rather, the problem lies in the environment within which it presently operates.

5. Marxism rejects such a superficial view. It maintains a historically critical attitude toward capitalism, and explains the present crisis as the outcome of contradictions that are embedded, so to speak, in the socioeconomic DNA of the capitalist mode of production. Bourgeois economists and journalists, in contrast, adopt an *apologetic* approach to capitalism, which denies the existence of economic contradictions that lead inexorably to crisis and breakdown. But, as Karl Marx explained:

> Crises exist because these contradictions exist. Every reason which they [the apologists of capitalism] put forward against crisis is an exorcised contradiction, and, therefore, a real contradiction, which can cause crises. The desire to convince oneself of the non-existence of contradictions, is at the same time the expression of a pious wish that the contradictions, which are really present, *should not* exist (*Theories of Surplus Value*, Book II [Amherst, New York: Prometheus Books, 2000], p. 519).

6. The attempt to exorcise contradictions takes the following form: As presented in the media, the capitalist system is the *victim* of sundry and indistinctly identified malefactors—reckless speculators, poorly regulated banks, excessively-leveraged hedge funds, greedy and overpaid executives, and even the self-indulgent American consumer—to whom the talented Mr. Obama, the new chief moralist of the United States, delivered a stern rebuke in his inaugural address. What all these "explanations" have in common is that they interpret the crisis in essentially subjective terms—that is, as the product of various faults and errors, rather than as the outcome of deeply-rooted objective contradictions in the historical development of the capitalist system, within the United States and internationally.

7. Thus, for example, commentators explain the turbulence in the financial markets as the product of abuses in various credit markets—first and foremost, the profligate extension of mortgages to individuals who would not be in a position to repay them. Why this occurred, and to the tune of hundreds of billions of dollars, is not explained.

The "End of History"?

8. One must also call attention to the curious intellectual double

standard that exists in the manner in which the present world economic crisis is assessed, as compared to the crisis which erupted in Eastern Europe and the Soviet Union 20 years ago. Back in 1989, it was taken as an article of faith that the economic crisis of the Stalinist regimes demonstrated the total failure of socialism. The dissolution of the USSR in December 1991 was declared to be the irrefutable demonstration that socialism was economically unviable, and that, henceforth, no rational person could even imagine an alternative to capitalism. Mankind had arrived at, in a phrase popularized by Francis Fukuyama, the "End of History."

9. Of course, Fukuyama did not claim that there would be in the future no "events." Rather, the "End of History" signified that, in terms of socioeconomic organization, capitalism represented the final destination of historical progress. His book expressed the triumphalism that swept through the American and international ruling class in the aftermath of the collapse of the Stalinist regimes. All limits to the expansion of capitalism—not only geographic but also historical—had been swept away. But here we come to the double-standard: If the crisis of Soviet Union and Eastern Europe signified the failure of socialism (leaving aside the non-socialist character of these regimes), why is it that the present crisis of the American and world economy is not interpreted as a crisis and failure of the capitalist system?

10. Swept up in the euphoria of its political triumph over its Cold War adversary, the American ruling class imagined that it was omnipotent. This delusion was based not only on an incorrect evaluation of the "root causes" of the demise of the Stalinist regimes, but also on the self-deluding denial of the contradictions of American capitalism, especially the deteriorating position of the United States in world capitalism. What the American political establishment failed to understand, or, perhaps, preferred to ignore, was that the economic forces that undermined the Stalinist regimes were global in character, and that these same pressures—emanating from the irresistible pressure of a global and increasingly integrated economy on national states—were bearing down upon and weakening the United States.

11. The dissolution of the Stalinist regimes created, in the short term, favorable geopolitical conditions that the United States exploited to advance its strategic interests. However, the demise of the Stalinist regimes did not reverse the long-standing decline, already quite advanced by 1989-91, in the global position of American capitalism. For all the talk of the "End of History," the United States remained in the grip of historically developed contradictions that continued to erode its economic foundations.

The historical context of the crisis

12. In years to come, the Great Crash of 2008 will be seen as (1) the outcome of the protracted decay and breakdown, several decades in the making, in the global position of the United States; and (2) as the beginning of a new period of systemic crisis and revolutionary class struggle within the US and internationally.

13. The United States played the decisive role in the world capitalist system in the 20th century. By the end of World War I, the US was the industrial powerhouse of the world. In every sphere of industry, American corporations achieved a dominant position. However, despite the growth in the United States, the eruption of World War I in 1914 marked the beginning of a 30-year period of global crisis and instability.

14. The outbreak of World War I shattered the economic, political and social equilibrium of European and, as soon became apparent, world capitalism. The Russian Revolution and the coming to power of the Bolsheviks in October 1917 revealed the revolutionary implications of the objective crisis. Another revolutionary explosion in Germany, in November 1918, brought the World War to an end. The next two years were marked by economic disorder and revolutionary upheaval throughout Europe. But the absence of experienced revolutionary leadership enabled the European bourgeoisie to survive the disorder and restore a degree of stability.

15. The brief and feverish economic recovery and expansion of the mid-1920s gave way, however, to the devastating global economic breakdown, which began on Wall Street in October 1929. Notwithstanding the many experiments of President Roosevelt's "New Deal," this highly skilled leader of the American ruling class was unable to bring the Depression to an end. Throughout the 1930s unemployment remained at staggeringly high levels. It was the entry of the United States into the war in December1941, resulting in massive government spending on war production, that produced the long-awaited economic revival.

The post-war system and the dominance of the United States

16. The destruction caused by the war created, with tragic irony, the conditions that made possible a new systemic capitalist equilibrium necessary for long-term economic growth and stability. This stabilization depended on the financial and industrial resources of the United States. The American ruling class, fearful of socialist revolution in Europe and Japan, organized the economic reconstruction of world capitalism. The basic structures and mechanisms of this reconstruction were formulated at the Bretton Woods conference in August 1944.

17. The most important element of the new global economic structure was a US-dollar-based international monetary system. In this system, all currencies outside the United States were assigned a value in relation to the dollar. In turn, the dollar was linked to gold, into which the currency could be converted at the rate of $35 per ounce. Thus, the dollar would function as the world reserve currency. International trade was to be denominated in dollars—that is, international commercial and financial transactions were settled in dollars. Countries outside the United States would hold dollars, and employ these dollars to cover their own international commercial transactions. Confidence in the integrity of the American currency was sustained by the American guarantee to convert, upon demand, dollars into gold at the agreed upon rate ($35 per ounce).

18. There was little concern about the ability of the United States to honor this commitment under conditions, prevailing in the aftermath of World War II, in which it was the unchallenged economic and financial power in the world. In 1952, nearly 60 percent of all industrial production in the advanced capitalist countries was located in the United States. On a per capita basis, total economic output in the United States was nearly double that in the United Kingdom and France, nearly three times that in Germany, and four times that in Italy. As late as 1957, 43 of the largest 50 companies in the world were based in the United States. Its dominant position found expression in its ability to maintain substantial trade and payment surpluses, even as the United States financed European and Japanese reconstruction.

The beginning of US economic decline

19. However, it was inevitable that the system would come under mounting stress as the reemergence of European and Japanese industries undermined American dominance. By the late 1950s, economists such as Robert Triffin began to express concern about the deterioration of the US balance of payments, warning that the accumulation of a dollar deficit would call into question the ability of the United States to honor its pledge to redeem dollars with gold. And these fears were justified by the collapse of the Bretton Woods system on August 15, 1971, when the Nixon administration, without warning, suspended the convertibility of the dollar into gold. This act represented a turning point in the post-World War II history of capitalism. It unsettled the financial equilibrium that had made the post-war expansion of global capitalism possible. In the aftermath of August 1971, world capitalism became increasingly susceptible to destabilizing shocks. Indeed, as I have already suggested, the present

crisis is in many respects the culmination of the process of disequilibrium that has been under way for the last 37 years.

20. The collapse of the system of dollar-gold convertibility and fixed exchange rates was a dramatic expression of the deterioration of the position of the United States in the global economy. But an understanding of the far-reaching consequences of this decline, and especially its relationship to the specific form taken by the crisis of American capitalism (that is, a series of speculation-driven bubbles and financial breakdowns), requires that attention be given to significant changes in the strategic orientation of US corporations over the last 45 years.

Impact of economic crisis on US corporations

21. Among the most significant innovations introduced by American capitalism in the early years of the 20th century was the creation of the industrial corporation. This new form of economic organization was a response to the challenges posed by the development of new communications and transportation technologies associated with the railroad, steamship, telegraph and cable. As one of the most brilliant historians of American business, Alfred Chandler, Jr., explained in his monumental study, *Scale and Scope: The Dynamics of Industrial Capitalism* (Cambridge, Mass.: Harvard University Press, 1990):

> The building and operating of the rail and telegraph systems called for the creation of a new type of business enterprise. The massive investment required to construct those systems and the complexities of their operations brought the separation of ownership from management. The enlarged enterprises came to be operated by teams of salaried managers who had little or no equity in the firm. The owners, numerous and scattered, were investors with neither the experience, the information, nor the time to make the myriad decisions needed to maintain a constant flow of goods, passengers and messages. Thousands of shareholders could not possibly operate a railroad or a telegraph system.

22. A major theme of Chandler's study, which he documents industry by industry, was the increasing separation during the first decades of the 20th century of ownership from management. In most cases, the powerful capitalist families that owned substantial portions of entire industries exerted direct and daily influence over corporate policy only to the extent that individual members became part of the professional management team. Significant sections of American industry were directed by managers who, according to Chandler, "owned less than 1% of the stock of the company they administered." He writes:

> ... These salaried managers, unencumbered by the wishes of large stockholders (whether members of founding families, venture capitalists, or outside investors) selected their own boards of directors and nominated their own successors (p. 145).

23. The management structure of the American corporation emphasized long-term growth. Again, quoting Chandler:

> Until well after World War II, both the managers with little equity in the enterprise (the inside directors) and the representatives of the major stockholders (the outside directors) agreed that retained earnings should be reinvested in facilities and personnel in industries where the enterprises had developed competitive advantages based on its organizational capabilities. They agreed that such investment carried lower risk and higher probability of a satisfactory rate of return than making comparable investments in industries where the firm did not have such advantages (p. 595).

24. In light of contemporary conditions, the scene drawn by Chandler may appear almost idyllic. What, then, led to its breakdown? Two historically conditioned and interrelated factors appear especially significant. First, and most important, was the overall deterioration in the position of the United States in the world economy. While the United States remained the dominant industrial power well into the 1970s, it steadily ceded ground to its rivals in Europe and Japan throughout the late 1950s and 1960s. Second, the change in corporate structure and investment strategies within the United States was closely related to the deterioration in the rate of profit. This assumed global dimensions, even in the context of the ongoing post-World War II boom, in the 1960s and early 1970s.

25. According to one study, the profit rate in the advanced capitalist countries fell by one-fifth in the business and manufacturing sectors between 1968 and 1973 (*Capitalism Since 1945*, by Philip Armstrong, Andrew Glyn and John Harrison [Oxford and Cambridge: Basil Blackwell, 1991], p. 182). Many factors contributed to this process, of which the most significant was the massive accumulation of capital itself in the aftermath of the war. For Germany and Japan, in particular, the destruction wrought by the war on their old industrial infrastructure enabled these countries to utilize the most advanced technologies and production methods in the rebuilt industries.

26. By the 1960s the technologically advanced industries of Europe and Japan were competing effectively with the United States for position in global markets, including within the American market. Growing pressure on global profit rates, increasingly apparent by the mid-1960s, intensified international competitive pressures, which further weakened the global standing of US industry. This led to significant changes in the strategic orientation of American corporations. "As increased competition," writes Chandler, "threatened to lower profits and reduce opportunities to reinvest earnings in industries where firms' organizational capabilities gave them competitive advantages, their managers began to seek new ways of growth and devise new ways of management" (p. 606).

Mergers and acquisitions: the first two "waves"

27. Among the strategies employed by American corporations was the use of diversification through mergers and acquisitions. In the history of American capitalism, especially in the development of its modern corporate form, mergers and acquisitions have played a significant role. Prior to the 1960s, there had been two significant "waves" of mergers and acquisitions. The first began in the aftermath of the protracted profit depression of 1873-1895, and reached its climax between 1898 and 1904. This was the period of historic "horizontal" mergers, in which competitors within a single industry were consolidated into a massive monopolistic structure. The most significant corporation to emerge from this first wave was US Steel, which eventually accounted for 75 percent of US steel making capacity. Other products of this merger wave were DuPont, Inc., Standard Oil, General Electric, Eastman Kodak and American Tobacco Inc. (*Mergers, Acquisitions, and Corporate Restructuring, Fourth Edition,* by Patrick A. Gaughan [Hoboken, N.J.: Wiley & Sons, 2007), pp. 31-33).

28. The second wave of mergers occurred between 1916 and 1929. This wave differed from the first in several key respects: first, a far greater percentage of mergers were "vertical" rather than "horizontal" in character—that is, they combined firms which had a buyer-seller, or vendor-supplier, rather than competitive, relationship. In some cases, as in

the formation of Allied Chemical, the merged firms shared similar production processes and marketing strategies, from which strategic competitive advantages were derived. In historical terms, the first and second wave of mergers and acquisitions were significant episodes in the rise of American corporations to a position of global dominance.

The "third wave" of mergers and acquisitions

29. The characteristics of the third wave of mergers, which erupted between 1965 and 1969, differed fundamentally from those of the first two waves. The aim of the third wave strategy—developed in response to the deteriorating global position of the United States and growing pressure on profits—was to maintain growth and build profits by aggressively buying companies only remotely related, or not related at all, to the industry in which the corporation making the purchase was historically rooted. This new strategy reflected deepening pessimism within a broad section of the American ruling class and corporate management about the profit potential within its core industries. Mergers and acquisitions became a central preoccupation of American corporations. The number of such transactions grew from 2,000 in 1965 to more than 6,000 in 1969 (Chandler, p. 622).

30. A result of this mania was the development of a powerful new business enterprise: the buying and selling of corporations, the creation of "a market for corporate control." This market expanded exponentially in the 1970s. The merger and acquisition wave was followed by a divestiture wave, as corporations sought to sell off "underperforming" components of their organizations. To a significant extent, the divestitures were an indictment of previously ill-considered acquisitions. It was, in any case, a new phenomenon. Prior to 1970, divestitures were quite rare. In the course of the 1970s, it became a common business transaction. The buying and selling of businesses was transformed into a major component of business activity in the United States.

31. This development was to have a massive impact on the structure of American (and, later, international) corporations and on the entire relationship between finance and industry. New investment strategies led to a dramatic reconstruction of American corporations. Long-term investment in securities, which had been the norm prior to the mid-1960s, was replaced by strategies that sought to maximize short-term returns. The management and direction of industry was dictated by financial transactions on Wall Street.

32. Of course, the banks, representing finance capital, had played a significant role in American business throughout the 20th century. But, as Chandler documented in his historical studies, that role was exercised within the framework of a long-term business strategy, generally related to the achievement of competitive advantages in different branches of industry. But the role of finance changed in the mid-1960s. As a consequence of Wall Street transactions, corporate policy could be rapidly changed, and brought into alignment with financiers' demands for short-term profits, by changing its ownership through the acquisition of shares. The scale of transactions on Wall Street grew exponentially. On the New York Stock Exchange in the early 1950s, the number of shares traded annually was approximately one-half billion. As late as 1965, that number had grown to only 1.5 billion. By 1985, it had risen dramatically to 27.5 billion. In 2006, the total share volume was over 625 billion annually. Bound up with this process was the central role that investment banks came to play in the reorganization of American corporations. "Before the acquisitions binge of the late 1960s," writes Chandler, "almost no investment banking house had merger and acquisition departments. Very soon such specialized departments became their banks' largest money makers" (*Strategy and Structure: Chapters in the History of the American Industrial Enterprise* [Cambridge, Mass.: The MIT Press, 1990], Introduction, p. vi).

The "fourth wave" of mergers and acquisitions

33. The significance of the stock exchange in American (and, subsequently, international) business was particularly evident in the fourth wave of mergers, which occurred between 1984 and 1989. It was during this period that the essentially parasitic, destructive and criminal modus operandi of the new finance-driven corporate model was firmly established. Investment bankers played a central role in this process. Mergers, as Patrick Gaughan points out, "were a great source of virtually risk-free advisory fees for investment bankers. Merger specialists at both investment banks and law firms developed many innovative products and techniques designed to facilitate or prevent takeovers" (*Mergers, Acquisitions and Corporate Restructuring*, p. 57). Under the guidance of investment bankers, the "hostile takeover"—though hardly unknown in the history of American capitalism—assumed unprecedented and staggering dimensions. Another significant feature of the fourth wave was the financial scale of the mergers. The number of transactions involving more than $100 million increased more than 23 times between 1974 and 1986 (Ibid, p. 54). The hostile takeovers of the 1980s saw the triumph of the very personification of financial parasitism: the "corporate raider," whose main source of income was the proceeds generated by the attempted takeover. Enrichment did not depend on the success of the effort, let alone on the long-term viability of the company in the aftermath of the takeover attempt.

The leveraged buyouts and "Merchants of Debt"

34. Mergers during the fourth wave were financed with immense amounts of debt. As one specialist in the subject has explained:

> Another term that came into the lexicon of the business community during this fourth wave of acquisition and merger activity is the leveraged buy-out or LBO. Kohlberg Kravis helped develop and popularize the LBO concept by creating a series of limited partnerships to acquire various corporations, which they deemed to be underperforming. In most cases, Kohlberg Kravis financed up to ten percent of the acquisition price with its own capital and borrowed the remainder through bank loans and by issuing high-yield bonds...
>
> The bank loans and bonds used the tangible and intangible assets of the target company as collateral... Investment banks such as Drexel Burnham Lambert, led by Michael Milken, helped raise money for leveraged buyouts. Following the acquisition, Kohlberg Kravis would help restructure the company, sell off underperforming assets, and implement cost-cutting measures. After achieving these efficiencies, the company was usually then resold at a significant profit" ("The Lessons of History Related to Mergers and Acquisitions," by Bill Duncan).

35. The operations of firms such as Kohlberg Kravis were not merely the product of personal greed. Rather, the decay of the industrial base of American capitalism found expression in the destructive activities of "Merchants of Debt" such as Kohlberg Kravis and Drexel Burnham Lambert. While, as is shown by every index of economic activity, the global position of US-based manufacturing continued to decline precipitously, financial speculation became the principal means by which the American bourgeoisie enriched itself. In 1980 only 6 percent of corporate profits were realized in the finance industry. By 2005, the finance industry generated 40 percent of corporate profits. That is, the fastest way to accumulate wealth was not by engaging in production, but by staying as far away from it as possible. This is borne out by another statistic: Between 1981 and 2008, the aggregate debt of the US financial sector went from 22 percent of GDP to 117 percent! Speculation has

proved a far more reliable means of getting money, than the arduous and uncertain process of industrial production.

36. The fourth wave of mergers and acquisitions ended amidst the collapse of the junk bond market and the Savings and Loan scandals on the late 1980s. The careers of Boesky and Milken ended in disgrace and with indictments and jail terms. The US economy slipped into recession in 1990-91. The recovery from that recession, which triggered the explosion in the market indices, set into motion the fifth wave of massive mergers. Once again, mergers were seen as the fastest means of realizing profits.

The "fifth wave" of mergers and acquisitions

37. A distinct feature of this fifth wave, which began in 1992 and seems to have continued up until the eruption of the global crisis of 2008, has been the use of corporate equity to finance acquisitions. This was facilitated by the wildly inflated share values in the stock market boom of the 1990s. In reality, many of these deals made during this period—though hailed in the media as creating efficiencies and "synergies"—lacked any substantive economic rationale beyond the immediate financial gains eagerly anticipated by the investment bankers, law firms, big shareholders and corporate executives. The results of many of these speculative transactions were disastrous. A large number of consolidated companies eventually went bankrupt. Between 1998 and 2001, the shareholders of firms acquired through mergers and acquisitions lost the staggering sum of $240 billion (Gaughan, p. 63). Eighty-seven deals lost acquiring shareholders $1 billion or more (Ibid, p. 64).

38. The fifth wave of mergers has been significant in yet another respect. It is international in scope. Though it began somewhat later than in the United States, the value of European transactions were, by 1999, almost as large as the American deals. Asia also has participated significantly in this wave of mergers. This trend continued into the new century, after a period of slowdown that followed the market contraction of 2001-02. According to Gaughan, "the M&A business picked up steam again and became truly globalized. New potential targets and bidders came on the market as a result of increased privatizations—especially in Eastern Europe, Asia, and Central and South America." (Ibid, p. 68)

39. As this survey has shown, the history of merger "waves" tracks the rise, decline and fall of American capitalism. The first two waves (1898-1904 and 1916-1929) were part of the rise of American corporations to a position of global dominance. The third wave (1965-69) arose as a response to declining profit rates and the initial manifestations of the deterioration in the global status of American capitalism. The fourth and fifth waves (1984-89 and 1992-2008) have been socioeconomic phenomena of decline, decay and extreme parasitism. The last waves have been powered by massive debt, the growth of which proceeded alongside, and demanded, the destruction of the real productive forces. The essential purpose of these transactions has been to destroy social wealth in the interest of investors' profit and private wealth accumulation. This process is described very well in *The Trillion Dollar Meltdown* by Charles R. Morris. He tells the story of Travelport, a Web-based reservations company. It was purchased by the Blackstone private equity firm and a smaller partner:

> ...They paid $1 billion of their own money and used Travelport's balance sheet to borrow an additional $3.3 billion to complete the purchase. They doubtless paid themselves hefty investment banking fees, which would also have been billed to Travelport. After seven months, they laid off 841 workers, which at a reasonable guess of $125,000 all-in cost per employee (salaries, benefits, space, phone, etc.) would represent annual savings of more than $100 million.
>
> And then the two partners borrowed $1.1 billion more on Travelport's balance sheet and paid that money to themselves, presumably as a reward for their hard work. In just seven months, that is, they got their $1 billion fund investment back, plus a markup, plus all those banking fees and annual management fees, and they still owned the company. And note that the annual $100 million in layoff savings would almost exactly cover the debt service on the $1.1 billion. That's elegant—what the financial press calls "creating value." Another word that springs to mind is "looting."
>
> What Blackstone had done, of course, was to *reallocate* value, not create it (pp. 137-38).

The social and economic consequences of parasitism

40. This account of the impact of Blackstone's operations—whose chairman, Steven Schwartzman, has a net worth of more than $7 billion—calls attention to their essential social significance. The activities of outfits like Blackstone are not socially neutral. The phrase "creating shareholder value" is a social euphemism that is employed to conceal and justify the brutally exploitative, socially destructive and essentially criminal character of these financial transactions. The merger and acquisitions wave of the 1980s required and could not have succeeded without a massive assault on the social position of the working class in the United States. The policies implemented by the Reagan administration—with the support of the Democratic Party—created the necessary political framework for the operations of the corporate raiders. Paying down the huge debts incurred in the leveraged buyouts of the 1980s required intensified exploitation of workers, realized in the form of union-busting, wage cuts, reduction of benefits, more onerous work rules, and the outright elimination of hundreds of thousands of jobs.

41. The repeated occurrence of economic disasters cannot be explained as unfortunate accidents, which might have been avoided had investors been less greedy, executives more responsible, administrators more watchful, etc. Every five years or so, since the 1980s, there has been a major disaster. In the 1980s, the so-called "Decade of Greed," there was the Savings and Loans scandal, the junk bond mania (Ivan Boesky and Michael Milken), and the 1987 Wall Street crash. In the 1990s, there was the Mexican peso crisis, the dot.com bubble, the Asian crisis, the ruble crisis, and the collapse of Long Term Capital Management. In 2001 Enron collapsed almost overnight, when its fraudulent bookkeeping, in which prestigious accounting firms acted as accomplices, was exposed. Then, abetted by the decision of the Federal Reserve to cut interest rates to their lowest levels in decades, the housing boom developed. Underlying all these speculative operations is the decay of the real productive foundations of American capitalism, the separation of the process of the ruling class's self-enrichment from the processes of production and the creation of real value.

The end of dollar dominance

42. This crisis cannot be reversed by reviving a mythical "Golden Age" of American capitalism. First, the objective position of American capitalism in the world economy has deteriorated dramatically over the past 40 years. As I explained earlier in this report, the weakening of the dollar as far back as the late 1950s was among the earliest signs of the deterioration of the global position of the United States. In 1971 the US ended dollar-gold convertibility. Still, the dollar has remained the world reserve currency even as the United States became the largest debtor nation and accumulated a massive current accounts deficit. But, in yet another sign that this crisis marks a historic turning point, Chinese Prime Minister Wen Jiabao has publicly expressed concern about the future viability of the American dollar and the safety of Chinese dollar holding. "We have lent a huge amount of money to the US. Of course we are

concerned about the safety of our assets. To be honest, I am definitely a little worried," he said recently.

43. The financial viability of the United States has been called into question by a major economic power—one that happens to be the largest foreign holder of US dollars. While American commentators have, for the most part, brushed off Wen's statement—on the grounds that China would not, for its own sake, risk the global financial consequences of lowering its dollar holdings and igniting a run on the American currency—it is difficult to exaggerate its significance. Up until now, the global role of the dollar provided the United States with a unique financial advantage. The United States controlled the printing of a currency that functioned as the world reserve currency.

44. Were the dollar to lose its unique global status, this would have immediate consequences not only for the global position of American capitalism, but also for the conduct of its domestic economic policies. It needs only to be pointed out that the entire stimulus package of the Obama administration, which entails running multi-trillion-dollar deficits, depends upon the willingness of foreign creditors to hold US dollars.

A systemic crisis

45. The analysis presented in this lecture has stressed that the present crisis is of a systemic, rather than conjunctural character; and that its development is the outcome of the protracted decline in the global position of American capitalism. The rampant financial speculation, fueled by debt, is not the cause of the crisis, but, rather, a manifestation of deep-rooted contradictions in the American and global economy. As we have sought to explain, the very measures undertaken by American capitalism to respond to economic pressures that it confronted more than four decades ago prepared the foundations for the crisis that it confronts today.

46. Precisely because of the historic and global character of the contradictions that underlie the present crisis, the claims of the Obama administration that the present downturn will give way, within some sort of reasonable timeframe, to renewed and sustained economic growth, accompanied by a recovery and improvement in the living standards of the broad mass of the population, will be discredited by events. Regardless of fluctuations in the economic conjuncture from month to month and quarter to quarter, the enduring impact of this crisis will be a long-lasting and deeply painful deterioration in the living standards of the working class in the United States.

47. Moreover, if history teaches us anything, it is that an international systemic breakdown of capitalism leads inexorably to violent political convulsions. Capitalism in crisis becomes the breeding ground of political dictatorships and rampant militarism. Out of the economic breakdown of the early 1930s emerged first fascism and, later, world war. The restabilization of capitalism in the aftermath of World War II was purchased with the blood of tens of millions.

The social physiognomy of the American ruling class

48. To recognize the dangerous implications of the unfolding crisis is not alarmism, but political realism. There is no reason to believe that the ruling elites will respond in the first and second decades of the 21st century to the breakdown of capitalism with any less brutality than they did in the 1930s and 1940s. Nothing in contemporary culture suggests that the super-rich of the corporate and financial elite has grown more civilized and less prone to violence in defense of its interests than the magnates of the last century. The operation of the capitalist economy cannot be abstracted in some sort of metaphysical way from the class relations and interests to which it gives rise and in which it is embedded. During the past quarter century, the decay of American capitalism has created a powerful social constituency, commanding vast wealth, whose social and political arrogance has been magnified by its economic parasitism. If any conclusion can be drawn from its initial response to the bankruptcies and collapses produced by its own policies, it is that the ruling class is determined to make the mass of the population pay for the cost of the crisis.

49. Observing the response of the ruling elite in the United States to the economic crisis, one cannot help but note the parallel to the French aristocracy on the eve of the revolution that erupted in 1789. Every effort to find a rational solution to the financial crisis that confronted France was blocked by the aristocracy, which was determined to exploit the crisis in its own interests. The nobility would not tolerate any measures that threatened to undermine its wealth, status and prerogatives. In the end, their intransigence drove the mass of society, the "Third Estate," to ever-more radical measures.

50. The brazen contempt for public opinion displayed by the executives of failed banks and corporations as they reward themselves with multi-million-dollar bonuses, looted from funds provided by taxpayers, exposes the unalterably reactionary and socially destructive character of the American ruling class. It will do anything to protect its wealth and privileges. The AIG affair is typical of a society in which the rich, intoxicated by privilege, believe that they can do what they wish, unencumbered by legal, let alone moral restraints. President Obama's Treasury Secretary Tim Geithner, a multimillionaire (like many other members of the administration), cheated on his taxes—with no legal or professional consequences. Paying taxes, as we were once told by a real estate mogul, "is for little people."

51. One is struck by the degree to which the American ruling class has acquired the characteristics of a decadent aristocracy. Self-obsessed and narcissistic, it seems utterly impervious to the feelings and sentiments of that portion of society that is compelled to work for a living. In the midst of the AIG scandal, one of the leading business columnists for the *New York Times*, Andrew Ross Sorkin, argued that the $160 million bonuses must be paid to AIG, in the interest of preserving the sanctity of contracts! And yet, the same columnist has called for the ripping up of the contracts of autoworkers and the elimination of benefits and the lowering of wages. Legal standards, as we see, are determined by class interests.

The policies of the Obama administration

52. This basic social fact must be kept in mind as one considers the course that events are likely to take in the months ahead. The policies of the Obama administration are determined entirely by the interests of the corporate and financial aristocracy. In this sense, those who compare Obama to Roosevelt are engaged in either public deception or self-delusion. Despite the gravity of the economic crisis, the immense economic resources of the United States in the 1930s still allowed Roosevelt to experiment with social reforms. That option no longer exists today. Contemporary American capitalism lacks such resources.

53. However, there is certainly one significant aspect of developments in the 1930s that is highly relevant as one considers the probable course of events in the months to come. There is no doubt that the first "100 days" of the Roosevelt administration, with its barrage of policy initiatives, indicated a significant change in government policy. But the real impulse for a radical change in American society came not from above, not from Roosevelt, but from below—from the great mass of working people who, with increasing militancy and daring, took matters into their own hands. The really significant changes in social conditions in the United States were the product of the great mass strikes of 1934 in Toledo, San Francisco, and Minneapolis; of the founding of the Congress of Industrial Organizations (CIO) in 1935; and of the great sit-down strikes of 1936-37.

Crisis and class forces

54. The most essential feature of a historically significant crisis is that it

leads to a situation where the major class forces within the affected country (and countries) are compelled to formulate and adopt an independent position in relationship to the crisis. That is, they are driven to advance a solution to the crisis in which their own social needs and interests are expressed. For the ruling classes, this process takes place rather naturally. They assume that their interests, political and economic, are the only ones of any importance. Thus, in the present situation, the Obama administration—having completed a "seamless transition" from its predecessor—has no doubt that its main priority must be the propping up of the banks, while avoiding any measures that impinge on the wealth and prerogatives of the corporate and financial aristocracy.

55. For the working class, the formulation of an independent attitude toward the crisis, with the necessary program and policies, is a more protracted social and political process. The masses must work through their experiences and draw their conclusions. But this process is already under way. The chasm between the promises of the election year and the reality of government policy is becoming more evident each day. As the need for action becomes ever more urgent, the working class will lose its patience with purely rhetorical and empty invocations of "change."

56. "The history of all hitherto existing society," wrote Marx and Engels in 1847, "is the history of class struggle." Underlying all the claims that Marxism had been refuted and that the egalitarian aspirations of socialism were irrelevant to the modern world, was the complacent belief that the "class struggle" belonged to the past. Ironically, the official dismissal of class struggle occurred under conditions in which the ruling class pursued (and continues to pursue) its own interests relentlessly.

57. The one undoubtedly positive feature of the economic crisis is that it is laying bare the real social relations of modern capitalist society, exposing the irreconcilable conflict between the interests of the working class and the capitalist aristocracy, and, therefore, preparing the ground for the resurgence of the working class and the resumption of open class struggle on a scale that will eclipse by far the battles of the 1930s. The American working class is being drawn into an international maelstrom of revolutionary class struggle. It is in this sense that the world crisis has set the stage for the "return of history."