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The Crisis of Capitalism

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society as an immediate strategic priority, not as a goal for some vaguely defined future.

Contents

The Business Cycle	5
Bailouts and Total War	6
The Limits of Deficit Financing	8
Keynesian Economics and the 1930s	9
The Myth of Neo-Liberalism	13
Globalization	15
Regulation	17
Obama and the Economic Crisis	20
The Eurozone Debt Crisis	22
A Stark Choice	25

Globalization not only undercuts the power of the working class in the previously industrialized societies, but it also makes it easier for the affluent to hide their incomes in the many tax havens that have sprung up around the world. The ability of nation states to effectively tax wealthy individuals or large corporations has been significantly undermined by globalization. Incomes and corporate profits would have to be taxed at the source, and this would require full and open transparency by corporations to become meaningful. A true accounting would necessitate a direct confrontation with international capital, triggering massive capital flight.

Immediately, the Eurozone countries confronting economic collapse can gain a breathing space by leaving the European Union and defaulting on sovereign debt. By being integrated into a currency zone dominated by Germany, less technologically advanced countries such as Spain and Greece have been saddled with overpriced exports. This has exacerbated the impact of the global downturn, and has been one factor contributing to the economic crisis in these countries. Nevertheless, leaving the Eurozone will not resolve the underlying problems. Investor confidence has been decimated, and a brief upsurge in exports is not likely to remedy the problem.

A Stark Choice

The choice is stark. Either countries such as Greece and Spain move rapidly to overthrow capitalism, and to establish a new society, or economic stability will be restored by quashing the working class, dismantling social services and slashing wages. This is a choice that can not be confined to one country. The revolutionary option will only succeed if it rapidly spreads. The current crisis can not be transcended through half-measures and limited reforms. We need to think in bold terms, to view our commitment to building a new

ing out of the bonds of those countries and into safe havens, such as U.S. government bonds. The increase in those wanting to sell leads to a fall in the price of the bonds of the beleaguered countries, and thus an increase in interest rates. Higher interest rates add to government expenditures, thus creating even larger government deficits, and a further twist in the downward spiral.

As interest rates on government bonds approach 7% per year, bondholders begin to panic, and bankruptcy looms. Interest rates for both Greece and Spain have begun to approach this critical point. To avoid a crisis, the European Union, that is primarily the German government, provides emergency funds to buy the bonds of the targeted country, demanding stringent repayment plans and further cutbacks. The emergency infusion of funds stabilizes the bond market for awhile, until the spiral begins again and the abyss approaches again.

In this situation, austerity measures are self-defeating. Cutting government spending only exacerbates the underlying problem. Still, stimulating the economy through deficit financing will not work either, given the readiness of bondholders to flee from the risk of default. Furthermore, the draconian cuts required to service the emergency loans virtually propel the working class into action, and the militancy of the popular resistance deters the government from fully implementing the austerity program demanded by the European Union and the International Monetary Fund.

There would appear to be only one way out of this impasse within the constraints of a capitalist market economy. The wealthy few must be heavily taxed, and the revenues thus generated used to fund vital social services. This would require a significant shift in the balance of class forces toward the working class. The recent decades have been characterized by the exactly contrary trend, as the gap between the rich and the poor widens even further.

The global economy is mired in the worst crisis since the Great Depression of the 1930s, and yet capitalism has always been characterized by instability and insecurity. An economic system that operates without an overall plan, and in which powerful economic forces act on the basis of maximizing short-run profits, is a system that is inherently unstable. Marx predicted a collapse of capitalism leading to a revolutionary upsurge as early as the 1850s.¹ This would appear to be a prediction that has been contradicted by the course of history, but in fact the global economy has been plunged into one crisis after another.

The unpleasant reality we confront today is that although capitalism is constantly changing, the impact of these changes is, on balance, overwhelmingly destructive. Indeed, as capitalism grows and expands, it destroys everything in its path. As the system unravels, more and more workers become permanently displaced from the workforce; income and wealth differentials widen within the already industrialized societies, as an increasing number of countries are added to the list of “failed” nations; and ecological catastrophe threatens the continued existence of the planet as we know it. We are at a crossroads. Either the working class acts as a class and wrests power from the capitalist class, or the system will disintegrate into a catastrophic freefall.

The Business Cycle

Capitalism has always been marked by short-run business cycles in which times of prosperity are followed by harsh times.

¹ In a letter to Engels written on September 25, 1856, Marx suggested that the crisis had “assumed European dimensions such as have never been seen before.” The two revolutionaries would not “be able to spend much longer here merely as spectators.” Karl Marx and Frederick Engels, *Collected Works* (London: Lawrence and Wishart, 1983), 40:72.

To some extent, these short-run cycles are self-regulating. Unplanned growth leads to overproduction in certain sectors and investors pull back. Bankruptcies ripple through the economy, allowing venture capitalists to purchase existing assets at bargain prices. Lower prices, and, more importantly, even lower wages, create opportunities for new investment, and the cycle begins again.

Capitalism has also experienced several severe downturns when its continued existence was called into question. Frequently, an economic boom is accompanied by a period of frenzied speculation. When the bubble bursts and speculators go bankrupt, the crisis spreads rapidly through the entire economy, with banks and financial institutions the hardest hit. Investment banks play a vital role in directing investment into new sectors, the dynamic growth sectors. Once confidence in the financial sector has been lost investment spirals downward and the entire economic system confronts a total collapse.

Although a decline in the price of capital goods might help to overcome the down phase of the usual short-run business cycle, the opposite is the case when bankruptcies occur as the result of a sustained and precipitous slump, such as the current one. Firms coming out of administration initiate massive layoffs as venture capitalists squeeze a greatly reduced workforce in a desperate search for profits. In the end, the spiral of bankruptcies that ensues in the course of an economic crisis only reinforces the pervasive collapse in investor confidence, thus making it even more difficult to spur the economy back into sustained growth.

Bailouts and Total War

When the system reaches the point of catastrophic collapse at the onset of a crisis of confidence, the most powerful capitalist interests usually intervene, often in conjunction with

spiral downward. At the same time, some countries have pursued Keynesian pump-priming policies by increasing expenditures on infrastructure projects, such as roads, railroads, even prestige projects such as venues for the Olympics.

In several countries within the Eurozone, the rise in the national debt has led to a catastrophic collapse in the economy. Generally, these countries are among those with the weakest economies, having the lowest per capita incomes within Western Europe. Still, the crisis is deepening and spreading. Even France and Holland are threatened by the debt crisis, and the possibility that the European Union may disintegrate is very real.

Although several countries are approaching the economic abyss, their paths to this critical point have been strikingly different. Spain had a small debt to output ratio prior to 2008. The Spanish housing market boomed, but once the slump began, mortgages could not be repaid and the banks collapsed. In Greece, the debt to output ratio was high before 2008. The Greek government hoped that the richer EU countries, particularly Germany, would continue to funnel aid its way, permitting the Greeks to construct a network of social services that approached that of the wealthier countries of Western Europe. Once the global crisis hit, the shaky foundation of this fleeting prosperity was exposed, and the economy collapsed.

In both Spain and Greece, official unemployment rates stand at 25%, and interest rates on government bonds have risen to levels that cannot be sustained. Although the specific road to the debt crisis has varied, the results have been very similar. The economic crisis has led to a sharp fall in output and, as a result, tax revenues have fallen as well. As deficits increase, the countries are pressured into sharp cuts in social services, which produce even further cuts in output, and the downward spiral continues as the system spins out of control.

Bondholders observe debt to output ratios rapidly increasing in the weaker Eurozone countries, and they respond by shift-

military apparatus. The Obama administration has studiously avoided any creativity in envisioning pump-priming projects.

This difference in approach reflects the underlying shift in the balance of class forces. Roosevelt was worried that the working class in the United States might be attracted by Soviet Russia or Nazi Germany. He therefore sought to present a positive alternative, a welfare state which remained a capitalist market economy.

The change in approach to deficit financing also reflects the very different global context in which the United States finds itself. In the 1930s, most Americans believed that the Great Depression was merely a temporary downturn that would be followed by further periods of prosperity. Eighty years later, globalization has led to deindustrialization.

For three decades prior to the economic crisis of 2008, the working class has suffered through declining real wages and a deterioration in essential social services. Although Obama has pursued a fiscal policy of modest economic stimulus that has forestalled a total collapse, state and local governments have not been provided with funds from the federal treasury needed to counteract the precipitous drop in tax revenues at every level of government. As a result, there have been drastic cutbacks in education, health care and mass transit, compounding those that were already in place before the current crisis. Workers are constantly told that austerity is inevitable, and that they will have to live on less, not just now but in the future.

The Eurozone Debt Crisis

The sharp downturn in the global economy has led to a rapid increase in the debt owed by governments in most of the developed capitalist countries. Banks have been bailed out by governments anxious to avoid a collapse of the financial sector. Tax revenues have substantially declined, as output and incomes

the state, bailing out the banks in order to avert a disastrous crash. This happened in the fall of 2008 and into the spring of 2009, with the support of both Presidents Bush and Obama. Confronted with the imminent possibility of a precipitous fall in output, and in stock market prices, the rich and powerful abandoned their distaste for planning and government intervention and agreed to a massive rescue of bankrupt financial institutions, as well as the auto industry. The recent bailout is not the only time that such a crisis intervention has occurred during a financial panic.

An imminent economic collapse is not the only moment of crisis when the government can rapidly assert a dominant role in the economy. The planned mobilization of a nation's resources when fighting a total war is the other circumstance. During both world wars, the governments of the combatant nations commanded vast resources, becoming the predominant factor in the economy. In some cases, key industries were nationalized, and the rudiments of a national economic plan were put into practice. Segments of the Left, especially mainstream social democrats, viewed these developments as significant steps toward a socialist economy. The move toward a more planned economy was cited as a further proof that a socialist transformation was inevitable. Furthermore, it was argued, the inefficiencies of an unplanned economy were so glaring that even segments of the capitalist class understood the need for a regulated economy, with a substantial public sector that included key industries.

These arguments were advanced by some influential socialists in the United States during World War I, only to quickly be proven totally mistaken. Once the war ended, there was a concerted corporate onslaught designed to ensure that the capitalist class regained its hegemonic control of the economy. The entire network of railroads had been taken over by the federal government during the war, but the railroads were returned to their owners soon after the war came to an end. Public sec-

tor spending was sharply curtailed, and any hint of government planning was abandoned. After World War II, the anti-Communist hysteria provided a convenient rationale for dismantling wartime planning, along with the social reforms of the New Deal.

The dire threats arising from a total war provide a temporary crisis situation in which the government displaces the capitalist class as the prime factor in determining investment. In a very different context, a pending economic collapse has the same effect. In both cases, the role of the state as the determining factor in the economy has proven to be a temporary phenomenon. As the crisis passes, the pendulum soon swings back, and the government is forced to retreat.

The Limits of Deficit Financing

The capitalist economy is not self-regulating. Furthermore, emergency bailouts of bankrupt banks and corporations can prevent a rapid and total collapse, but they don't resolve the crisis, which continues as economic stagnation threatens to deepen into a downward freefall.

Keynesian economists recognize this and argue for active government intervention as an effective means of stabilizing the system. In "normal" times, Keynesian economics can act to provide a certain balance, smoothing out the cycle. Higher interest rates can check the tendency to high inflation rates during the boom years. Deficit financing can enable the government to stimulate output and employment during the downturn. Only a few years ago, many mainstream economists were convinced that counter-cyclical government intervention assured the continued stability of the system. The current crisis has proven that this forecast was nothing more than an ideological rationale for the capitalist system.

Furthermore, globalization has led to the U.S. debt being held by wealthy individuals and financial institutions from around the world. It is all too easy for those currently holding U.S. bonds to sell them should they become concerned with the federal government's increasing debt. Such a dumping would significantly increase the interest rate accruing to U.S. bonds, making it more expensive to borrow.

These factors are relevant, but secondary to the significant shifts in the objective situation since the 1930s. Globalization has undermined the strength of the working class in the previously industrialized countries. (In the United States, only 7% of those working in the private sector are union members.) With the working class in retreat, Obama has only agreed to implement a fiscal policy of economic stagnation. This is in contrast with the first years of the New Deal, when Roosevelt authorized deficit financing on a scale that led to lower unemployment rates, although unemployment still remained at depression levels. Globalization makes capitalism even more susceptible to severe economic downturns, while at the same time making it more difficult to recover.

Obama has also been eager to limit the scope of counter-cyclical spending to capital projects that can be viewed as emergency measures, while avoiding projects that widen the scope of projects undertaken by the public sector. New Deal plans to counter mass unemployment were quite different. The Civilian Conservation Corps constructed roads and buildings in wilderness areas that made natural parks more accessible and desirable, and thus stimulated the demand for increased funding for the park system that lasted well beyond the 1930s. The Works Progress Administration was given a broad mandate that led to a variety of projects such as the Federal Theater Project and the Federal Art Project⁸ that could only inspire working people to demand that the federal government do more than fund a vast

⁸ Leuchtenberg, *Roosevelt and the New Deal*, pp. 125–8.

formed. It must be fundamentally transformed through a revolutionary process.

Obama and the Economic Crisis

Emergency bailouts of banks and bankrupt corporations can forestall a total collapse, but the economy remains mired in stagnation. The recent course of events in the United States is indicative of the depth of the problems confronting a capitalist system in decline.

President Barack Obama is, above all, a pragmatist. He has no ideological reluctance to using the state to intervene in the economy, and yet he also has no intention of confronting the capitalist class. Very much the corporate centrist, Obama's economic policy has been marked by cautious timidity. A total collapse has been forestalled, but output remains stalled, and unemployment remains at high levels. The official unemployment rate fell from 10.0% in 2008 to 8.4% in 2011. These figures limit the count of the unemployed to those who are currently out of work, but who are actively seeking employment. A broader figure adds to the number of unemployed those who have become discouraged, as well as those "marginally" tied to the workforce, including older workers who reluctantly retired after finding that work was no longer available. Using this more accurate indicator, the unemployment rate fell from 15.2% in 2008 to 13.5% in 2011.

These statistics demonstrate that the United States remains stalled in the worst economic crisis since the 1930s, and the Administration has done little to overcome it. Obama's approach to overcoming the crisis has been far more cautious than Roosevelt's New Deal, as limited as that was. This reflects several factors. First, the bailout of 2008 was enormously expensive, adding significantly to the total debt, and thus making it more difficult to undertake deficit financing to spark a revival. Fur-

In fact, once an immediate crisis situation has been passed, the traditional resistance to government intervention, and, indeed, to any kind of broader plan, reasserts itself. This resistance represents more than an adherence to the ideology of "free markets." Indeed, the powerful corporate interests that backed the bailout did so in pragmatic disregard for "free market" dogma. One of the essential mechanisms of control held by the capitalist class is its ability to determine how much of its savings it will invest, and in which industries it will invest. To permit the government to become the primary channel for the flow of investment funds is to strip capitalists of a key component of the economic power they control as the ruling class.

It is easy for the wealthy to bring pressure on the government because a rapidly growing debt will lead bondholders to become more fearful of a default. With an increasing public debt to government budget ratio, or public debt to output ratio, interest on the debt starts rising as a proportion of total spending. This can not continue indefinitely since some types of expenditures are viewed as critically important, and thus are extremely difficult to cut. Thus, aside from upholding the interests of the capitalists as the ruling class, bondholders have real concerns that the state will default on interest payments as debt ratios increase. Deficit financing by its nature can only act as a short-term means of stimulating the economy.

Keynesian Economics and the 1930s

These underlying factors produce the curious paradox that Keynesian policies only work in "normal" times to smooth the short-run fluctuations of the business cycle, and not in a time of crisis when the system is threatened with collapse. Yet Keynes developed his General Theory in the 1930s with the express purpose of countering the Great Depression. He was convinced that his policies would enable the industrialized countries to

overcome the Great Depression, and to avoid further slides into mass unemployment. Both predictions have proven to be false. Once the “animal spirits”² of investors have totally soured, as the wealthy few lose confidence in the growth potential of the economy, deficit spending will not succeed in moving the economy back on track.

The experience of the United States in the 1930s provides an interesting case to examine. President Franklin Roosevelt was surrounded by advisers who viewed themselves as social reformers, and who were open to Keynesian economics. The federal government deliberately expanded its expenditures on social services, through deficit financing, with the explicit intention of stimulating economic growth and returning the country to prosperity. These policies were followed from the time FDR was inaugurated in March 1933 until June 1937.

When Roosevelt became president in March 1933, the United States had already experienced four years of economic collapse, during which President Hoover had done virtually nothing to counter the crash. Estimates of unemployment indicate that one out of four workers could not find a job, and millions wandered the country looking to survive.³ This was a catastrophic disaster, one requiring drastic measures.

Roosevelt had no overriding strategy, but he was prepared to take immediate action to counter the crisis. Legislation creating the Civilian Conservation Corps was rapidly enacted by Congress, creating jobs for hundreds of thousands to create nature trails and buildings in national parks, as well as building

² John Maynard Keynes, *The General Theory of Employment, Interest and Money* (London: Macmillan, 1936), p. 161.

³ The federal government did not collect statistics on unemployment during the 1930s, so economic historians have calculated rough estimates based on the available statistics concerning output and income. In 1940, the current system was initiated, based on monthly surveys of the labor force. The estimates of unemployment rates from the 1930s, therefore, are not comparable to the current statistics.

Finally, the impetus to enforce strict regulation dissipates as the crisis that spurred these actions fades in memory. As time goes on, enforcement becomes increasingly lax and banks, and financial institutions become more adept in evading the rules. Corporations use their enormous power to press the case for regulatory “reform,” insisting on the need for freeing financial institutions from “unnecessary” restrictive red tape.

This trajectory can be traced in the United States from the 1930s to the recent debacle. During the first days of the New Deal, the Glass-Steagall Banking Bill was passed with the goal of stabilizing the financial sector, in part by making it harder for banks to invest in high-risk loans. One aspect of this was the creation of a tight barrier between retail banks, those taking deposits from individuals and small businesses, and investment banks, which funnel large sums to fund mergers and new technologies, but also underwrite risky investment vehicles. Over the years, the tight separation of the two types of financial institutions was eroded, until legislation passed in 1999, during the Clinton Administration, junked the entire policy, permitting retail banks to merge with investment banks. The funneling of funds from retail banks to the high-risk investments of credit default swaps and real estate investment trusts was one factor facilitating the speculative frenzy in the housing market, which, when it collapsed, triggered the current crisis. It should be noted that this piece of deregulation was not formulated by neo-liberal ideologues, but rather by the pragmatic advisors of Bill Clinton who were enamored with the rapid spread of a global financial sector.

Capitalism is inherently unstable, and subject to extended periods of mass unemployment, bankruptcies and crisis. Government regulation will not prevent economic instability. Efforts to regulate the financial sector in order to prevent destructive speculative booms are bound to fail. These efforts represent yet another case of reformers fruitlessly trying to fix a system through piecemeal changes. Capitalism can not be re-

To start with, a speculative frenzy only occurs when investors are confident of the future and are willing to take risks. The current situation is characterized by investor pessimism, and a reluctance to undertake risky projects. Indeed, investor confidence appears to be heading downward, with no imminent sign of any upswing. The current problem confronting capitalism is not how to curb an unbridled speculative frenzy. Quite the contrary, investors are following an extremely cautious path.

Even if the current crisis were to be overcome, it will be very difficult for any government to enforce strict regulations on the financial sector that inhibit speculative investments. The only time the economy can prosper is when investors are prepared to undertake investments in new sectors where, by definition, the future is unclear and the risks are high. Obviously, there are no gains to society from the kind of scam investments that brought the housing market to a standstill. Still, it is difficult to discern in the midst of a boom what are risky but still potentially worthwhile investments and what are elaborate frauds.

Furthermore, even the most skillful regulation does not touch the underlying problem. Capitalism generates more savings than can be matched by profitable investments. Globalization has further exacerbated this underlying problem by widening the gap between rich and poor. Regulating the financial sector will not add to effective demand, and, indeed, may well reduce it by dampening investment.

There is also little reason to believe that regulation of the financial sector will prove to be effective. Globalization has integrated the world's financial markets, making it easy to shift funds from country to country. Financial institutions need no longer remain in New York or London, but rather can be relocated to any place that is connected to the internet. Restrictive legislation in the United States and Britain will just speed the rate at which financial institutions move offshore.

and repairing basic infrastructure. In 1935, the Works Progress Administration was launched, pump-priming the economy on a large scale with a wide variety of projects that employed a total of eight million workers over the eight years of its existence.⁴

New Deal programs were funded through deficit financing. Historians have estimated that the unemployment rate fell from 24% in 1933 to 14% in 1937. This was an improvement, but hardly an impressive one. The United States was still bogged down in an economic depression, with millions of workers confronting long periods of unemployment, with little hope for the future.

In early 1937, President Roosevelt's administration came under heavy attack from corporate interests. The national debt had been rapidly rising, and bondholders were becoming skittish. Furthermore, CIO unions had organized militant strikes and occupations in the automobile industry, as well as other key industries. A spike in unemployment might dampen the militancy of an aroused rank and file.

Roosevelt had always viewed deficit financing as a temporary measure, a brief exception to the norm of a balanced budget. In June 1937, he proposed a drastic cut of three billion dollars in the funding of New Deal programs, with the Works Progress Administration and the Civilian Conservation Corps absorbing most of the cuts.⁵

The result was a profound shock to the system, with the downturn even more precipitous than that of 1929, at the start of the Great Depression. In the ten months following June 1937, total output fell by 12%, while industrial output dropped by

⁴ Frank Knight, "The Economic Principles of the New Deal," in Morton J. Frisch and Martin Diamond, *The Thirties: Reconsideration in the Light of the American Political Tradition* (De Kalb: Northern Illinois University Press, 1968), p. 92.

⁵ William Leuchtenberg, *Franklin D. Roosevelt and the New Deal, 1932-40* (New York: Harper and Row, 1963), p. 244.

one-third. Estimates of the unemployment rate indicate a jump from 14% in 1937 to 19% in 1938, with 10.4 million workers out of work.⁶

Roosevelt's advisors pleaded with him to restore the cuts, but he refused until the spring of 1938, when funding was partially restored. A further collapse was averted, but the economy continued to sputter until the fall of 1939, when military production began to escalate as the European countries prepared for World War II.⁷

Keynesian policies did not succeed in overcoming the economic crisis of the 1930s, although the technical analysis underlining the policy recommendations was shown to be true. Government spending when not counterbalanced by taxes on the working class has a significant multiplier effect on output, income and employment. Nevertheless, Keynes did not take into account the overall context. First, unlike wartime, countering an economic downturn does not provide the government, even a very popular one such as that of FDR's New Deal, with sufficient momentum to engage in the level of deficit spending required to counter the collapse in private investment. As a result, the economy remains stuck in the doldrums, although no longer at the trough of the cycle.

Second, Keynes's analysis views pump priming as a temporary fix. The government gives the system a boost and then the economy returns to its previous course. In fact, during a severe downturn investor confidence does not respond to deficit financing. Once the government moves toward a balanced budget, usually by reducing spending on social services, output falls, moving back to the level where it was prior to the government intervention. The underlying problem, the refusal by the wealthy few to invest, has not been resolved.

⁶ Richard Polenberg, "The Decline of the New Deal, 1937–1940," in John Braeman, Robert H. Bremner and David Brody, eds., *The New Deal: The National Level* (Columbus: Ohio State University Press, p. 255.

⁷ Knight, "Economic Principles," p. 94.

more difficult to pull the economy out of a prolonged downturn.

Regulation

The Keynesian policy of deficit financing as a method of stimulating the economy constitutes one of an array of government programs designed to stabilize the system. Many on the Left are convinced that the deregulation of markets, as driven by the neo-liberals, provides the primary reason for the current global downturn. In their view, future disasters can only be avoided by strict regulation of the economy, especially the financial sector.

At the turn of the twentieth century, progressives pushed for government action to break up the trusts. They called for anti-trust legislation, hoping that the market economy would return to a mythical golden age when small firms, acting independently of each other, operated within competitive markets. This project proved to be a total failure, as large corporations discovered ingenious ways to evade anti-trust legislation in order to create ever more gigantic entities, and to act in collusion with other powerful firms in their market. Capitalist economies have always been dominated by a few large corporations that manipulate prices and outputs so as to maximize profits. These days, corporations span the globe, crossing national borders with ease.

During the New Deal, the focus of reform shifted from anti-trust legislation to the financial sector. The current crisis has led progressives, once again, to argue that strict regulation of the financial sector will be a critical element in a program that will allow the economy to overcome the current slump and prevent another one from occurring. In fact, such a policy is bound to fail.

riphery was actively discouraged. The headquarters and coordinating functions of the finance sector were also centrally located in London. Conquered countries were limited to one primary economic role, providing cheap raw materials for the industries of the imperial power. This could entail the exploitation of scarce natural resources, with no regard for the environment, or the extreme exploitation of unskilled labor through the use of force.

In this context, the working class of the imperial power had a vested interest in maintaining the empire. Indeed, a century ago the more far-sighted strategists of the British Empire understood the utility of ensuring the loyalty of the British working class by providing limited social benefits and establishing a minimum wage. In the past, there had been a unique and defined set of economic relationships between the imperial power and its dependent colonies.

The outsourcing of industry and mining to the developing countries has devastated the traditional working class in the developed capitalist countries. Unions in the private sector have been virtually wiped out, and public sector unions have come under intensive attack. As a result, inequalities in income and wealth have significantly widened, thereby increasing the volatility of the system as well as its tendency to become mired in prolonged slumps. Globalization also increases the volatility of the system because it greatly restricts the ability of governments to regulate the economy, and to redistribute income through taxes. The interconnectedness of the global economy also increases the likelihood that a crisis triggered in one country will spread quickly throughout the globe.

Globalization makes the system more volatile, but it only accentuates the fundamental underlying problems. Indeed, the Great Depression of the 1930s occurred decades before corporations began shifting industrial production overseas. Still, globalization adds to the instability of the system, while making it

The only way deficit financing could work in the midst of a severe economic downturn is if it were to be made a permanent feature of the economy, but this can never happen. Deficit financing can only be a temporary measure because the state is taking over an essential task in a capitalist economy, one reserved to the capitalist class. It follows that the rich and powerful will use all of their power to ensure that deficits are cut and they again become the driving force in the economy, determining the flow and direction of investment.

The experience of the United States in the 1930s provides an archetypical model. In spite of New Deal pump-priming, the Great Depression only came to an end with the start of World War II. Such a solution to the current economic crisis is no longer possible. Capitalism is a dynamic system in which certain innovations are fostered. The producers of armaments are always seeking deadlier weapons that require fewer soldiers to deploy them. Thus, a future total war would be over quickly and would leave the planet a radioactive wasteland. Smaller, localized wars of occupation do not necessitate a huge output of military weapons and do not involve enormous armies. Indeed, the United States was fighting two localized wars in 2008 and yet still experienced the worst economic downturn since the Great Depression. In the current context, the military can not provide the sustained demand needed to lift a country out of the mire of economic stagnation.

The Myth of Neo-Liberalism

In analyzing the failure of Keynesian economics to resolve the tendency of the capitalist economy to veer into an economic collapse, the emphasis has been on the underlying economics and class relations, and not on ideological dogma. The current “common wisdom” of the Left ascribes the defeat of

Keynesian economics to the ascendancy of neo-liberal ideologues. This is a highly dubious explanation.

There is nothing new about the theory that the capitalist system is self-regulating, and that any government intervention can only make the situation worse by upsetting the automatic correcting mechanisms built into a market economy. Similar ideas were formulated by the Austrian school of economists in the late nineteenth century in response to the rise of a working class movement influenced by Marxism.

There is no doubt that this perspective has more traction now than even a few decades ago, but this is hardly because of its cogency or insights. The globalization of production has provided the objective basis for the rise of neo-liberalism. Corporations have outsourced their factories and mills to low-wage countries, thus destroying unions in the private sector. Unions provided the essential base of support for social democratic parties that legislated the welfare state in Western Europe, and for the liberal wing of the Democratic Party as well.

As transnational corporations create a global workforce, corporate bosses see no need to pay wages and benefits to workers in the previously industrialized countries that are higher than those paid to low-wage workers in Bangladesh, China or India. This drive to reduce wages is not a matter of ideology, but rather the pragmatic imperative of the bottom line. Globalization has substantially shifted the balance of class forces. The rightward tilt in the ideological debate reflects a more fundamental shift in the underlying balance of class forces.

This is not to deny that the rise of neo-liberal ideologues marks a meaningful change in the political terrain. In particular, in the United States, which has a long history of elections dominated by two corporate parties controlled by opportunistic politicians whose political perspective does not extend beyond a commitment to upholding the power of the capitalist class. The Tea Party has a program and an ideology that goes well beyond this, calling for the total dismantling of the wel-

fare state reforms instituted during the New Deal. Its rapid rise in visibility has made a significant impact on the Republican Party, which has begun to present a distinct alternative to the pragmatic centrism of the Democrats.

As socialists, we can recognize that there are genuine differences between the pragmatic Obama Democrats and the Tea Party neo-liberal ideologues. Nevertheless, both approaches remain well within the constraints of mainstream capitalist politics. When leftists target neo-liberalism as the primary problem, they underscore their failure to understand the essential dynamic of the current crisis in their desire to exaggerate the differences between neo-liberals and their pragmatic opponents. This position is often followed by a call for a coalition of the broad Left against the rabid, dogmatic Right, as those on the Left subordinate their radical politics to defeat the perceived threat of a neo-liberal victory.

Global capitalism, not neo-liberalism, is the primary problem, and a rapid transition to a socialist society provides the only possible answer.

Globalization

Capitalism has always had an inherent tendency to expand. Of course, the drive to conquer others precedes the rise of the capitalist system, as imperial rulers have always fought to expand their domain. In the past, this would involve looting and pillaging. The empires that have arisen in modern times have certainly looted and pillaged, but this has been a secondary aspect of their rule.

Historically, a capitalist power has sought to create a distinctive link between the imperial center and the subject countries on its periphery. The British empire of the nineteenth century is the classic example. Industrial production was concentrated in the center, England and Scotland, while industry in the pe-