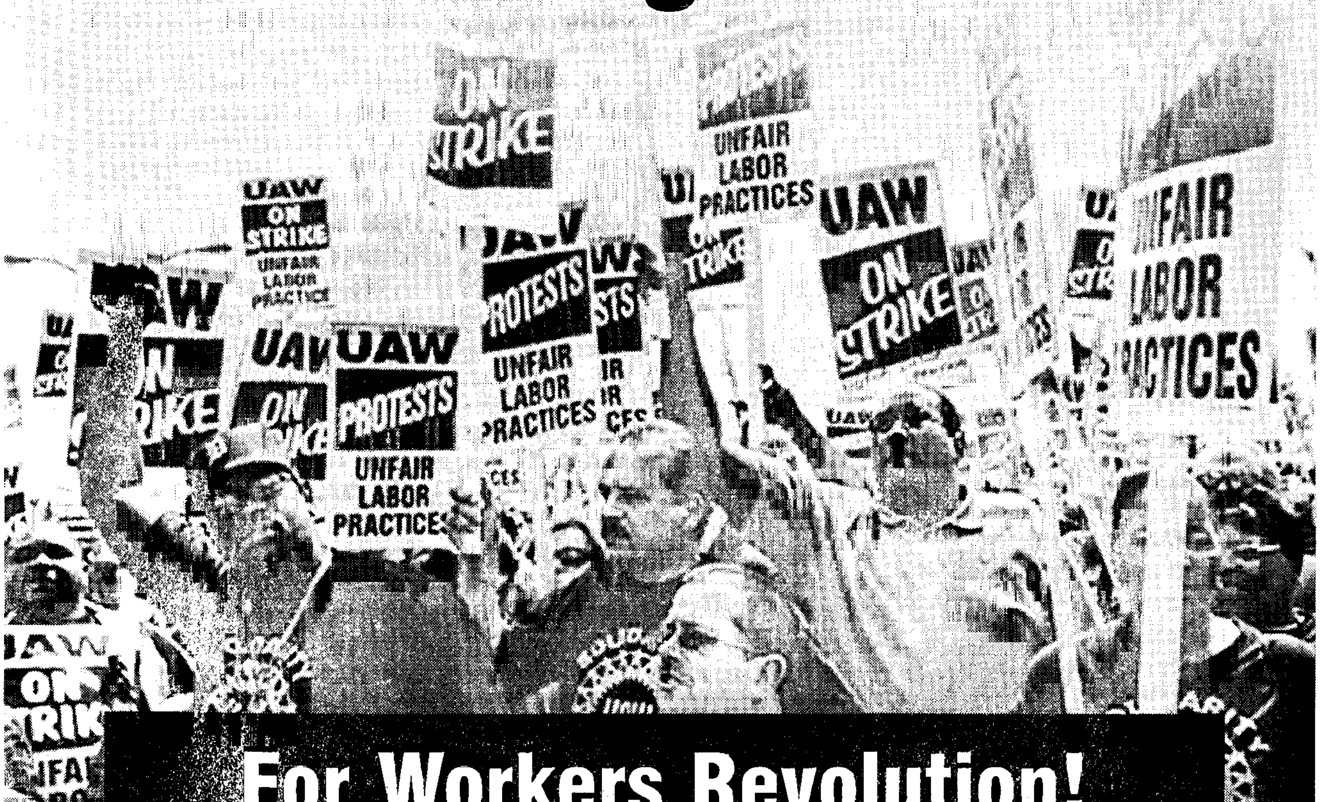
A Spartacist Pamphlet

Karl Marx Was Right

Capitalist Anarchy and the Immiseration of the Working Class



For Workers Revolution!

For an International Planned Socialist Economy!

AUSTRALIA...A$2 BRITAIN...£1.50 CANADA...CDN$2 IRELAND...€1.50 SOUTH AFRICA...R4 USA...US$2

Table of Contents

Cover graphic: UAW strikers picket entrance to American Axle headquarters in Hamtramck, Michigan, 24 April 2008.
Cover credit: Dholakia/Detroit News

Spartacist Publishing Co.
Box 1377 GPO
New York, NY 10116

May 2009

Introduction

The anarchy and brutality of the capitalist system has been revealed again in a global economic crisis, which threatens to reach the proportions of the Great Depression. As millions are thrown out of work, as massive numbers of foreclosures throw people out of their homes, as hunger stalks the poor, black people and other minorities, the sick and vulnerable, the U.S. has seen a bitter winter of deprivation. The impact of this crisis extends far beyond the U.S., threatening the lives and livelihoods of the working class and oppressed internationally. It is left to revolutionary Marxists both to explain the roots of the current crisis and to provide the program necessary to put an end to this barbaric, irrational system through the emancipation of the proletariat and establishment of its class rule, thus laying the basis for the construction of a socialist planned economy as a transition to a classless, egalitarian and harmonious society on a global scale. That is the purpose of this pamphlet, composed of articles previously published in *Workers Vanguard.*

Leon Trotsky's *The Death Agony of Capitalism and the Tasks of the Fourth International* (also known as the Transitional Program), adopted as the basic programmatic document of the founding conference of the Fourth International in September 1938, is particularly relevant and urgent today. The political situation of the late 1930s and that of the post-Soviet world in which we live today are quite different, to be sure. But Trotsky's declaration that "under the conditions of disintegrating capitalism, the masses continue to live the impoverished life of the oppressed, threatened now more than at any other time with the danger of being cast into the pit of pauperism" could have been written about conditions in Detroit and elsewhere today. The same is the case with the call in the Transitional Program that: "The Fourth International declares uncompromising war on the politics of the capitalists, which to a considerable degree, like the politics of their agents, the reformists, aims to place the whole burden of militarism, the crises, the disorganization of the monetary system, and all other scourges stemming from capitalism's death agony upon the backs of the toilers. The Fourth International demands ***employment*** and ***decent living conditions*** for all" (emphasis in original). Such transitional demands, as Trotsky wrote, stemmed "from today's conditions and from today's consciousness of wide layers of the working class" and unalterably led "to one final conclusion: the conquest of power by the proletariat."

Against the tried and failed stratagems pushed by liberals and fake socialists—from the Keynesian project of "benevolent" intervention by the capitalist state to the British Labour Party's bourgeois nationalizations in the post-World War II period—we Marxists understand that no amount of tinkering with the existing system can wrench it into serving the needs of the proletariat and the oppressed. The 1997-98 *Workers Vanguard* series "Wall Street and the War Against Labor," reprinted here, takes this up in the U.S. context. It also deals with the labor movement in the U.S. and the roots of its historic economic militancy and political backwardness—a backwardness due not least to the continuing oppression of black people as a race-color caste, integrated into the industrial proletariat but at the same time forcibly segregated at the bottom of society.

The more recent articles reprinted in this pamphlet put forward our revolutionary program against those who purvey illusions in the Democratic Party and its current Obama administration as well as for class-struggle opposition to the pro-capitalist trade-union bureaucracy. Part and parcel of such a struggle is a fight against nationalist, chauvinist protectionism, anti-immigrant racism and the anti-Communist poison spread by the union tops against those states where capitalism has been overthrown, centrally China but also the other deformed workers states of North Korea, Cuba, Vietnam. Our program is that of ***unconditional military defense*** of those states against imperialist attack and internal counterrevolution and for ***proletarian political revolution*** to replace the nationalist bureaucratic regimes that undermine their defense. Our model remains that of the victorious October Revolution of 1917 led by Lenin and Trotsky's Bolshevik Party. For class against class! For new October Revolutions!

May Day 2009

reprinted from Workers Vanguard *No. 927, 2 January 2009*

Karl Marx Was Right

Capitalist Economic Crisis: Bosses Make Workers Pay

The following is an edited, expanded and updated version of a presentation by Spartacist League/U.S. Central Committee member Joseph Seymour given at a recent plenum of the International Executive Committee of the International Communist League.

On one occasion a Dutch banker described conditions in the London stock exchange as resembling "nothing so much as if all the Lunatics had escaped out of the Madhouse at once." The occasion occurred almost three centuries ago, at the time when the so-called South Sea stock market bubble burst. So not all that much has really changed.

The current international financial meltdown and severe economic downturn began and is centered in the U.S. So, I want to begin by placing the crisis within the broader historical framework of the decades-long decline of American capitalism. However, it's useful to first consider the nature of bourgeois class consciousness, especially that of the American bourgeoisie. The bourgeoisie is *not* a collectivist class. Both in their business practices and in the government policies they advocate, capitalists are primarily motivated by immediate self-interest, not some conception of the larger, long-term interests of the class. To be sure, the income and wealth of all individual capitalists derive from the total pool of surplus value generated by the exploitation of labor. But in their day-to-day activities, capitalists, especially financial capitalists, are mainly motivated by increasing their own wealth at the expense of other capitalists.

I've been reading this book, *Traders, Guns & Money: Knowns and Unknowns in the Dazzling World of Derivatives* (2006), by a veteran derivatives trader, Satyajit Das. It's very entertaining, really funny. At one point Das was working for an investment bank that was seeking to induce a Japanese pension fund manager to become its client:

> "The bank had courted him ceaselessly for years, to no avail. It turned out the fund manager had a weakness—a clichéd partiality for very tall, long-legged, blue-eyed, blonde women. The bank assumed the woman need not be Japanese.
>
> "A global search was undertaken and the human resources (HR) department performed admirably. The bank found a stereotypical Scandinavian woman to cover the fund manager. The woman—please don't laugh—was called Ulrika. She was bright, pleasant and efficient, but there was one problem—she had no knowledge of derivatives. She had a background in cosmetics. The bank hired her anyway, figuring, correctly it turned out, that the fund manager wasn't that interested in her derivatives."

WV Graphic, Graph Source: Bureau of Labor Statistics, Photo: Corbett/News Journal

Rising unemployment, as hundreds line up at job fair in Delaware. Official U.S. unemployment rate continues to climb.

Reading this book as a Marxist, what particularly struck me was that there was no discussion whatsoever about the division of social product between wages and profits, or more broadly, surplus value, including rent and interest. The entire book was focused on the division of surplus value between financial and non-financial capitalists, and among competing groups of financial capitalists. It showed that for the most part capitalists are out to screw each other to the

For Class Struggle Against Capitalist Rulers! Break with the Democrats! For a Workers Party!

max. The politically decisive section of the bourgeoisie will subordinate their own immediate self-interest to what they see as the broader and longer-term interests of their class only when they feel sufficiently threatened by the working class from below or from hostile states from without. And when not, it's a Hobbesian world of all against all.

End of U.S. Post-World War II Economic Hegemony

Keeping that in mind, let's schematically view the postwar history of the American capitalist economy. For the first two decades following the Second World War, the U.S. dominated the world market in industrial products. It consistently ran very large balance of trade surpluses with almost all other capitalist countries. However, by the mid 1960s, West Germany and Japan had rebuilt and modernized their economies such that they could compete effectively with the U.S. in world markets, and also in the U.S. domestic market. So the flow of trade magnitudes was reversed. The U.S. began to run large balance of trade deficits.

Within a few years, this reversal destroyed the postwar international monetary system established at a conference in Bretton Woods, New Hampshire, in 1944. This was called the gold-dollar exchange standard. The currencies of most important capitalist countries were fixed for long periods against one another and anchored by the dollar. Washington promised—and the emphasis here is on "promised"—that other governments could freely exchange all the dollars they had for gold at a rate of $35 an ounce.

By the beginning of the 1970s, that was no longer objectively possible. The volume of dollars held by foreign central banks far exceeded the U.S. stock of gold at $35 an ounce. The French government of Charles de Gaulle, who resented American international dominance and aspired to restore the "grandeur" of France, started exchanging its dollar holdings for gold. So in August 1971, U.S. president Richard Nixon closed the "gold window," ending the convertibility of the dollar into a universal commodity of intrinsic (labor) value. After a few ineffectual international conferences, what emerged was a non-system of fluctuating exchange rates. Since then currency exchange rates have been determined by market conditions modified by occasional government intervention. The reason I'm going into this is because the regime of fluctuating exchange rates had two long-term consequences, which underlay the present financial crisis.

One: it created a large new element of uncertainty, that is, risk of loss, in all international financial transactions, especially long-term financial transactions. Hence, currency exchange rates became a major sphere of financial speculation. A large part of Das's book on derivative trading discusses hedging against and speculating on changes in currency exchange rates.

Two: by severing the tie between the dollar and gold, American capitalism, at both the corporate and governmental level, has been able to massively increase its foreign debt, the only upper limit being the willingness of foreign governments and investors to hold dollar-denominated assets. The dollar is now worth only about ***20 cents*** in 1971 terms. This aspect of the current world crisis was recently underscored in a commentary by Richard Duncan in the London *Financial Times* (24 November 2008):

> "When Richard Nixon destroyed the Bretton Woods International Monetary System in 1971 by closing the 'gold window' at the Treasury, he severed the last link between dollars and gold. What followed was a spiralling proliferation of increasingly spurious credit instruments denominated in a debased currency. The most glaring and lethal example of this madness has been the growth of the unregulated derivatives market, which has ballooned in size to $600,000bn, the equivalent of almost $100,000 per person on Earth."

Increasing the Rate of Exploitation

In 1974-75, there was a major, very sharp world economic downturn. Though it didn't last long, it had important consequences especially in the U.S. Coming out of the economic downturn, the American capitalist class made a concerted effort to increase the rate of exploitation of the proletariat—that is, the ratio of surplus value to wages. They demanded, and got, giveback contracts and two-tier wages from the trade-union bureaucracy. They shifted production from the unionized Northeast and Midwest to the non-union South and Southwest and to low-wage countries in Latin America and Asia.

This anti-labor offensive, which began under right-wing Democratic president Jimmy Carter, was then escalated under the even more right-wing Republican president Ronald Reagan. It was signaled by the smashing of the PATCO air controllers strike in 1981, and the subsequent union-busting during the Greyhound strike and other strikes. We addressed the need of the labor movement to combat the capitalist offensive at the time, especially in the piece "Labor's Gotta Play Hardball to Win" (*WV* No. 349, 2 March 1984). What we said in "Hardball," that labor can't play by the bosses' rules, remains just as valid for the U.S. labor movement today.

Here I want to emphasize an aspect of the anti-labor offensive in the early-mid 1980s that was not so obvious at the time. The ascendancy of monetarism and financial "deregulation" as a doctrine and policy in Reagan's America and also in Thatcher's Britain was in part based on and con-

John Harris/IFL

Capitalist class war against workers. Cops battle pickets during British coal miners strike in September 1984.

ditioned by the crippling of the labor movement. In Britain, the decisive rightward shift in the balance of class forces was the defeat of the 1984-85 miners strike. Comrade McDonald's recent note on the impact of the economic crisis in Britain pointed out that in 1986 the Thatcher government "deregulated" the City of London. It was, as they say, no accident that the unleashing of speculative finance capital in Britain took place right after the defeat of the miners strike.

In the U.S. in the 1980s, which liberals often call "the greed decade," there was a massive upward redistribution of income, combined with a massive increase in U.S. foreign indebtedness. The Reagan administration cut taxes for the rich while greatly expanding military spending in the escalating Cold War II against the Soviet Union. To finance the resulting large government deficits, a large proportion of newly issued Treasury bonds were sold abroad, mainly to the Japanese. Within the space of two or three years, the U.S. went from being the world's largest creditor nation to the world's largest debtor nation.

AP

Barcelona, Spain: Nissan workers protest job cuts, November 2008, as world economic downturn hits Europe.

The upward redistribution of income and the increasing U.S. foreign indebtedness was organically tied to the deindustrialization of America. Large parts of the Midwest came to be called the "rust belt." In the mid 1960s, manufacturing accounted for 27 percent of U.S. gross domestic product and employed 24 percent of the labor force. By the early 2000s, the weight of manufacturing had been reduced to 14 percent of total output, and employed only 11 percent of the total labor force.

Basically, real hourly wages for non-supervisory workers peaked in the early 1970s. For most of the past three and a half decades, real compensation per unit of labor has been less than that level. Only occasionally and briefly, for example during the last phase of the 1990s economic boom, has real hourly take-home pay approached or exceeded what it was in the early '70s. Insofar as working-class families increased their income in recent decades, it was by having both husband and wife work full-time, working a lot of overtime and even two jobs, if such work was available.

However, by the beginning of the 2000s this extensive means of increasing family income was pretty much exhausted. At the same time, working people were faced with a sharp increase in certain basic expenses—housing (both buying and renting), medical care and college tuition for their children. So they had recourse to ever greater debt. By the eve of the current crisis in early 2007, average household debt was ***30 percent greater*** than annual disposable income. This was possible mainly because families were borrowing against the equity in their homes by "taking advantage," so to speak, of the then expanding housing-price bubble.

WORKERS VANGUARD Special Subscription Supplement

Bosses' Rules—A Losing Game

Labor's Gotta Play Hardball to Win

March 1984 *WV* supplement underlines the necessity for a class-struggle strategy for the workers movement.

Dot-Com Boom and Housing-Price Bubble

To understand the housing-price bubble of the early-mid 2000s, we have to backtrack a bit and look at the so-called dot-com boom of the mid-late 1990s. This was a classic boom-bust cycle as described by Marx in *Capital*. A burst of investment mainly in new technology—in this case, computerization, Internet services and telecommunications—increased what Marx called the organic composition of capital. This is the value of the means of production (the labor time embodied in it) needed to employ living labor. In bourgeois economics, it's called capital per worker. A rising organic composition of capital drives down the rate of profit. Even if productivity rises and wages don't, increased profit per worker does ***not*** offset increased capital per worker.

This dynamic was clearly seen during the 1990s boom in the telecommunications sector, one of the mainstays of the "new economy" or "IT (information technology) revolution." The return on capital for telecommunications companies fell steadily from 12.5 percent in 1996 to 8.5 percent in 2000. At the time, a Wall Street analyst, Blake Bath, described in his own way the law of the falling tendency of the rate of profit with regard to telecommunications. "It looks like the sector is way overcapitalized," he judged. "Spending has grown at absurdly fast levels relative to the revenues and profits produced by that spending" (*Business Week*, 25 September 2000). Or as Marx put it in volume three of *Capital*: "The ***real barrier*** of capitalist production is ***capital itself***" (emphasis in original).

In 2000-01, the dot-com boom went bust, ushering in a recession. Seeking to soften the impact of the economic downturn, Alan Greenspan, head of the Federal Reserve (the U.S. central bank), flooded financial markets with money. The Fed cut the interest rate charged on short-term loans to member banks from 6.5 to 1 percent by 2003, at the time the lowest rate in half a century. During most of this period, the so-called federal funds rate was less than the rate of inflation. In effect, the government was giving away money to Wall Street financiers. In late 2004, the London *Economist* warned that America's "easy-money policy has spilled beyond its borders" and "has flowed into share prices and houses around the world, inflating a series of asset-price bubbles."

At the core of the current crisis is a class of financial instruments known as derivatives. Traditional, primary financial securities—corporate shares and bonds—are in a formal, legal sense claims on commodities, i.e., goods and services that embody both use value and exchange value as a product of labor. Derivatives are based on, or otherwise tied to, primary securities. A typical and important type is a credit default swap. Formally, and I emphasize formally, this is a kind of insurance policy against a corporate bond defaulting. However, you can buy a credit default swap without owning the corporate bond. In that case, it's a form of speculation that the corporation will default. Imagine that 20 people hold fire insurance policies on the same building, 19 of whom ***don't*** own the building. Well, welcome to the world of derivatives. Moreover; you can also speculate on price changes of a corporate default swap through what are called put or call options.

The basic point is that derivatives have been piled on top of derivatives on top of other derivatives. To quantify: in 2005, if you added up the nominal market value of all derivatives in the world, they were ***three times greater*** than the primary securities on which they were supposedly based. To understand the extreme severity of the current financial crisis, you have to recognize the ***sheer magnitude*** of what Marx called "fictitious capital" generated over the last few decades. In the early 1980s, if you added up the nominal market value around the world of all corporate shares and bonds and also government bonds, they were equal to about the annual output of goods and services, what bourgeois economists call the global gross domestic product. In 2005, the International Monetary Fund calculated that if you did the same operation, the value of only primary securities to global gross domestic product was almost four times greater. And if you put on top of that derivatives, the amount of risk in the financial system has been multiplied many times over.

Charles R. Morris, a critically minded financial journalist, described how this Everest of spurious paper "wealth" was concocted:

> "How could leverage get so high? In the class of instruments we've been talking about, there are relatively few 'names,' or underlying companies, that are deeply traded, several hundred at most. And a relatively small number of institutions, basically the global banks, investment banks, and credit hedge funds, do most of the trading. In effect, they've built a huge Yertle the Turtle-like unstable tower of debt by selling it back and forth ***among themselves***, booking profits all along the way. That is the definition of a Ponzi game. So long as a free-money regime forestalled defaults, the tower might wobble, but stayed erect. But small disturbances in any part of the structure can bring the whole tower down, and the seismic rumblings already in evidence portend disturbances that are very large." [emphasis in original]
>
> —*The Trillion Dollar Meltdown: Easy Money, High Rollers, and the Great Credit Crash* (2008)

As the tower of debt collapses, it is relentlessly pressing down the prices of all financial assets other than First World government securities. And they, too, may soon go.

Impact on West Europe and Japan

The financial crisis has greatly exacerbated the interimperialist tensions and conflicts of interest in what is increasingly becoming the European Dis-Union. The various national bailout schemes have intensified intra-EU financial competition. Short-term speculative money capital flows into those countries—for example, initially Ireland—in which government policies appear to make the banks and other financial institutions more secure. And then it flows right out again when other governments offer seemingly more generous bailout packages.

We've also seen an increasing rift between the two core countries of the EU and euro zone: Germany and France. The vainglorious French president Nicolas Sarkozy, who perchance also happened to hold the revolving-door "presidency" of the EU during the second half of 2008, has presented himself as the savior of world capitalism. He has pushed various ambitious financial regulatory and economic "stimulus" schemes on both an EU-wide and international basis. Needless to say, Sarkozy's posturing has not endeared him to the rulers of non-French imperialist states.

In particular, the German ruling class, represented by the coalition government of the Christian Democrats and Social Democrats, has rudely squelched the Frenchman's various schemes. No German *geld*, they declaim, will be spent to pay for the profligacy and economic foibles of its European "partners." More generally, the powers that be in Berlin have insisted that it's up to other countries—read the U.S.—to fix their own economies in a way that will help Germany as well. In the words of German economics minister Michael Glos: "We can only hope that the measures taken by other countries...will help our export economy" (*Financial Times*, 1 December 2008). Dream on, Herr Minister!

Japan, which is a very big player in the international economy, has not gotten sufficient attention from the American financial press. Japan is the second biggest economy in the world. Even more importantly, it's the largest creditor nation in the world. While China has recently overtaken Japan as the biggest holder of U.S. government securities, Japan holds a far larger volume of private debt from corporations all around the world.

In 1989-90, a real estate and stock market bubble in Japan burst, and it ushered in a decade of stagnation, what later came to be known as "the lost decade." The monetary authorities pushed interest rates down to effectively zero in order to stimulate investment. As it happened, the policy worked but not in the way the government authorities intended it. The huge overhang of excess industrial capacity and "nonperforming bank loans" discouraged additional investment ***in Japan itself***. So Japanese financiers and investors all over the world borrowed cheap money in Japan and then invested it in other countries where for one reason or another the rate of return was higher. In the financial press this was known as the "yen carry trade."

The yen carry trade is now being pushed hard into reverse gear. That is, investors are selling their assets all over the world, at rapidly diminishing prices, in order to repay their loans to Japanese banks and other institutions. But this has become a ***self-defeating*** process. Because as this money floods into Japan, it drives up the value of the yen relative to the currencies of almost all the countries in which the debtors have invested. So that increases the real burden of their outstanding debt and future debt repayments. Imagine that you were bailing out a large tub of water and that for every bucket you threw out, a bucket and a half flowed back into the tub through an underground pipe. Well, that's basically the situation now facing foreign and also the Japanese investors who have taken advantage of the more than a decade-long yen carry trade.

At the same time, the appreciation of the yen is driving up the prices of Japanese goods in world markets at a time of rapidly declining global demand. The core of Japanese industrial capitalism is taking a big hit. Toyota expects a loss in its auto/truck business this fiscal year for the first time in seven decades. Sony has announced it is laying off 5 percent of the workforce in its electronics division and closing down up to six factories around the world.

Global Crisis Jolts China's "Socialist Market" Economy

So what about China—which we understand is not capitalist, but a bureaucratically deformed workers state? During the 1997-98 East Asian financial-economic crisis, China effectively offset the impact of the crisis by substantially expanding investment in industrial construction and infrastructure. And the Beijing Stalinist regime is trying to replicate that policy now. In early November, it announced a big stimulus package (equivalent to $585 billion) centered on expanding infrastructure—railways, roads, airports, ports and the like. Subsequently, however, it was reported that the actual amount is much smaller than initially indicated. Only one-quarter of the funds will be provided by the central government; the other three-quarters are supposed to come from local government bodies and state-owned banks. But these institutions have far more limited financial resources. Stephen Green, an economist with the Standard Chartered Bank in Shanghai, commented in this regard: "With revenues falling, it is difficult to see how local governments, banks and companies can make up the rest of the Rmb 4,000bn" (*Financial Times*, 15-16 November 2008).

Comrade Markin and I have discussed the impact of the global crisis on China. And we both think that this time around, unlike in the late 1990s, the Chinese economy is not going to get by basically unscathed. To begin with, this is not a regional but a global economic downturn. And it's centered in the U.S. and West Europe. All indications are that it's going to be very severe and fairly prolonged. One consequence is that this increases the likelihood of anti-Chinese trade protectionism in the U.S. and in West Europe.

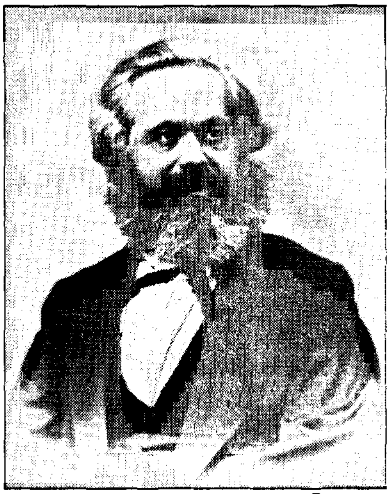
We are going to see, and are now actually seeing, the ***downside and inflexibility*** of what the Chinese Stalinists call a "socialist market" economy. There are tens of thousands of factories in China employing tens of millions of workers owned by domestic entrepreneurs, offshore Chinese capitalists in Hong Kong and Taiwan and foreign corporations that produce commodities specifically geared to the advanced capitalist countries, commodities like toys, CD players and global positioning systems for cars. These factories cannot quickly and easily shift production to, say, producing household appliances for Chinese workers and peasants. And that would be the case even if the People's Liberation Army flew helicopters over working-class neighborhoods and rural villages and dumped bundles of money for the inhabitants.

AP

Workers occupy office at Kaida toy factory in Dongguan, China, November 2008. Global economic crisis reveals downside and inflexibility of Chinese Stalinists' "socialist market" economy.

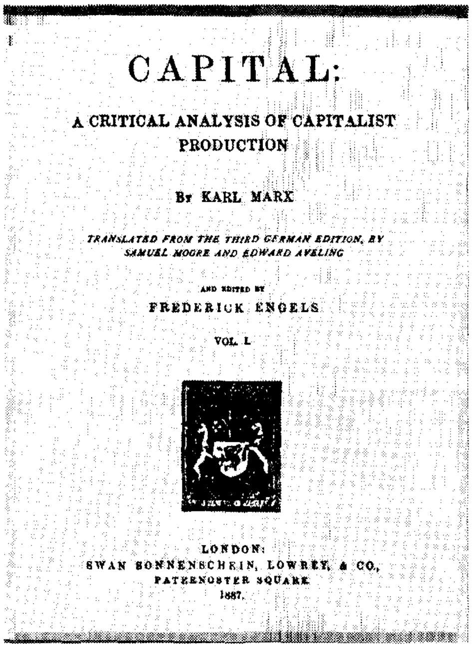
Furthermore, the Beijing regime has encouraged its own version of a housing-price bubble and a residential construction boom. The large and increasingly affluent urban petty bourgeoisie—Chinese yuppies—borrowed money to buy, build and expand houses not just to live in them but as financial investments. They expected that the market price of these would continue to spiral ever upward. Well, the housing bubble has now burst. In one upscale Beijing neighborhood, the price to purchase new apartments fell 40 percent between February and October of last year. The London *Economist* (25 October 2008) commented: "The housing market provides some nasty shocks to China's new middle classes." Of course, we're not that concerned about the travails of Chinese yuppies. We are, however, very much concerned about the effect of the collapse of the housing-price bubble on ***our*** class: the proletariat. It's had a depressing effect on the residential construction industry, most of whose labor force consists of male migrant workers from the countryside.

The upshot is that China, unlike almost all capitalist countries, is not going to go into a recession. But the likelihood is that it is going to experience a sharp decline in the rate of growth, which in the past couple of decades has averaged around 10 percent. Correspondingly, there's going to be a large increase in the number of urban unemployed, both from workers, who are laid off in the private sector, and from peasants, who are coming into the cities looking for work but not finding any. According to official figures, by the end of November, ten million migrant laborers were laid off from their jobs in urban China. And this economic distress is going to produce increased social unrest. There have already been angry protests by laid-off factory workers in the Pearl River delta, the main region in China producing light manufactures for First World markets. What we do not and cannot know is whether the increase in worker unrest will



Progress

Boom-and-bust cycles outlined by Karl Marx in his seminal work, *Capital*, demonstrate fundamental irrationality of capitalist system of production.



CAPITAL:

A CRITICAL ANALYSIS OF CAPITALIST PRODUCTION

BY KARL MARX

TRANSLATED FROM THE THIRD GERMAN EDITION, BY SAMUEL MOORE AND EDWARD AVELING

AND EDITED BY FREDERICK ENGELS

VOL. I.

LONDON:
SWAN SONNENSCHEIN, LOWREY, & CO.,
PATERNOSTER SQUARE.
1887.

destabilize the political situation. That is beyond the scope of our current knowledge.

The Revival of Keynesianism

What's likely to happen? All indications are that this is going to be an exceptionally severe and prolonged world economic downturn, especially bad in the U.S. and Britain. At the level of ideology, and to a lesser extent, policy, we are going to see, and have already seen, a shift from the right wing to the left wing of the bourgeois political spectrum: fiscal policy based on increased deficit spending, partial nationalization of the banks and other financial institutions, attempts at expanding and tightening regulation of financial transactions and the like.

Comrade Robertson and others have observed that monetarism as a doctrine has been completely discredited and Keynesianism is back in fashion. I have seen more positive references to John Maynard Keynes in the English-language financial press in the last six weeks than I have seen in the last ten years. Comrade Blythe pointed out that it is a deeply ingrained American liberal myth that Franklin Roosevelt's New Deal, based on Keynes's doctrines, got the U.S. out of the Great Depression of the 1930s. No, what got the U.S. out of the Depression was the expansion of "public works" during World War II, the "public works" being tanks, fighter planes, aircraft carriers and the atomic bomb.

We have written about Keynesianism in the past, unfortunately the rather distant past in terms of our tendency's history. I recommend in particular three pieces. In the early 1960s Shane Mage, a founder of our tendency, wrote a doctoral thesis, "The 'Law of the Falling Tendency of the Rate of Profit': Its Place in the Marxian Theoretical System and Relevance to the U.S. Economy" (Columbia University, 1963). Incidentally, his thesis adviser was Alexander Ehrlich, the author of *The Soviet Industrialization Debate 1924-1928*. Mage's work contains a section explaining the difference between Keynes's and Marx's understanding of the basic cause of economic downturns. In the 1974-75 world economic downturn, I wrote a piece called "Marx vs. Keynes" (*WV* No. 64, 14 March 1975), which was partly theoretical and partly empirical. And in 1997-98, *WV* ran a five-part series under the general heading of "Wall Street and the War Against Labor." Part Three, "The 1930s New Deal and Labor Reformism" (*WV* No. 679, 28 November 1997), contains an analysis of Keynes at the theoretical level as well as an empirical analysis of the U.S. during the 1930s, the actual policies of the New Deal and the economic developments during the Second World War.

I want to conclude with a couple of points where the current situation is very different than in the 1930s. As I previously indicated, the current situation is very different in that the sheer volume of nominal, legally contractual debts that cannot be repaid far exceeds, by large multiples, the financial resources of capitalist governments. Already, Britain and Italy have encountered difficulties in financing the increased budget deficits resulting from their various bailout schemes. The *Financial Times* (1 December 2008) quoted Roger Brown, a financial analyst with the Swiss bank UBS, who pointed out:

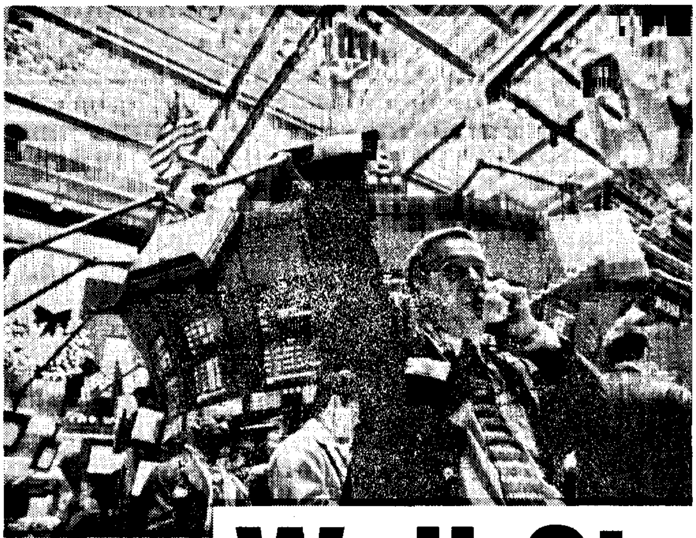
> "Governments are already running into problems, which does not bode well so early after the [bank] recapitalisations and extra funding needs have been announced.
>
> "We do have to ask whether there will be enough investors to buy the bonds, or at the very least over whether this will push yields substantially higher to attract them."

So all these bailout schemes can at most offset a small fraction of the losses.

The second is that the U.S. is going into this deep downturn with an enormous existing overhang of debt, much of which is held by East Asian governments and investors. And this puts a pretty tight upper limit on additional deficit spending. In his first post-election pronouncement, Barack Obama sought to ***dampen***, not encourage, expectations that the U.S. is soon going to return to "prosperity": "I have said before and will repeat again: It is not going to be quick, and it is not going to be easy for us to dig ourselves out of the hole that we are in." Thus spake the new chief executive of the most powerful capitalist country in the world.

So what is the solution? It is, as we know, both simple and radical. The working class has to take over the productive resources of society—the factories, transport systems, electric power generating systems—from the capitalists and, through the establishment of a planned economy, use these resources in the interests of the working class and society at large. But in order to do that, you need a political party that represents the interests of the working class against the capitalist class. In the U.S., such a party would also stand for the rights and interests of the black and Latino oppressed minorities, for the rights of immigrants and all other oppressed sections of society. To build such a party, the workers have to break with, in particular, the Democratic Party—that is, the more liberal, or at least more liberal-talking, party of American capitalism. It is also necessary to oust the existing pro-capitalist labor bureaucracy and replace it with a leadership that fights for the interests of the workers, and again, of all of the oppressed. And it's only when that is done that it will be possible to realize a basic principle, namely, that those who labor must rule. ■

reprinted from Workers Vanguard *Nos. 676, 677, 679, 680, and 681; 17 October, 31 October, 28 November, 12 December 1997 and 2 January 1998*



Maiman/Sygma

Hill/Boston Herald

Wall Street and the War Against Labor

Part 1

The Teamsters strike against UPS this August was generally seen as the first significant victory for labor in this country since Republican president Ronald Reagan crushed the PATCO air traffic controllers strike in 1981. A few days before the UPS settlement, when it was clear that the strike was not only effective in shutting down UPS but also broadly popular, Wall Street suffered the sharpest one-day sell-off in six years and the Dow Jones plunged 250 points—more than 3 percent. While stock prices have since recovered somewhat, they remain below the peak reached in early August.

America's capitalists were upset by the UPS strike not primarily because of the economic gains made by the drivers and warehousemen, which were quite modest. What really troubled the ruling class was the widespread view evidenced during the strike that the unions were now the good guys and corporate owners and managers the villains. The men who run Wall Street and the Fortune 500 corporations are, for their own reasons, sensitive to the mood of the men and women they exploit. And they are aware of a deepening bitterness and growing anger that is potentially dangerous to them.

A few days after the strike ended, the *New York Times* (24 August) ran an op-ed piece titled "The Worker Backlash," written by Stephen Roach, chief economist for the main branch of the House of Morgan, America's premier financial dynasty. Roach begins by stating flat out:

> "American workers are now beginning to challenge the very forces that have led to a spectacular resurgence in corporate profitability and competitiveness in the United States. They are, in effect, saying 'no' to years of corporate cost cutting that has been directed primarily at the nation's labor force."

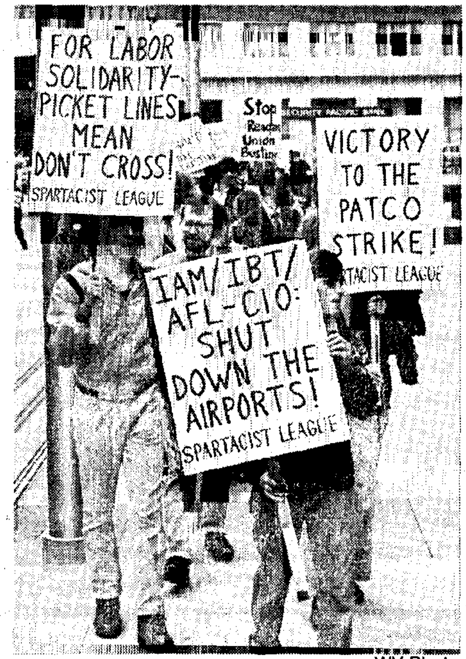
Roach shoots down the notion that the rise in profitability and the resulting bull market on Wall Street are based on increased productivity resulting from investment in more advanced technology. He points to a recent Commerce Department study indicating that productivity increases in the U.S. during the 1990s have averaged slightly less than 1 percent a year, little different from the decade before and less than half the gains made in the 1950s-'60s. Describing the current economic situation as "a labor-crunch recovery—one that flourishes only because corporate America puts unrelenting pressure on its work force," Roach predicts:

> "Unlike the productivity-led recovery, the labor-crunch recovery is not sustainable. It is a recipe for mounting tensions, in which a raw power struggle occurs between capital and labor. Investors are initially rewarded beyond their wildest dreams, but those rewards could eventually be wiped out by a worker backlash."

Shortly after these words were written, San Francisco—the financial capital of the West Coast—was disrupted by a week-long strike against the Bay Area Rapid Transit (BART) system, which carries 40 percent of trans-Bay commuter traffic. As at UPS, the BART strike was in large measure fueled by opposition to the two-tier wage system which especially victimizes young workers. In this case, the union bureaucrats scuttled the strike without any real gains for the workers. Nevertheless, the BART strike confirmed Roach's concern about a "worker backlash."

We do not know whether Wall Street economist Stephen Roach has ever studied Karl Marx's *Capital*. However, in his own empirical way Roach recognizes one of its central truths: the market value of capital—i.e., the price of corporate stock—is in large measure determined by the intensity

AP



WV Photo

Government dragged PATCO leaders off to jail and broke 1981 strike. AFL-CIO tops' refusal to shut down airports in solidarity set stage for years of anti-union attacks. Right: SL signs at demonstration in support of PATCO strike, 1981.

of the exploitation of labor. Capital should not be identified with the physical means of production and distribution—factories, power plants, oil refineries, trucks—as such. Rather, capital is a social relation defined by the monopolization of the means of production by one class which exploits the labor of another class. As Marx wrote:

> "Capital is not a thing. It is a definite interrelation in social production belonging to a definite historical formation of society.... Capital is not the sum of the material and produced means of production. Capital means rather the means of production converted into capital, and means of production by themselves are no more capital than gold and silver are money in themselves. Capital signifies the means of production monopolized by a certain part of society, the products and material requirements of labor made independent of labor-power in living human beings and antagonistic to them."
> — *Capital*, Volume III

Hence the condition of financial markets is at the most fundamental level governed by the state of the class struggle between the working class and the capitalists. At the same time, trade-union struggles for higher wages and better working conditions are essentially a type of guerrilla struggle against the capitalist economic system. The working class will be subjected to continual attempts to increase the rate of exploitation and to the threat of deepening immiseration until it expropriates the capitalist profiteers through a socialist revolution and establishes a planned economy where production is for the benefit of the whole of society.

Wall Street and the Class Struggle

Earlier this year, the left-wing London publishing house Verso brought out *Wall Street*, a study of U.S. financial markets by American writer Doug Henwood. Publisher of the New York-based newsletter *Left Business Observer*, Henwood considers himself a Marxist. Paradoxically, while the bourgeois analyst Stephen Roach recognizes the central importance of the class struggle in determining the movement of financial markets, the leftist Henwood does not. Instead, Henwood presents Wall Street as a world unto itself, governed exclusively by the actions and interactions of investment bankers, money managers, corporate CEOs and other "players," to use his term.

Henwood holds "Reaganomics" in large measure responsible for the sharply widening gap between rich and poor in the U.S. over the past few decades. Blaming the increased leverage of Wall Street financiers over industrial corporations for the deterioration of the economy and the falling living standards of working people, Henwood counterposes a series of economic reforms to deal with this situation:

> "Seriously boosting the income tax rate on the richest 1-2% of the population could fund all manner of public programs, from free education and childcare to public jobs programs. And taxation of wealth itself, along with income, would be a wonderful way to raise funds for, say, the upgrading of the public physical and social capital stock—financing urban reconstruction, mass transit, alternative energy research, and environmental repair."

The working class enters Henwood's picture of the current American economy only as helpless victims of capitalist greed personified by Wall Street financiers. In a 16-page index, there is no reference to the AFL-CIO or to trade unions in general. In fact, albeit expressed in more leftist verbiage, Henwood's views mirror those of the AFL-CIO bureaucracy. Thus, in preaching about corporate "accountability" and the need for greater "oversight" of financial markets, AFL-CIO chief John Sweeney told a meeting of the union federation's "Economic Strategy Institute Conference" in Washington, D.C. this April:

> "The problem is not that governments are too strong, but that they are too weak.... The international community must construct and enforce the rules needed to bring out the best in competition, not the worst. These include new regulations on international financial markets to encourage long term investment, not short term speculation, as well as new constraints on the power of financial buccaneers to up-end national economic policies."

The labor bureaucracy has consistently peddled illusions in a reformed and benevolent capitalism generating permanent prosperity for all. The appointed agent of this miraculous transformation is the U.S. government. The false view that this government represents the interests of all layers of society is meant to obscure the real nature of the capitalist state as the "executive committee" of the ruling class as a whole. Particularly since the 1930s, when the newly formed CIO industrial unions were politically shackled to the Democratic Party, the labor tops' subordination of the unions to the class enemy has taken the form of seeking to pressure this capitalist party to act as a "friend of labor."

A hallmark of the AFL-CIO misleaders' treachery is their adherence to the Taft-Hartley ban on secondary labor strikes, one of the most powerful tactics available to the labor movement. The *Economist* (23 August)—London house organ of international financiers—recently commented: "After Ronald Reagan crushed the air-traffic controllers' union in 1981, American managers felt unintimidated by the threat of strikes; they reengineered, down-sized and contracted out."

But this was not inevitable. If the machinists and other airline workers had walked out in solidarity with the PATCO strikers in 1981, defying Reagan and shutting down the nation's airports, the economic history of the United States over the past decade and a half—and a lot of other things—would have been very different.

Serving as the political agents of the bourgeoisie, the union bureaucracy suppresses militant labor struggle against the bosses and their state, opposes any serious fight against the deep-seated racist oppression of black people which is at the core of American capitalism, and at the same time supports U.S. imperialism against the exploited and oppressed peoples of the world. In the name of anti-Communism, the labor officialdom backed to the hilt the Cold War drive which helped destroy the Soviet Union. And the AFL-CIO tops have spent millions agitating for trade protectionism, a pernicious policy which pits American workers against their class brothers and sisters in other countries. By omission, Henwood absolves the pro-capitalist labor bureaucracy—its treachery, defeatism and class collaborationism—from any responsibility for the generation-long assault on wages and working conditions.

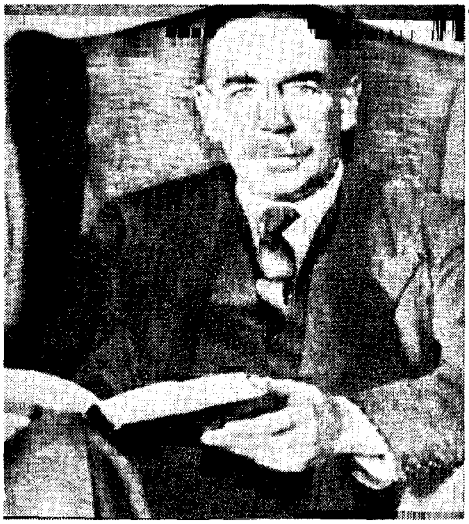
The immiseration suffered by working people in the U.S. over the past generation is not the result of bad government policies or bad ideas on the part of those who run federal government bureaucracies, Wall Street banks or large corporations. The American working class is confronting the drive by the owners of capital to maximize their profits under conditions of low productivity growth and intensifying rivalry with Germany and Japan. Following the collapse of the USSR, the U.S. rulers believe themselves to be the masters of a "one superpower world." Yet Henwood gives no consideration to the increasing conflicts between American, German and Japanese imperialism, now no longer bound by the anti-Soviet alliance. This has already had a profound effect on everything from the U.S. Treasury's exchange-rate policies to Wall Street's increased penetration of Mexico through the NAFTA "free trade" agreement.

Moreover, reading *Wall Street*, one would never know that the United States is a deeply racially divided society. It was the use of racist demagogy against the minority poor that enabled Reagan and the Democratic Congress to cut taxes for the rich in the early 1980s and helped Clinton and the Republican Congress eliminate welfare earlier this year. There can be no effective resistance to the capitalist offensive against the working class unless the labor movement leads the struggle against the special oppression of blacks and other minorities. As we wrote in a special supplement on the UPS strike titled "Unchain Labor's Power!" (*WV* No. 673, 5 September):

> "The capitalist rulers have fomented racial hatred and made the color bar a fundamental dividing line in this country in order to obscure the irreconcilable class divide between labor and capital. Once supplying a 'reserve army of labor' to be employed when the bosses needed them, the ghetto poor have been discarded by a ruling class that no longer needs their labor power. But black workers remain a significant component of organized labor, integrated into strategic sections of the proletariat in whose hands lies the power to break the chains of capitalist exploitation and racist oppression."

Industrialists and Financiers: Two Classes in Conflict?

Disappearing the struggle between labor and capital, Henwood's *Wall Street* instead focuses on the supposed conflicts between different sections and factions of the bourgeoisie. Henwood attributes extraordinary influence in the real world to advocates of economic theories currently or recently fashionable in U.S. ruling circles, like the "supply-side economics" pushed by Reaganite ideologues like Jude Wanniski and Robert Bartley. The "supply-siders" maintained that cutting tax rates, especially for the rich, would encourage an outpouring of entrepreneurial energy which would sharply accelerate economic growth. The resulting higher level of



UPI

John Maynard Keynes

national income would then generate a similar volume of taxes but at lower rates. Hence, they claimed, cutting taxes would not produce big budget deficits.

To begin with, the economic policies of the Reagan government cannot be understood without taking into account the massive increase in military spending which aimed to put pressure on the Soviet Union. Wall Street bankers and corporate executives were not going to pay out-of-pocket for the beefed-up Pentagon war machine by accepting higher taxes on their profits and income. And raising Social Security deductions or income taxes to cover the ballooning budget deficits would have quickly provoked a popular backlash against this right-wing Republican regime.

Furthermore, contrary to liberal mythology, the economic policies of the Reagan gang, which were supported by the Democratic-controlled Congress, were not really inspired by the crackpot theories of Wanniski, Bartley, Arthur Laffer and other "supply-side" true believers. As Reagan's budget director, David Stockman, admitted, "I've never believed that just cutting taxes alone will cause output and employment to expand" (William Greider, *The Education of David Stockman and Other Americans* [1982]).

The Reaganites ***deliberately*** manufactured massive budget deficits—the federal debt tripled between 1981 and 1990—in order to create the financial pressures and resulting political conditions to dismantle the "welfare state." And the strategy worked. Witness the effective elimination of Aid to Families with Dependent Children under Democrat Clinton and the looming attacks on Social Security and Medicare. Henwood blames it all on the financiers: "With the vast increase in government debt since the Reagan experiment began has come the increasing political power of 'the markets,' which typically means cuts in social programs in the name of fiscal probity." Would Henwood have us believe that the boards of directors of General Motors, Du Pont and Exxon are less insistent on cutting social programs than their counterparts at Citicorp and Morgan Stanley?

Basically, Henwood's book is an expression of a neo-populism which blames the worst ills and excesses of American capitalism on bankers and other financial operators. This political-intellectual current originated in the 19th century around the program of "cheap money" and was perpetuated in a somewhat changed form with the New Deal liberalism of the 1930s. Central to the liberal populist outlook is a belief that the capitalist class is divided into two classes, so to speak: those directly involved in producing and marketing goods and services, and those whose incomes derive from financial dealings. The former are regarded as at least relatively progressive, while the latter are deemed outright reactionary.

This outlook serves as a flimsy theoretical rationale for the program of the trade-union bureaucracy and assorted liberals and reformists, who seek to pressure a section of the capitalist class to enact policies favorable to workers' interests. Thus the Economic Policy Institute, a left-liberal think tank financed partly by the unions, complains today about "the low inflationary environment preferred by investors, Wall Street, and the bond market" (*The State of Working America 1996-97*). And ever since the time of Franklin D. Roosevelt's 1930s New Deal, the reformist Communist Party has pushed the notion of an "anti-monopoly coalition" with "progressive" capitalists—the analogue in the imperialist U.S. to the Stalinists' class-collaborationist strategy of an "anti-imperialist united front" with the nationalist bourgeoisie in the colonial and semicolonial world.

The liberal populist view of how capitalism works in this regard can be summarized as follows. The managers and principal owners of an industrial corporation are said to be loyal to it as an institution and normally strive to increase the firm's market share, which means expanding productive capacity and employment. On the other hand, bankers, bondholders and other creditors are supposedly primarily concerned that the firm has sufficient cash flow to service its debt. Hence they oppose any investments deemed risky, such as in new technology, and are supposedly ever willing to force a firm into bankruptcy, liquidating its assets to recoup their loan capital. Likewise, with respect to government policy, industrialists are considered more likely to favor expansionary monetary and fiscal policy which would increase demand for their products while financiers are presumed to always want "tight money" and fiscal austerity.

The Myth of Progressive Entrepreneurs

During the Great Depression of the 1930s, John Maynard Keynes, who defined liberal economic thought for the next several decades, divided the capitalist class into entrepreneurs and rentiers. Entrepreneurs were those engaged in "the positive act of starting or maintaining some process of production." Rentiers, on the other hand, simply live off the income generated by their financial holdings, primarily the interest on government and corporate bonds. Henwood endorses Keynes' schema in this regard as he complains that "the increased prominence of institutional investors, particularly pension funds in the stock market, has increased rentier power over corporate policy." For Henwood, following Keynes, this is definitely a bad thing.

Keynes advocated that the government act to drive down the rate of interest relative to profit through fiscal and monetary policies and public works programs. This, he argued, would enable entrepreneurs to expand production and employment, thereby overcoming the boom-bust cycle of capitalism. Keynes even projected "the euthanasia of the rentier"—a time when the return on money capital would be reduced to zero.

Anti-Wall Street populism was revived in the 1980s with the hostile takeover/leveraged buyout/junk bond binge. Films like *Wall Street* and *Other People's Money* depicted the new breed of financial operators as greedy and despicable compared to honest, honorable old-line capitalists. Henwood notes how Fortune 500 CEOs routinely complain of the pressure on them from Wall Street money managers and analysts to produce quick profit growth. Presumably, in the absence of such outside pressures, corporate America would treat its workforce in a kinder, gentler and more generous way, would spend more for research and development, would expand production and employment even if this resulted in a lower rate of return on capital. Anyone who believes that doubtless also believes in the tooth fairy.

While Henwood is not quite so naive, he nonetheless buys into the notion that the owners, managers and creditors of America's corporations have significantly different and conflicting interests:

> "Stockholders want high stock prices, bondholders and other creditors want their interest paid regularly and their principal eventually returned, and managers want a peaceful life with high salaries and minimal external intrusion.... Often these goals collide."

This schematic analysis may have some applicability to firms where managers, stockholders and bondholders are substantially made up of different people. However, many managers hold a large block of their firm's stock. Furthermore, some big corporations have their own, management-run pension funds whose biggest asset is the firm's stock. A study of the comparative financial structure of Britain, the United States and Japan pointed out with regard to such pension funds: "In many of the American cases these 'internal funds' were the largest shareholders in their own companies, buttressing the power of the current board of directors who ultimately controlled the use and disposition of the funds" (John Scott, *Capitalist Property and Financial Power* [1986]).

More fundamentally, Henwood's tripartite schema has no basis in reality in terms of the American capitalist class ***as a whole***. The big institutional investors like bank trust departments, pension funds and mutual funds deal in both stocks and bonds. Wealthy people hold a mixed portfolio of securities whose composition is constantly shifting. The top managers of the Fortune 500 do not keep their money in a mattress or a savings account at the local bank. They, too, invest in stocks and bonds, including those of firms other than their own. At another and very significant level, the children of bankers and executives of non-financial corporations frequently intermarry, so that the family—the basic social unit of the American bourgeoisie and of class society as a whole—cuts across and transcends the industrial/financial division.

The common interests of ***all*** elements of the American capitalist class—whether Wall Street investment bankers, Midwestern manufacturers, Texas oilmen or California agribusinessmen—are qualitatively greater and more important than their differences. All want to maximize the exploitation of labor and to minimize the overhead costs of government social programs.

Although Henwood's *Wall Street* focuses almost exclusively on the state of the U.S. economy, he draws from this material sweeping generalizations about the capitalist system as such. Yet the financial structure of so-called "bank-based" economies like Germany and Japan is very different from the "market-based" economies in the U.S. and Britain. In the former cases, it is particularly meaningless to speak of a division, much less an antagonism, between industrial and financial capitalists. For example, Japanese capitalism has

Archambault/U.S. News & World Report

Youth and minorities in capitalist America face chronic unemployment or minimum-wage jobs.

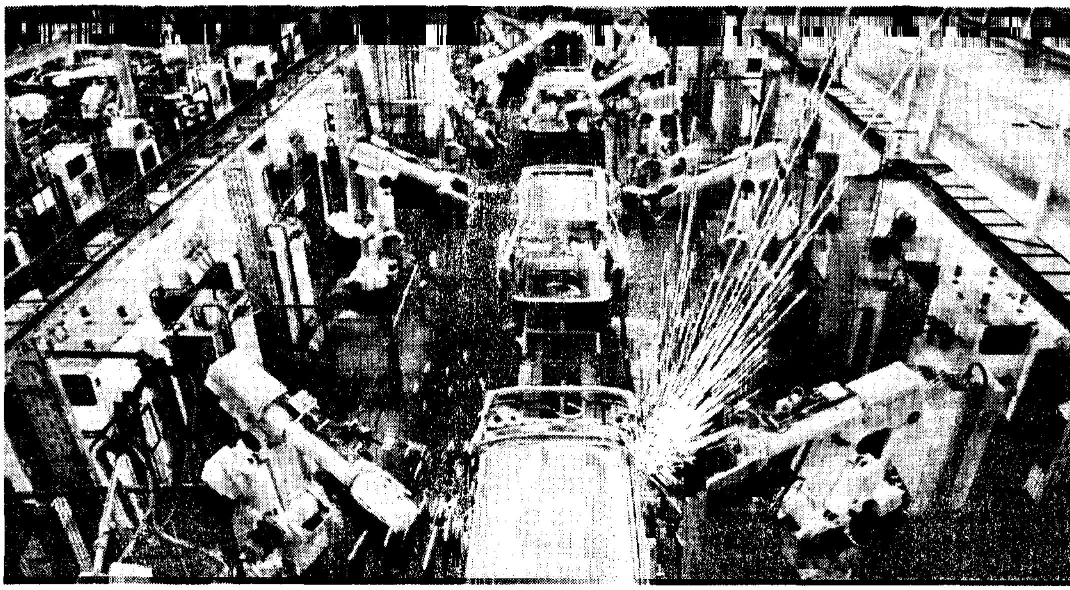
since the late 19th century been organized around tightly integrated groups of financial, industrial, distribution and commercial capital known today as *keiritsu* (whose origins stem from the pre-1947 *zaibatsu*).

And in Germany, the big three banks—Deutsche Bank, Dresdner Bank and Commerzbank—have representatives on over 40 percent of the supervisory boards of the country's *Aktiengesellschaften* (AGs, share corporations). These boards appoint, dismiss and monitor the management of the largest corporations. Banks directly own 10 percent of the common stock issued by German corporations. More importantly, other stockholders normally vest their proxy votes with a firm's principal bank rather than its management, regarding the former as the best guardian of their investment.

For most of the post-World War II period, the "bank-based" economies of Germany and Japan performed better than the "market-based" economies of the United States and Britain, with higher rates of growth of national income and industrial productivity. If the U.S. has regained a certain competitive edge in world markets over the past decade or so, it is due entirely to the savage intensification in the exploitation of labor, which union bureaucrats and liberal intellectuals blame on "Reaganomics" and its aftereffects. Ironically, the German bourgeoisie now insists that the relatively high pay and benefits of its labor force be reduced to or near the level of British and American workers, while many trade-union reformists in these countries look to the supposedly more industrial-based German economy as the reason for higher living standards for workers there.

Neo-Populism and "the Greed Decade"

During the 1950s and '60s, American capitalism was popularly identified with large industrial corporations like General Motors, U.S. Steel, Du Pont and IBM. The CEO of



High-tech Opel auto plant in Germany. As German and Japanese technology outpaced U.S. industry, American capitalists moved to intensify exploitation of labor to regain competitive edge.

the Pentagon war machine, otherwise known as the secretary of defense, was typically a former top executive of one of the "Big Three" auto companies. Charles Wilson, who held this post under Republican president Eisenhower in the 1950s, proclaimed, "What's good for General Motors is good for America." His successor under Democrats Kennedy and Johnson in the 1960s was former Ford Corporation head Robert McNamara, the main architect of the Vietnam War.

In the 1980s, however, financial operators of a new type appeared to become the strongmen of American capitalism. Big-time "corporate raiders" like Carl Icahn and T. Boone Pickens, wheeler-dealers like Donald Trump and junk-bond kings like Michael Milken became household names. Yet how many people could identify the chief executives of General Motors, Exxon or Citicorp? The deteriorating conditions of American working people—layoffs, plant closures, cuts in wages and benefits—were now blamed on the new financial operations, such as leveraged buyouts. Corporate raiders and their financial henchmen were denounced by union leaders and liberal intellectuals for killing the "American Dream."

The liberal populist view of the changing American economy was well expressed in the 1991 film, *Other People's Money*. The plot centers around the efforts of a Wall Street raider, "Larry the Liquidator"—played by Danny De Vito as a wiseass sleazeball—to take over a small New England manufacturing company. The firm's profits are down because its main division is losing money due to the low level of capital construction in the U.S. The company's patriarchal head, played by Gregory Peck, waxes nostalgic about the late 1940s, when Harry Truman made a campaign speech outside the plant gate. Peck's character says: "That was the golden age—rebuilding America." At a key stockholders' meeting, he proclaims: "Here we care about more than the price of our stocks; here we care about people." Another character comments, "Wall Street's in the liquidation business these days." The implicit message is that Wall Street used to be in a different, more constructive "business" and that the recent wave of layoffs and plant closings was dictated by outside financial interests against the will of old-line owners and managers.

During the 1980s, the financial structure of American capitalism did undergo a real and important change. For the first four decades after World War II, the ratio of debts to assets for non-financial corporations remained basically stable. Then there was a veritable explosion in corporate debt, which rose from $900 billion in 1980 to $2.4 trillion by the end of the decade. This massive increase in debt was used to finance or resist takeovers. In a study of such financial operations between 1983 and 1989, liberal economists Margaret Blair and Martha Schary found that the firms involved on average increased their debt-to-asset ratio from 60 to 90 percent (Margaret Blair, ed., *The Deal Decade* [1993]). This was usually followed by a contraction in productive capacity and with it, of course, the labor force.

To understand the sudden and radical changes in corporate America in the 1980s, it is necessary to consider previous, more "normal" periods. Coming out of the Great Depression of the 1930s, the U.S. massively rebuilt its industrial plant and infrastructure (e.g., interstate highways) in the years during and after World War II. By the early-to-mid 1950s, the U.S. had by far the largest and most technologically advanced productive capacity of any capitalist country. American-manufactured products dominated world trade, while the dollar, then considered "as good as gold," dominated international financial markets.

Under these conditions, corporations could grant their workers steady, modest wage increases without reducing the return on capital. If a particular division or new investment project was losing money, this was more than offset by healthy profits from other operations. Hence corporate management could negotiate a labor contract, open up a new factory or start a new product line without looking over its shoulder to see how the stockholders would respond. As Margaret Blair put it: "For thirty years after World War II, investment opportunities were good enough in general, and the opportunity cost of capital was low enough, that financial interests did not try to interfere with [corporate] strategies to retain and reinvest."

However, by the mid 1960s, Germany and Japan had rebuilt the industrial capacity destroyed during World War II. In many cases, the new plants embodied more advanced technology than that prevailing in American factories. U.S. corporations now found themselves facing increasingly effective competition in world markets and even in the domestic market. The U.S. economy was further weakened by the inflationary pressures generated by the long, losing imperialist war in Vietnam. Taking inflation into account, 1965 was the high-water mark for corporate profits during that tumultuous decade. The real volume of corporate profits did not reach that level again until the early 1970s.

Following year after year of massive balance-of-trade deficits, especially with Japan, in 1971 Republican president Nixon devalued the dollar, signaling the end of U.S. imperialist hegemony. The deterioration of American capitalism was further exposed by the 1974-75 world economic downturn, with after-tax profits of U.S. corporations plunging 21 percent in little over a year. Between 1972 and 1974, the Dow Jones plummeted from over 1,000 to below 600.

The "Giveback" Era and the Labor Bureaucracy

America's capitalist rulers responded to these unhappy developments with a concerted drive to intensify the exploitation of labor. Corporate managers demanded "giveback" contracts from the unions, and the AFL-CIO bureaucrats duly obliged. Two-tier wage systems were widely introduced, thereby institutionalizing the superexploitation of younger and particularly minority workers. Production was shifted from the unionized North and Midwest to the low-wage South and Southwest, and also to East Asia and Latin America. The AFL-CIO tops turned a blind eye to the need to organize the "open shop" South, which would require mobilizing labor to take up the fight against the union-hating KKK fascists and all-sided racist oppression. And rather than promote international labor solidarity, the labor bureaucracy turned up the volume on its chauvinist calls for "American work for American workers." Meanwhile, the "AFL-CIA" continued its decades-long collusion with U.S. imperialism in subverting class-struggle unions abroad.

Partly as a result of the attacks on labor, U.S. corporate profit margins recovered somewhat by the end of the 1970s. But then came the 1981-82 world depression, the worst since the 1930s. Blair and Schary calculated that the profit rate of U.S. non-financial corporations fell from 18 percent in 1979 to 15 percent in 1983. It was precisely at this point that the binge of hostile takeovers and leveraged buyouts hit Wall Street with hurricane force. Blair and Schary give the core reason:

> "The cost of capital, which is the minimum return investors require to finance future investment, rose dramatically in the first half of the 1980s. The increase was worse in some industries than in others, but it affected all industries to some degree. The decade was also different from its predecessors in that realized returns to capital in many industries fell."

In their own empirical way, these liberal economists recognize a central aspect of the Marxist understanding of the capitalist system. It is changes in the rate of profit, i.e., the ratio of profit gained to the amount of money-capital invested, which govern the expansion and contraction of production. As Marx wrote in Volume III of *Capital*:

> "It is for this reason that the capitalist mode of production meets with barriers at a certain expanded stage of production which, from the other point of view, would be altogether inadequate. It comes to a standstill at a point determined by the production and realization of profit, not by the satisfaction of social needs."

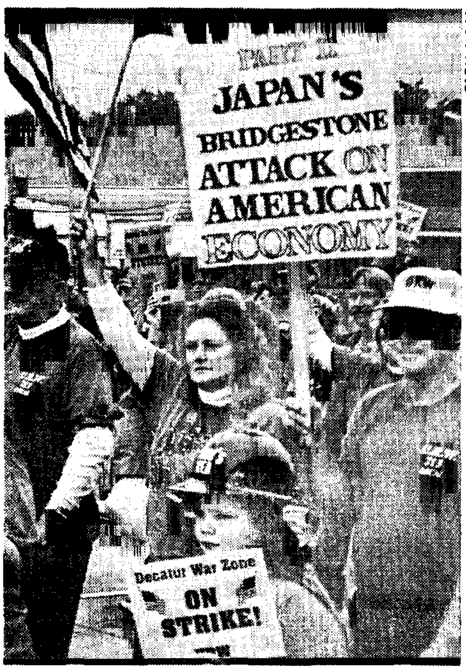
In the early 1980s, the American capitalist class was unwilling to accept the reduced rate of profit resulting from the relative deterioration of the economy and the share of national income then going to the working class. Stockholders demanded that corporate managers further slash wages and benefits, lay off "redundant" workers—white-collar as well as blue-collar—and close down operations which were losing money or were only marginally profitable.

If stockholders perceived that the management was not adequately carrying out these demands, they were more than willing to sell their shares to raiders (or to the incumbent managers) at a premium over the existing market price. In order to buy off and buy out the stockholders, the raiders and/or incumbent managers had to borrow huge sums of money. The explosive growth of corporate debt over the past decade and a half is a financial repercussion of the drive to intensify the exploitation of labor. It is an ***effect, not a cause*** of the immiseration of America's working people.

Although she views the U.S. economy through the distorting prism of liberal bourgeois ideology, Margaret Blair recognizes that stockholders (i.e., owners) were the principal authors of "the greed decade," not the raiders, investment bankers or other financial operators:

> "In many cases improved returns [to stockholders] could be achieved only by obtaining concessions from suppliers or customers, reducing the amount of taxes paid, extracting wage concessions, or cutting white-collar corporate staff. Or they could come from reducing investment. In other words, the improved returns to shareholders had to be achieved at the expense of other social goals of the corporations."

The *only* "social goal" of a capitalist enterprise is increasing the wealth of its owners. The notion that large corporations have other, competing goals, such as the well-being of their workers or the expansion of production, is a liberal myth. However, the idea that the interests of some sections or elements of the capitalist class coincide with those of working people is deeply rooted in American political culture. And this idea must be uprooted if the working class is to effectively combat the capitalists, their political henchmen in the Democratic and Republican parties and their labor lieutenants in the AFL-CIO bureaucracy.



WV Photo

Labor tops' chauvinist Japan-bashing helped strangle 1994-96 Bridgestone-Firestone strike.

Part 2: American Populism in the 19th Century

The United States is the only advanced capitalist country where the working class has not attained even a minimal level of political class consciousness. The American working class in its mass has never supported a party whose declared ultimate goal is the replacement of the capitalist system with a socialist society or which even claims to stand simply for workers' interests in their day-to-day struggles against the employers.

Ever since the emergence of an organized labor movement in the late 19th century, the American working class has been under the ideological sway of liberal populism, whose main political carrier is the Democratic Party. When Jesse Jackson addresses a labor rally today, he voices ideas and values that were the stock in trade not only of Franklin D. Roosevelt's Democratic Party in the 1930s—FDR's third-term vice president, Henry Wallace, in particular was a vaunted "progressive"—but of the Democratic Party of William Jennings Bryan, who in the 1890s denounced "the moneyed interests, aggregated wealth and capital, imperious, arrogant, compassionless."

As one early social-democratic labor historian wrote: "American labor has always been prone...to identify itself in outlook, interest, and action, with the great lower middle class, the farmers, the small manufacturers and business men,—in a word, with the 'producing classes' and their periodic 'anti-monopoly' campaigns" (Selig Perlman, *A Theory of the Labor Movement* [1928]). In the populist view, all economic evils are caused by certain sections of the capitalist class—the "robber barons," the monopolists, the Wall Street bankers—who are condemned on moral grounds as devoid of feeling for their fellow man. If only the government would adopt the right policies—"cheap money," trust-busting, spending for public works, taxing the rich—such a reformed capitalism would produce general and permanent prosperity.

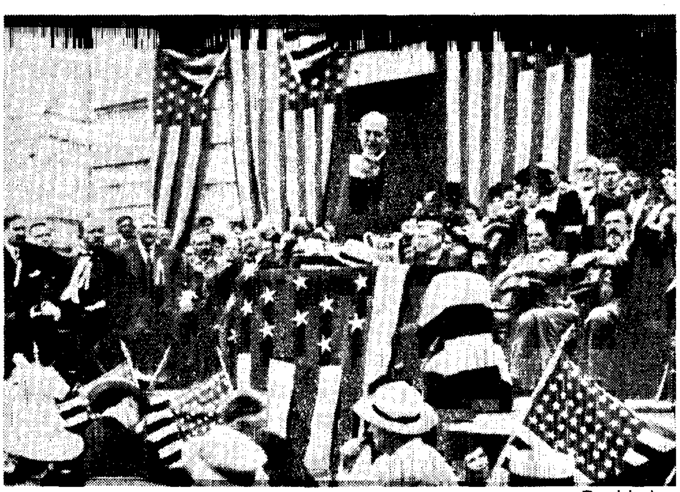
While one can point to several factors accounting for the hegemony of liberal populism over the U.S. working class over the past hundred years, there are two fundamental reasons, both rooted in the country's origins. One is the enormous social weight of petty capitalist proprietors; the other is the ethnic and racial diversity of the working class and the population in general, the result of the slave trade and successive waves of immigration. In Europe (and also Japan) the capitalist system developed out of pre-existing feudal social formations. In contrast, the American nation-state was created through European colonial settlement of a continent-wide land previously inhabited by a sparse aboriginal population of hunter-gatherers and primitive agriculturalists; in the early South, the social/economic system was based centrally on the use of enslaved black Africans (supplanted after the Civil War by sharecropping and tenancy).

The legacy of the slave system—the all-sided oppression of blacks under capitalism—remains the central question of the American socialist revolution. Racial and ethnic divisions in the working class, deliberately fostered by the bourgeoisie, have been the single greatest obstacle to the development of proletarian class consciousness in this country.

Except in the South, the absence of a feudal inheritance in land tenure, the relative shortage of labor and the availability of abundant and fertile land produced a highly commercialized and mechanized capitalist agriculture based on the family farm. Compared to the impoverished and benighted peasant villages of Europe, 19th-century rural America was prosperous and economically dynamic. With the right combination of business acumen and good fortune, a farmer could make a lot of money, many times that of a factory worker.

The U.S. working class thus developed in a social environment permeated with petty-bourgeois "republican" attitudes and values. The farmer, the merchant, the self-employed master mechanic or carpenter were regarded as the backbone of the American republic, the main guardians of its "democratic way of life." A hired laborer was looked down on as a man lacking the moral fiber, enterprise or intelligence to become economically independent.

Even after the United States had become an industrial power dominated by giant corporations and banks, official bourgeois ideology still upheld the ideal of a nation of small proprietors. In the first years of the 20th century, a right-

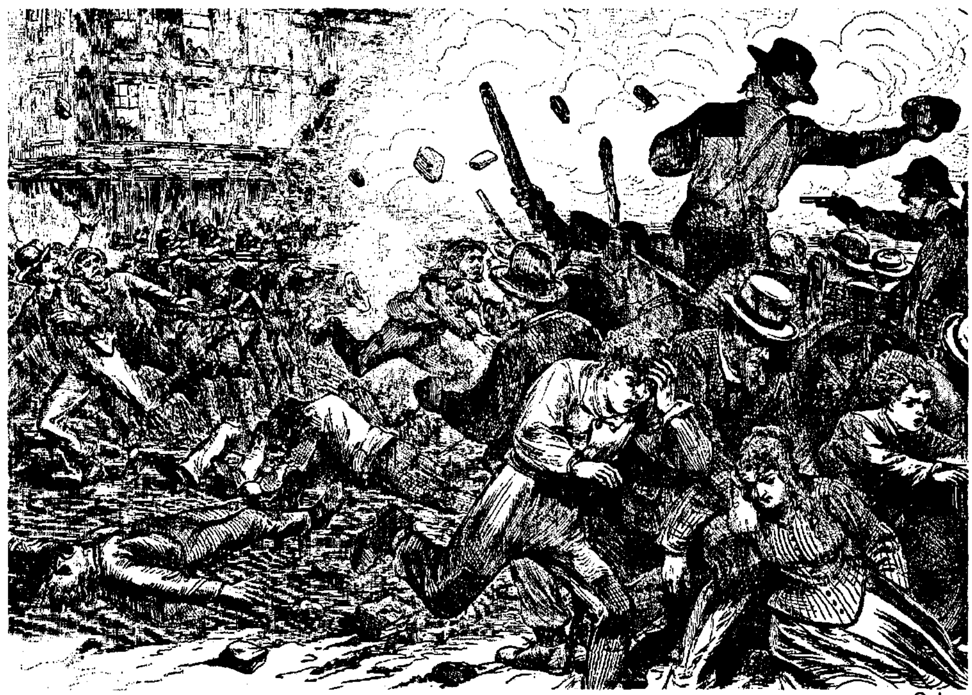


Doubleday

Reuters

From William Jennings Bryan in the 1890s to Jesse Jackson, capitalist Democrats have pushed liberal populism to bind workers to the class enemy.

wing Republican U.S. Circuit Court judge, Peter Grosscup, wrote that "the acquisition of property, by the individuals who constitute the bulk of the people" is "the soul of republican America" (quoted in Richard Hofstadter, *The Age of Reform: From Bryan to F.D.R.* [1955]). Almost a century later, many workers, including trade unionists, still aspire to go into business for themselves.



Culver

Pitched battle with militia strikebreakers during 1877 railroad strike. U.S. working class has history of economic militancy.

Notwithstanding such profoundly false consciousness, on an economic level the American proletariat has historically been one of the most militant in the world. The latter half of the 19th century featured bitter class battles—like the 1877 railroad strike, the 1886 Chicago fight for the eight-hour day (marked by the infamous Haymarket massacre, which gave rise to May Day as the international workers holiday) and the 1892 Homestead steel strike. This history continued with the explosive citywide general strikes and sitdowns which led to the formation of industrial unions in the 1930s. Despite this, however, the American working class never developed a mass political party of its own.

The proletariat in the late 19th and early 20th centuries was heavily drawn from successive waves of immigration from different countries. These immigrants, who often did not speak English, usually settled in the same towns or neighborhoods in large cities as their fellow countrymen. This created a sense of ethnic-cultural identity which cut across class lines. A skilled German American machinist of the Lutheran faith might feel he had more in common with a German American merchant or even a small manufacturer than with an Irish Catholic construction worker, much less an unskilled laborer. Ethnic and religious antagonisms—especially between Anglo-Saxon and German Protestant workers and those from Irish, Italian and East European Catholic backgrounds—impeded the formation of mass industrial unions until the 1930s.

Meanwhile, in the South, the hostility and contempt of even the poorest whites toward blacks prevented the development of any significant labor movement at all. The promise of black freedom heralded by the Civil War which smashed the slave-based plantation system was snuffed out by the defeat of Reconstruction codified in the Compromise of 1877. In the aftermath, most Southerners—both white and black—were horribly exploited sharecroppers or tenant farmers who worked land owned by the Bourbon elite. Toward the end of the century, Southern Populists made an admirable and heroic effort to unite poor black and white farmers around their common interests. But this movement was defeated when the local ruling class launched a new wave of racist demagogy and violence.

Many Populist leaders, such as Tom Watson, openly embraced racism in order to carve out a niche in the Southern Democratic Party, which presided over the Jim Crow system of entrenched racial segregation in league with (and often overlapping) the race-terrorist gangs of the Ku Klux Klan. Watson's evolution was not unique. Anti-black racism and anti-immigrant nativism have historically been significant components of populist movements in the U.S. Such reactionary poison has infected the labor movement from the beginning, promoting the scapegoating of immigrant and black workers for the social ills produced by capitalist exploitation. For example, craft unions in California successfully fought to ban Chinese and Japanese immigration; in 1877, Chinese immigrants in San Francisco were the target of pogroms. At the same time, craft unions routinely excluded black workers or forced them into segregated locals.

In more recent years, the term "populism" has served as a cover for outright racist and anti-immigrant movements, many of which have been linked to the KKK and other fascist outfits. In the 1968 presidential campaign, George "Segregation Forever" Wallace's appeals to the "little man" were simply a threadbare veneer for virulent racist attacks on the minimal gains of the civil rights movement. The "white backlash" of the late 1960s and early '70s helped create the conditions for a successful capitalist offensive against the working class as a whole—two-tier wage systems, union-busting, falling living standards. But even those movements which partially overcame ethnic/racial divisions in the name of the common interests of American working people—Populism in the 1890s, the 1930s New Deal coalition which tied labor and minorities to FDR's liberal Democrats—were imbued with illusions in a reformed, progressive and benevolent capitalism.

The Social Roots of 19th-Century Populism

Free of a feudal heritage, transplanted to the virgin soil of the New World, the agrarian economy of 19th-century

America developed in a historically unique way. In Europe, peasant smallholders still primarily grew crops to feed their families, and the little that was left over mainly went to pay taxes. In the U.S., with the widespread construction of canals and railroads in the 1830s-40s, farmers in the North and Midwest increasingly produced for the market, developing the social mentality of small capitalist entrepreneurs. By the mid-to-late 19th century, many farmers were speculating in land, changing their crop mix from year to year in light of existing and anticipated market demand and borrowing heavily from banks to purchase new and improved farm machinery.

American family farms were not only on average substantially larger than European peasant plots, they were also worked by fewer hands. Rural French and German villages were commonly inhabited by the same families for centuries, while grown children of American farm families usually left home to move into the burgeoning cities or further west to start their own farms. The chronic labor shortage in U.S. farm areas spurred the mechanization of agriculture to a degree unknown in the Old World. Yankee inventor-entrepreneurs like Cyrus McCormick and John Deere revolutionized agricultural technology in the decades before the Civil War.

The highly commercialized and mechanized family farms generated a huge and growing market for manufactured goods. This in turn led to the formation of a large class of industrial, commercial and financial capitalists drawn from the ranks of the petty bourgeoisie and even the working class. Enterprising Yankee mechanics and carpenters borrowed money to start up small factories. The sons of well-to-do Midwestern farmers became bankers or owners of lumber mills or granaries. The small-town banker who had the local state senator in his pocket had no counterpart in late 19th-century Britain, Germany or Japan, where finance capital was far more concentrated.

In this period, the U.S. bourgeoisie differed from those of Europe and Japan not only in relative size and structure but also in social psychology. European large merchants and financiers were the descendants (in many cases literally) of the guildmasters of the late Middle Ages. Centuries of struggle against the feudal aristocracy, and then fear of social revolution from below, produced a European bourgeoisie with a high level of class consciousness, cohesion and organization. American capitalist entrepreneurs, on the other hand, were usually "self-made men" who took pride in their own ruthless abilities. They acted as laws unto themselves, beholden to no one. The popular designation "robber barons" captured the anarchistic individualism of the top dogs of the American business world.

A leading robber baron, Cornelius "the Commodore" Vanderbilt, exclaimed, "Law? What do I care for law? Hain't I got the power?" In the late 1860s, Vanderbilt and another gang of robber barons led by Jay Gould and Jim Fisk fought a battle for control of the Erie Railroad. The term "battle" is used here in a literal, military sense. At one point, the Gould/Fisk forces assembled their own private army which deployed cannon around the railroad's office in New Jersey.

Such antics would have been inconceivable at the time in Britain, France or Germany, where the state exercised far greater control over individual industrialists and financiers. For that reason, the *class* character of these states as guardians of the new bourgeois order was generally clear to the European working classes. But in the U.S., brutal exploitation of labor, financial panics and the periodic collapse of production were all blamed on the actions of a small number of greedy and unscrupulous men. The very term "robber baron" implied that the captains of industry and finance were violating some traditionally accepted economic order. During the "Progressive Era" at the beginning of the 20th century, liberal intellectuals would distinguish between "responsible" and "irresponsible" wealth. Their ideological successors in the 1980s would similarly distinguish between raiders and financial operators who wanted to liquidate established corporations and old-line managers who wanted to preserve them.

Another important feature of 19th-century American capitalism did much to shape populist ideology. Because the demand for investment capital to fuel the country's dynamic economy far exceeded the supply of domestic savings, American capitalists borrowed in European, primarily British, money markets. The foreign debt (government and private) of the United States increased steadily and massively for over a century, from $60 million when the American state was founded in 1789 to $3.3 billion in 1896. Not coincidentally, the latter year marked the high point of populism, the presidential campaign of William Jennings Bryan on the Democratic Party ticket.

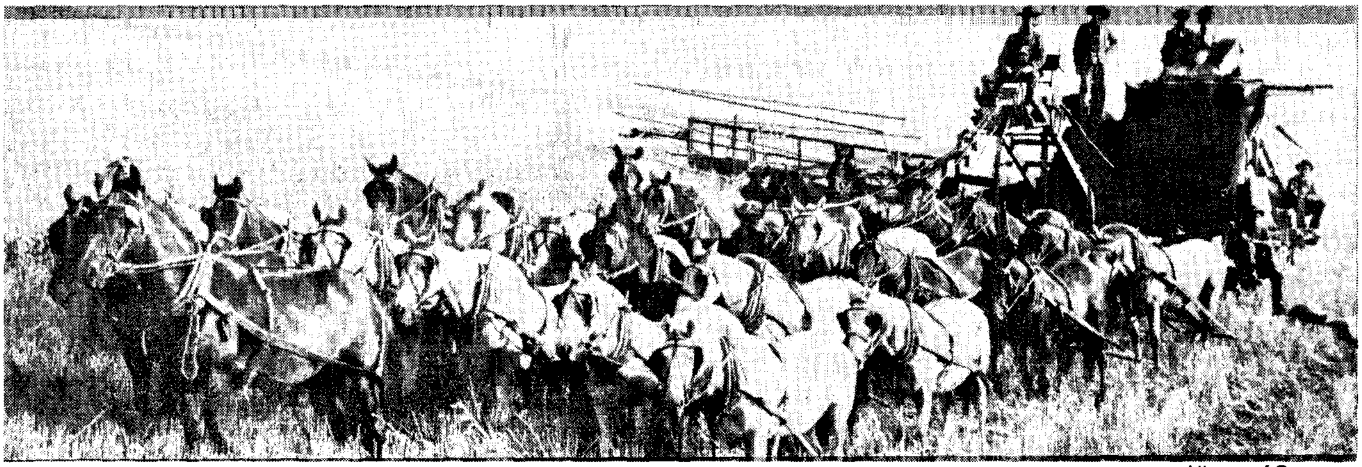
A classic study of the House of Morgan by the Marxist intellectual Louis Fraina (writing under the pseudonym Lewis Corey) explained the conditions which gave rise to America's premier financial dynasty:

> "The immense expansion of agriculture, industry and trade encouraged new borrowings of foreign capital by State governments and business enterprises. The United States was predominantly an agricultural economy and its demands for goods and capital exceeded supply. Foreign trade increased four-fold between 1820 and 1860 and the import of manufactured goods almost six-fold. There was an unfavorable balance of trade which increased steadily, our excess of imports over exports being paid for largely by the sale of American securities in Europe."
>
> — *The House of Morgan: A Social Biography of the Masters of Money* (1930)

The House of Morgan originated in the 1830s when George Peabody, a well-to-do Yankee merchant turned investment banker, moved to London to sell U.S. state and corporate (mainly railroad) bonds. In the 1850s, his junior partner and successor, Junius Morgan, likewise moved to London because that's where the money was. The House of Morgan was in this respect typical of the top echelon of American financiers in this period. For example, in the decade or so following the Civil War, the most prominent figure in New York financial circles was August Belmont, the U.S. agent for the Rothschilds, the great German/French/British Jewish banking dynasty. For most of the 19th century, Wall Street served as a large and important branch office for the City of London financiers.

Consequently, populist hostility to Eastern bankers was associated with American nativism, which was rife not only with intense antagonism to Britain but with anti-Semitism. The enemy was labeled the "Anglo-American Gold Trust," accused of plotting to enslave the American nation and its honest working people. In the mid 1890s, a manifesto issued by leading figures in the People's Party declared:

> "As early as 1865-66 a conspiracy was entered into between the gold gamblers of Europe and America....
>
> "Every device of treachery, every resource of statecraft, and



Library of Congress

Mechanization of 19th-century American agriculture produced a large class of rural proprietors with the social outlook of small capitalist entrepreneurs.

every artifice known to the secret cabals of the international gold ring are being made use of to deal a blow to the prosperity of the people and the financial and commercial independence of the country."

— quoted in Hofstadter, *The Age of Reform*

The Panacea of "Cheap Money"

Why did such views attract broad support from industrial workers as well as farmers? From the late 1860s to the late 1890s, "cheap money" was the main battle cry of leftist radicalism in the United States. Half a dozen or so parties—the Labor Reform Party, Greenback Party, Greenback Labor Party, Antimonopolist Party, People's Party—were formed around the central demand to replace a monetary system based on gold with one based on paper currency and/or silver. All of these parties enjoyed the support of significant sections of the labor movement of the day.

Prior to the Civil War, money in the U.S. consisted of gold coins and bank notes issued by the states which were convertible into gold. In order to finance the massive expenditures of the Civil War, the federal government issued nonconvertible paper currency, popularly called "greenbacks." Following the war, monetary radicals advocated the continuation and expansion of the greenback system. However, the forces of monetary conservatism prevailed. New issuance of greenbacks was halted, the amount in circulation gradually reduced, and in 1879 all paper money issued by the federal government was made redeemable in gold. Monetary radicals then shifted their tack and agitated for the unlimited coinage of silver, then in abundant and growing supply in the Western states.

It is difficult today to appreciate the widespread popularity of the notion that an expanding supply of money was the key to opening the door to general and permanent prosperity. This belief was held not only by some intellectual cranks but by intelligent, responsible and popular leaders of working people. In the late 1860s, William Sylvis, head of the National Labor Union—the first such organization in U.S. history—proclaimed:

> "We now come to the greatest question before the American people—a question of the very first importance to every producer in the land—a question in which is involved the freedom or slavery of every workingman in America—a question that must destroy the power of a monster moneyed aristocracy, or bind the whole labor of the nation, white and black, in fetters to gold—that question is one of finances."
>
> — quoted in Gretchen Ritter, *Goldbugs and Greenbacks: The Antimonopoly Tradition and the Politics of Finance in America* (1997)

One of the leaders of the Massachusetts Greenback Party in the 1870s was Wendell Phillips, a former radical abolitionist who declared that the struggle against the "money monopoly" was more profoundly revolutionary than the struggle against slavery.

It is common to consider late 19th-century populism as a movement of small farmers seeking to reduce the burden of their bank debts by depreciating the currency. Indeed, agitation for "cheap money" peaked in the 1890s, a period of severe depression in agricultural prices which threatened large numbers of farmers with bankruptcy. The strongholds of the People's Party and the Bryan Democrats were the grain belt of the Great Plains and those parts of the rural South dependent on cotton and tobacco farming.

However, the breadth and intensity of support for monetary radicalism cannot be adequately explained simply by the economic self-interest of debt-ridden small farmers. The leaders of the populist movement were intensely "god-fearing" men, to use the language of the day, who believed they were fighting for the interests of all "productive" members of society, which included workers as well as farmers and small businessmen. Moreover, the leaders of major labor organizations (e.g., the Knights of Labor) were just as committed to "cheap money" as those of the Farmer's Alliance with whom they were in a political bloc.

Why did intelligent men like William Sylvis and Wendell Phillips, who were dedicated to the interests of the laboring classes, believe that the gold standard was a potent weapon of the rich against the poor? Why did they believe the steady expansion of the money supply would eliminate financial panics, economic depressions and even wide social inequalities? The answer is given by a leading populist theorist, Alexander Campbell, in his 1864 tract, *The True American System of Finance*:

> "The rate of interest on money governs the rent or use of all property, and consequently the reward of labor. The centralization of the property of the nation into the large cities and the pockets of a few capitalists, is in proportion to the rate of interest maintained on loans of money above the average rate of increase in the national wealth."
>
> — quoted in Ritter, *Goldbugs and Greenbacks*

According to Campbell and his cothinkers, increasing the money supply would reduce the interest rate bankers charged for loans and thus encourage farmers and other small businessmen to borrow more for productive investment. Hired laborers would benefit from the expansion of employment and a tighter labor market and would have greater opportunities to go into business for themselves. Furthermore, if small-scale manufacturers gave less of their revenues in interest to banks, more money would be available to raise workers' wages. This kind of economic thinking was by no means peculiar to 19th-century American populism. During the Great Depression of the 1930s, the British liberal economist John Maynard Keynes developed and popularized a substantially similar theoretical doctrine and political program.

Marxist Economics vs. Monetary Radicalism

Revolutionary workers' leaders Karl Marx and Friedrich Engels opposed the idea that an expansion of the money supply could overcome the basic contradictions of capitalism. When the U.S. government discontinued the limited coinage of silver in 1893 and returned to a straight gold standard, Engels commented in a letter to his German American colleague Friedrich Sorge:

> "The repeal of the silver-purchase law has saved America from a severe money crisis and will promote industrial prosperity. But I don't know whether it wouldn't have been better for this crash to have actually occurred. The phrase 'cheap money' seems to be bred deep in the bone of your Western farmers. First, they imagine that if there are lots of means of circulation in the country, the interest rate must drop, whereby they confuse the means of circulation and available money capital, concerning which very enlightening things will be brought out in Volume III [of Marx's *Capital*]. Second, it suits all debtors to contract debts in good currency and to pay them off later in depreciated currency."

Engels went to the heart of the matter: the theoretical confusion of the quantity of money with the availability of money capital for productive investment.

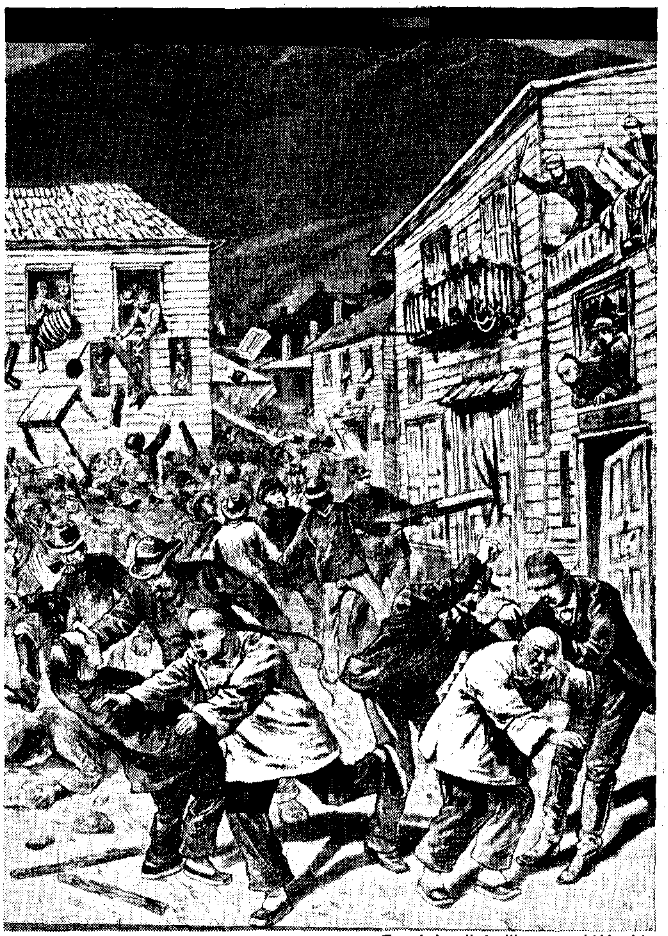
There were two competing trends in monetary theory among bourgeois economists and financiers in the 19th century: the currency school and the banking school. The currency school maintained that the quantity of money governs the overall level of economic activity. According to this view, an influx of gold into the country would lead bankers to lower interest rates in order to lend out the additional stock of money. This, in turn, would encourage industrial and commercial capitalists to borrow and invest more, thereby increasing output and/or prices. A contraction of the money supply would have opposite effects.

The banking school held that the expansion or contraction of money capital adapts to "the needs of trade": in an economic boom, credit expands rapidly because both entrepreneurs and financiers believe that loans would be repaid out of the increased profits from new investment. In a depression, the reverse is the case. Within broad limits, the flow of money adjusts to overall economic activity through changes in what bourgeois economists term the "velocity of circulation." In this regard, Marx endorsed the views of the banking school:

> "The mass of circulating media [currency] serving the expenditure of revenue grows decidedly in periods of prosperity.
>
> "As concerns the circulation required for the transfer of capital, hence required exclusively between capitalists, a period of brisk business is simultaneously a period of the most elastic and easy credit....
>
> "As long as the state of business is such that returns of loans made come in regularly and credit thus remains unshaken, the expansion and contraction of circulation [of money] depend simply upon the requirements of industrialists and merchants."
>
> —*Capital*, Volume III

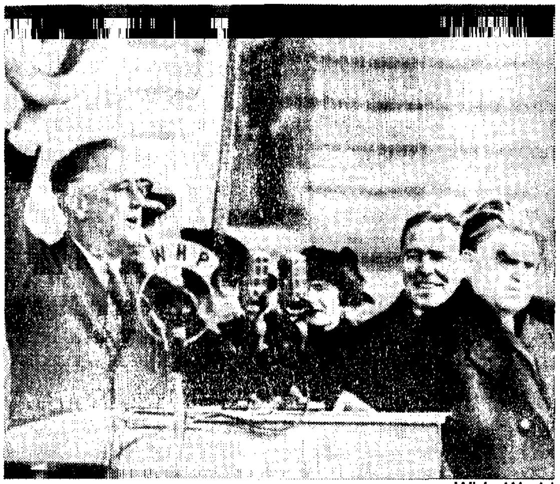
The validity of Marx's views was clearly demonstrated during the Great Depression, which was touched off by the stock market crash of 1929. In the mid-to-late 1930s, U.S. banks were swimming in excess reserves, with few borrowers. Following a further sharp downturn in 1937, the *Federal Reserve Bulletin*, the official organ of the U.S. central bank, recognized that "an abundant supply of gold and a cheap monetary policy do not prevent prices from falling" (quoted in Charles P. Kindleberger, *The World in Depression, 1929-1939* [1986]).

The decade-long depression and leftward radicalization of the American working class produced a new version of liberal populist ideology, which perpetuated illusions in a "progressive" wing of the capitalist class. A key agency in perpetuating those illusions was the Stalinist Communist Party which, adapting the class-collaborationist policy of the popular front to American terrain, worked to channel an upsurge in militant labor struggle into Roosevelt's New Deal Democrats. This was crucial in blocking the road to the development of an independent political party of the working class in the U.S.



Frank Leslie's Illustrated Weekly

Anti-Chinese riot in Denver in 1880. Racist poison has weakened U.S. labor movement by scapegoating immigrant and black workers for capitalism's ills.


Wide World

United Steelworkers of America

Democratic president Roosevelt joined by CIO leader John L. Lewis during 1936 election rally. Union bureaucrats channeled upsurge of labor militancy into support for FDR's New Deal coalition.

Part 3: The 1930s New Deal and Labor Reformism

During the 1930s, the impact of the Great Depression, combined with the victory of fascism in Germany in 1933, led to a leftward radicalization of the American working class. In the two years following the October 1929 stock market crash—"Black Friday"—unemployment skyrocketed from under 500,000 to over nine million. In 1934, there were three citywide general strikes in this country—in San Francisco, Minneapolis and Toledo, Ohio—all led by "reds," respectively the Stalinists, the Trotskyists and A.J. Muste's American Workers Party, which soon thereafter fused with the Trotskyists.

The next few years saw the formation of the mass industrial unions of the CIO, again in many cases under the leadership of self-described communists or socialists. A key tactic in this unionization drive was the sit-down strike, with the workers occupying a factory or warehouse in open defiance of capitalist property rights. The founding document of the Trotskyist Fourth International, the 1938 Transitional Program, noted: "The unprecedented wave of sit-down strikes and the amazingly rapid growth of industrial unionism in the United States (the CIO) is the most indisputable expression of the instinctive striving of the American workers to raise themselves to the level of the tasks imposed on them by history."

While the American working class was challenging the bosses at the industrial level, there was no corresponding challenge at the political level. The leftward radicalization remained within the ideological and political confines of bourgeois liberalism represented by the Democratic Party of Franklin Delano Roosevelt. Elected president in 1932, FDR promised American working people a "New Deal"—a return to full employment and a future of permanent and general prosperity. Himself a millionaire scion of the moneyed aristocracy, Roosevelt demagogically denounced right-wing opponents within the capitalist class, like industrialist Henry Ford, as "economic royalists."

Roosevelt's liberal bourgeois politics were carried into the working class by the very leaders of the new industrial union movement. Among these was a section of the old-line AFL labor bureaucracy, headed by John L. Lewis, who never pretended to have any sympathy for socialism, much less "red revolution," and in fact thought that the labor movement should be the strongest bulwark of anti-communism. But they also included the Communist Party (CP), by far the strongest force on the American left. In the course of its Stalinist degeneration over the previous decade, the CP had passed through a "Third Period" phase of sectarian "ultraleftism" in the late 1920s and early '30s and gone on to espousing a "popular front" with "progressive" bourgeois politicians, peddling illusions in a reformed and benevolent capitalism.

Thus the development of the American working class in the 1930s was highly contradictory. On the one side, there emerged for the first time in U.S. history mass industrial unions (except in the South), cutting across racial-ethnic divisions, and in many cases led by avowed opponents of the capitalist system. At the same time, the political-ideological sway of bourgeois liberalism was strengthened rather than weakened.

Today, faced with the rise of racist yuppie Clinton's "new" Democratic Party, which is openly contemptuous of the labor movement, the AFL-CIO bureaucracy and its reformist hangers-on (including the now near-moribund CP) yearn for a new "New Deal coalition," portraying the Rooseveltian era as the heyday of "progressive" politics. In fact, this class-collaborationist coalition was fashioned as a response to the militant upsurge of workers' struggles in the 1930s. It represented a ***betrayal*** by the CIO union tops and the Stalinists, who beheaded the possibility of an independent workers party and corralled the working class behind the phony "friends of labor" Democrats.

The New Deal coalition put organized labor in an unholy alliance not only with its liberal class enemies in the North but also with the Southern Dixiecrats, to whom Roosevelt gave a free hand to wage naked racist terror against blacks and unions. From upholding the system of rigid Jim Crow segregation in the South to marshaling the working class behind the imperialist rulers with the onset of World War II, the labor bureaucracy's support to Roosevelt was counterposed to the proletariat's class interests across the board.

In 1942, James P. Cannon, the principal leader of American

Trotskyism, explained why the economic militancy of the 1930s was not extended into the political sphere: "Roosevelt still appeared to the workers as their champion and his social reform program was taken as a substitute for an independent political movement of the workers" ("Campaign for a Labor Party," November 1942). The social program of the New Deal was not at all new but was rather a revised version of the liberal populism which had dominated the American working class since the emergence of an organized labor movement in the latter half of the 19th century.

The Notion of Progressive Managerialism

The defining features of the New Deal variant of liberal populism centered on the fiction that large corporations could be made to serve the interests of society as a whole and that the sort of governmental policies advocated by British economist John Maynard Keynes could lead to full employment and prosperity for working people. In a recent study of late 19th-century American populism, *Goldbugs and Greenbacks*, Gretchen Ritter describes the movement's underlying ideology as "producerism," a belief in the natural unity and harmony of all those engaged in the production of goods and services as against financial parasites: "Reformers argued that the producers—farmers, laborers, and small businessmen—were the 'real society.' They discounted the legitimacy of nonproducers such as bankers and bondholders." In the 1890s, populists could still envision an economy based on small proprietors, i.e., one without large industrial corporations, Wall Street bankers or stock exchanges.

But three decades later, such a program was clearly fantastic. The economy was dominated by large corporations, and the shrunken number of small manufacturers no longer made a significant contribution to the country's industrial output. By the 1920s, the college-educated sons of well-to-do small businessmen were typically pursuing their careers in the managerial bureaucracies of AT&T, Standard Oil, General Motors, U.S. Steel and International Harvester. In the 1930s, a new version of "producerism" was developed, with corporate managers replacing the small businessmen of the earlier version.

These ideas were expounded in a highly influential book, *The Modern Corporation and Private Property* (1932), by two young liberal intellectuals, Adolph A. Berle and Gardner C. Means. The former would soon become a leading member of FDR's "brain trust" of economic advisers. Berle and Means maintained that in a large, modern corporation control or management had become divorced from ownership, and that this was, at least potentially, a progressive development. Noting that the large majority of shares in big corporations were dispersed among thousands of individual investors and that bondholders and other creditors exerted little influence over corporate policy unless the firm couldn't meet its debt service, Berle and Means contended that corporate managers were a distinct social group whose income and status were not directly tied to the drive for ever-higher profits:

> "Those who control the destiny of the typical modern corporation own so insignificant a fraction of the company's stock that the returns from running the corporation profitably accrue to them in only a very minor degree. The stockholders, on the other hand, to whom the profits of the corporation go, cannot be motivated by those profits to a more efficient use of the property, since they have surrendered all disposition of it to those in control of the enterprise."

In this view, corporate managers had no compelling, personal motive to hold or drive down wages nor to raise prices to benefit stockholders at the expense of the firm's customers. Berle and Means did not maintain that the men then running America's large corporations were benevolent do-gooders with the best interests of society at heart, only that large, modern corporations, unlike capitalist enterprises in the past, were ***not*** governed by the drive to maximize profits. Corporate managers therefore could be constrained by law, government policies and public opinion to serve what Berle and Means termed "the paramount interests of community":

> "When a convincing system of community obligations is worked out and is generally accepted, in that moment the passive property right of today must yield before the larger interests of society. Should the corporate leaders, for example, set forth a program comprising fair wages, security to employees, reasonable service to their public, and stabilization of business, all of which would divert a portion of the profits from the owners of passive property, and should the community generally accept such a scheme as a logical and human solution of industrial difficulties, the interests of passive property owners would have to give way."

These words today appear to express the utmost liberal naiveté. The 1980s demonstrated for all to see, and in a most dramatic way, the power of stockholders to get rid of corporate managers seen to be disregarding their interests. In a critical introduction to a new 1991 edition of *The Modern Corporation and Private Property*, mainstream bourgeois economists Murray Weidenbaum and Mark Jensen simply stated the obvious: "The wave of hostile takeovers in the late 1980s was a response to managers who paid insufficient attention to the concerns of shareholders.... A business is an economic institution, designed to provide goods and services for consumers in order to benefit the stockholders."

Berle and Means' "classic" was originally published during the greatest economic crisis of modern times, when even many workers in the U.S., a contradictory society combining an advanced economy with social backwardness, were open to the prospect of "red revolution." The illusory notion that large corporations could be made to serve "the larger interests of society" was important in keeping the exploited and oppressed tied to the capitalist order, promoting the belief that capitalism's evils could be reformed away.

Keynes and Liberal Pseudo-Socialism

Even more important in contributing to the ideology of the New Deal than the notion of progressive managerialism were the theories of John Maynard Keynes. To understand why Keynes' ideas played such an important role in American politics at this time, it is useful to locate him in the context of British politics. He was a leading intellectual in the small Liberal Party, dwarfed on its right by the Conservative (Tory) Party and on its left by the Labour Party.

During the 19th century, however, the Liberals (or Whigs) and the Tories were Britain's major parties, representing not only different policies but different sections of the propertied classes. The Tories represented those elements derived from or closest to the "squirearchy," the old landed aristocracy. Its leading members were rentiers rather than entrepreneurs, living off rents from their estates or income from their financial assets. The Liberals represented above all industrial capitalists—in many cases the sons of small merchants, self-employed artisans or yeoman farmers—and had the support of the trade unions.

The workers' support for the party of industrial capitalists reflected, at least in part, how the superprofits derived by British imperialism from its colonies made it "***possible to bribe*** the labour leaders and the upper stratum of the labour aristocracy," as Russian Bolshevik leader V.I. Lenin later observed in a 1920 preface to his work, *Imperialism, the Highest Stage of Capitalism* (1916). With the relative decline of British imperialism at the end of the 19th and beginning of the 20th centuries, the political alliance between the "progressive" bourgeoisie and the trade unions broke apart. Originating as a committee within the Liberals to increase trade-union influence on party policy, the Labour Party was formed as a split from the Liberals in the early 1900s.

Minnesota Historical Society

1934 Minneapolis general strike, led by Trotskyists.

Seeking to deflect the radicalizing impact on the British working class of the 1917 Bolshevik Revolution, in 1918 Labour amended its constitution to formally advocate socialization of the means of production, albeit by strictly parliamentary means. In practice, this "Clause IV" was simply a "left" fig leaf for reformism and class betrayal, as successive Labour governments loyally administered British capitalism, occasionally tinkering with the system but never seeking to replace it with socialism. More recently, Clause IV was scrapped entirely as part of "New" Labour leader Tony Blair's drive to remold the party into an explicitly capitalist one.

During the interwar period, Keynes was one of the very few prominent bourgeois intellectuals who remained active in the Liberal Party. His broad political strategy was later summarized by his official biographer, Roy Harrod, himself an eminent British economist:

> "During the 'twenties he hoped to see a working agreement between the Liberal Party and the Labour Party; in the 'thirties he may have nourished the hope that, when he had achieved the culminating expression of his own views, the cogency of his arguments would wean the Labour Party away from State Socialism and make its members his own disciples."
>
> — *The Life of John Maynard Keynes* (1951)

To this end, Keynes developed a doctrine which can be characterized as liberal pseudo-socialism, proposing that with a particular set of government policies a capitalist economy could achieve the goals traditionally associated with socialism: permanent full employment, steady expansion of production in line with technological advances and potential, even the gradual disappearance of that social class which lived—and lived very well—off its accumulated wealth.

Keynes' View of a Benevolent Capitalism

According to Keynes, the main problem with modern-day capitalism was that those who held savings, typically the heirs of great fortunes, were distinct from and had interests divergent from the industrial managers responsible for investing in additional productive capacity, who borrowed money for this purpose from banks or through the bond market. Keynes maintained that the difference between the interest on money capital and the profit gained from new investment was key to the overall level of economic activity. In this view, the managers of a large manufacturing corporation would build a new plant if the projected rate of profit on the project was, say, 6 percent while interest on the money needed to finance its construction was 3 percent—but not if a higher interest rate cut too deeply into the profit margin.

If rentiers demanded excessively high interest rates, investment and therefore production and employment would fall. This in a nutshell was Keynes' explanation at the time for the world depression which began in 1929:

> "There has now developed, somewhat suddenly, an unusually wide gap between the idea of borrowers and those of lenders, that is, between the natural-rate of interest and the market-rate....
>
> "I am bold enough to predict, therefore, that to the economic historians of the future the slump of 1930 may present itself as the death struggle of the war-rates of interest and the re-emergence of the pre-war [pre-1914] rates."
>
> — *A Treatise on Money* (1930)

Keynes' solution to this problem was an expansionary monetary policy. He strongly opposed the gold standard and advocated a "managed currency" aimed at achieving and maintaining a low interest rate.

However, the experience of the 1930s demonstrated, including to Keynes, that a "cheap money" policy was not in itself enough to pull a capitalist economy out of a deep depression. The base interest rate in the United States, the "discount rate" charged by the Federal Reserve System to its member banks, had fallen by the mid 1930s to a mere 1 percent from 4.5 percent in 1929. Yet production and employment remained far below levels in the 1920s. Even at rock-bottom interest rates, industrial capitalists were not going to spend for new plant and equipment when they were already faced with massive excess capacity, stagnant demand and uncertainty about future economic and political developments.

In response to these conditions, in the mid 1930s Keynes came out with a more "radical" economic program. If capitalist entrepreneurs would not borrow and invest on an adequate scale, the government should do so in their stead. He called for a massive program of public works—railroads, highways, electric power plants, office buildings, housing—to be financed by borrowing rather than increased taxation. Keynes advocated a Board of National Investment which "would in one way or another control by far the greater part of investment. Private enterprise (meaning industry) requires such a tiny fragment of total savings that it could probably look after itself. Building, transport and public utilities are almost the only outlets for new capital on a large scale" (quoted in Doug Henwood, *Wall Street* [1997]).

Keynes believed that industrialists and financiers would have no choice but to accept this program if ordered to do so by a democratic government—even if it harmed their interests. And such a program ***would*** harm their interests, because conditions of full employment tend to increase wages at the expense of profits. Without a "reserve army of the unemployed," as Marx called it, firms can expand their labor force only by offering higher wages and improved benefits to induce workers to leave their current employment, unions are more prone to strike and the bosses find it harder to recruit scabs.

Keynes was well aware that conditions of full employment favored labor as against capital in the determination of wages, but believed that a capitalist economy could function at maximum efficiency with a declining rate of return on private investment and, especially, of interest. Indeed, he projected a time—"the euthanasia of the rentier"—when the rate of return on money, on accumulated wealth, would be reduced to zero, seeing this as "the most sensible way of gradually getting rid of many of the objectionable features of capitalism" (*The General Theory of Employment, Interest and Money* [1936]).

Again, this now appears to be unworldly liberal naiveté, even utopianism. It must be understood that these words were written when Communists were leading "hunger marches" of coal miners and other unemployed workers across the English Midlands. This is not to say that Keynes was a hypocrite or a demagogue. He genuinely believed his program was a good and practical alternative to what he called "state socialism." But in this he was expressing the false consciousness of a bourgeois liberal who believes that capitalists are willing and can be directed to serve the greater interests of society.

New Deal Economics: Myths and Realities

Conventional wisdom, especially in liberal circles, has it that the economic policies of the Roosevelt government pulled the U.S. out of the Great Depression and that these policies were inspired by Keynes' theories. Both these propositions are entirely false.

When Roosevelt replaced Republican Herbert Hoover in the White House in early 1933, the Depression had just bottomed out. FDR's first term happened to coincide with a modest recovery, which nonetheless left output and employment far below the levels of the late '20s. In 1937-38, the U.S. economy was hit with another sharp downturn, as industrial production plunged by ***one-third*** in the space of a year. A standard history of the Great Depression by American economist Charles Kindleberger points out: "The steepest economic descent in the history of the United States, which lost half the ground gained for many indexes since 1932, proved that the economic recovery in the United States had been built on illusion" (*The World in Depression, 1929-1939* [1986]).

U.S. Department of Agriculture

Despite liberal myth, Great Depression was not ended by New Deal social programs, like Civilian Conservation Corps (above), but by military production for World War II.

King Features

It was the Second World War which finally pulled the U.S. out of the Depression. Industrial output did not return to its 1929 level until 1940, when American arms merchants began doing a booming business with Britain, then already at war with Germany. And it was not until 1943, with the war economy at full throttle, that the number of unemployed dropped below what it had been on the eve of the 1929 crash.

Sophisticated liberal economists like Kindleberger argue that depressed conditions were prolonged until the war because the Roosevelt administration did ***not*** carry out Keynes' prescription of massive public works through deficit spending. In fact, FDR pursued no coherent and consistent economic program whatsoever. In three of the eight years of Roosevelt's first two terms, the federal budget deficit was ***smaller*** than in the last year of the Hoover administration. In

1938, when over 10 million workers—one-fifth of the labor force—were jobless, the budget was actually balanced.

Keynes himself recognized that the economic policies of the New Deal were totally ineffectual. In 1940, as the U.S. was beginning a serious arms buildup in anticipation of its own entry into the war, he commented:

> "The wealth-producing capacity which is now going to waste in the United States is so far beyond our powers of measurement that it is useless to hazard a figure for it. The conclusion is that at all recent times investment expenditure has been on a scale which was hopelessly inadequate to the problem.... Even if a complete harmony between the [Roosevelt] administration and private enterprise had achieved, momentarily, a satisfactory economic recovery, it would not have endured more than a few months, with institutions and the distribution of spending power what they are today....
>
> "It is, it seems, politically impossible for a capitalistic democracy to organize expenditure on the scale necessary to make the grand experiment which would prove my case—***except in war conditions***." [our emphasis]
>
> — "The United States and the Keynes Plan," *New Republic* (29 July 1940)

Pathfinder Press

Eighteen leaders of SWP and Minneapolis Teamsters were sent to prison in 1943 for opposition to imperialist war.

Thus Keynes admitted that a capitalist "democracy" can use its full productive capacity only to produce weapons for the mass murder of other peoples. Only when the U.S. entered World War II did Roosevelt finally embrace Keynes' program of deficit spending for public works, the "public works" being battleships, bombers, tanks and, finally, A-bombs. During the first eight years of the Roosevelt administration, the cumulative federal budget deficit was $20 billion. In four years, Washington borrowed ***eight times*** that amount to pursue the war.

As noted above, conditions of full employment tend to increase wages at the expense of profits. However, during a major imperialist war the laws normally governing the labor market are in large part suspended—as the capitalist government outlaws strikes, imposes wage and price levels to ensure a generous profit margin and imprisons leftists and trade-union militants deemed to be a threat to the war effort. Under the so-called "Little Steel Formula," Roosevelt's War Labor Board froze wages at the prewar level still influenced by depression conditions. Additional pay for overtime was eliminated and the workers were subjected to ferocious speedup. The result was an enormous intensification of the rate of exploitation, with the profits of corporations engaged in manufacturing ***tripling*** between 1940 and 1943.

As was the case in the earlier interimperialist conflict, World War II sharply underlined the fundamental difference between the reformist and revolutionary wings of the workers movement, providing the ultimate evidence of the treachery of the New Deal coalition. While the Stalinist CP briefly opposed U.S. entry into the war during the two-year period of the Hitler-Stalin pact, it reversed course following the June 1941 Nazi invasion of the Soviet Union, falsely identifying defense of the Soviet degenerated workers state with support to Russia's imperialist allies. Having earlier proclaimed that "Communism Is Twentieth Century Americanism," the CP was at the forefront in enforcing the CIO bureaucracy's no-strike pledge and in rallying the workers to be cannon fodder for the imperialist war machine, while screaming for the capitalist government to imprison leftist "fifth columnists" who opposed the imperialist war.

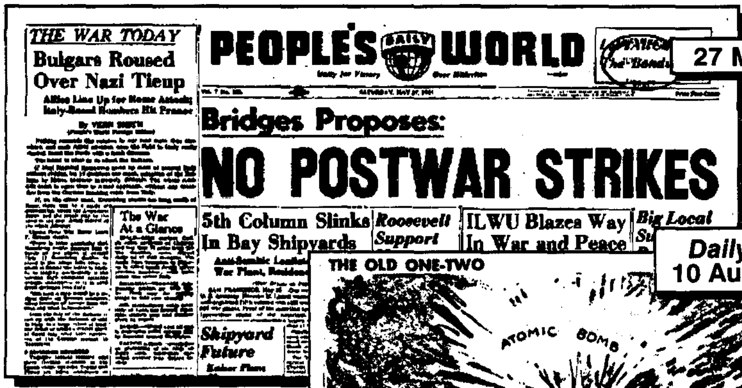
Chief among these were the Trotskyists, who held fast to the Leninist position of revolutionary defeatism against all the imperialist powers, while calling for unconditional military defense of the Soviet Union. James P. Cannon, leader of the then-revolutionary Socialist Workers Party (SWP), and 17 other leaders of the SWP and of the Minneapolis Teamsters were imprisoned by Roosevelt, the first victims of the anti-communist Smith Act which was later to be used against the Stalinists themselves during the postwar witch-hunt. In an article titled "The Workers and the Second World War" (October 1942), Cannon wrote:

> "The war was declared on the very same day that we were sentenced—December 8, 1941. That certainly was a symbolic coincidence. Nothing could better symbolize our irreconcilable opposition to the imperialist war, and to the capitalist state preparing and waging the war; and nothing, also, could better symbolize our enemies' recognition of our attitude than this unexpungeable fact: that they declared war and sentenced the party leaders to prison on the same day."

Throughout the war, the SWP fought against the no-strike pledge and opposed every effort by the Stalinists and liberals to suppress struggles for black equality in the interest of the "war effort." In this, the Trotskyists pursued the same "policy of the class struggle" which, as Cannon put it, guided them in leading the 1934 Minneapolis Teamsters strikes to victory. Diametrically counterposed to this policy of proletarian class independence was the Stalinists' abject class collaborationism. In 1939, on the eve of the war, CP head Earl Browder crowed: "We Communists helped to build the united progressive and democratic front everywhere, and collaborated with Republicans as well as Democrats and third party and labor groupings.... We are learning how to take our place within the traditional American two-party system" (quoted in

Maurice Isserman, *Which Side Were You On? The American Communist Party During the Second World War* [1993]). During the war, the CP took its place as front-line defenders of U.S. imperialism.

Especially after it became clear that the U.S. and its allies were going to win the war, the bloated profits gained during the war provoked seething unrest on the shop floor. In the last years of the war there were thousands of small strikes carried out in defiance not only of the Roosevelt-Truman government but also of the AFL and CIO bureaucracies. And in 1946, the greatest strike wave in American history saw well over a hundred million workdays lost to strikes, as more than four and a half million workers manned picket lines. Contributing to the unprecedented labor upsurge was widespread fear that another sharp depression would come with the end of war production, as it had in 1920-21.



27 May 1944

Daily Worker 10 August 1945

Supporting U.S. imperialism in World War II, Stalinist CP helped break strikes, lauded A-bombing of Hiroshima and Nagasaki.

In addition to these economic considerations, another factor entered into the class struggles of 1945-46. The victory of the Red Army over Nazi Germany evoked sympathy for Soviet Russia even among relatively backward American workers. And more left-wing workers understood that key to the Soviet defeat of the most powerful capitalist state in Europe was the USSR's planned, socialized economy. Confronted with all this, the liberal wing of the American ruling class ***promised*** working people a bright new economic future, even enshrining in law, in the Employment Act of 1946, a pledge "to promote maximum employment, production and purchasing power." This pledge was soon forgotten. At the same time, the bourgeoisie launched a vicious purge of newly "radical" CPers and other militants from the trade unions, beheading the labor movement, and extending into other layers of society.

The New Deal "Coalition": From Stalinists to Klansmen

In the mid 1950s, well-known liberal historian Richard Hofstadter wrote a popular study, *The Age of Reform: From Bryan to FDR*, which became a standard text in college courses on modern U.S. history. Here is Hofstadter's glowing characterization of the New Deal:

> "The demands of a large and powerful labor movement, coupled with the interests of the unemployed, gave the later New Deal a social-democratic tinge that had never before been present in American reform movements.... American political reformism was fated henceforth to take responsibility on a large scale for social security, unemployment insurance, wages and hours, and housing."

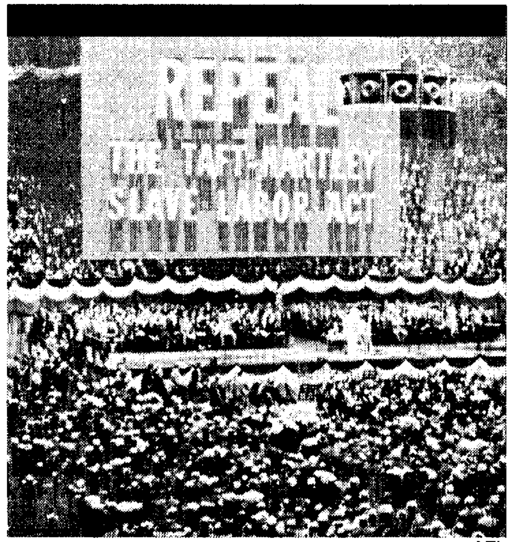
Not once in Hofstadter's account of the New Deal is there any mention of the oppression of black people. Here we have a prime example of the liberal falsification of American history by omission. Roosevelt and his successor Harry Truman supported and were supported by the racist police states in the South which stripped blacks of every democratic right. Roosevelt's vice president from 1933 to 1940 was John Nance Garner, a hardline white-supremacist from Texas, an "open shop" state where the union movement scarcely existed. The New Deal "coalition" literally embraced both black Communist Party union organizers in the Midwest and white Southern sheriffs who were members of the local Klan chapter!

The price paid by blacks, as well as white workers, for this class-collaborationist coalition of the labor bureaucracy, social democrats and Stalinists with Northern liberals and Dixiecrats was the continuation of racist terror in the South and the failure to unionize this important region. In 1946, the CIO announced a grandiose project grotesquely called "Operation Dixie," sending 400 union organizers to the South. But any attempt to confront the racial oppression dividing black and white workers in the heart of the Deep South would have aroused a vicious backlash from the Dixiecrats in the state houses and county seats and their fascist auxiliaries in the Ku Klux Klan, in the process dissolving the New Deal coalition. With a rapid escalation of the anti-Soviet Cold War and the spectre of black workers joining with communist organizers, the CIO leaders scuttled "Operation Dixie" after only two years.

Over the next decade the social basis for the New Deal coalition was eroded with the large-scale emigration of blacks from the rural South to Northern and also Southern cities, undermining the Jim Crow system of legally enforced racial segregation, which was based on intimidation of isolated and impoverished rural black sharecroppers. The mass struggles for black equality in the civil rights movement—first in the South, then in the North—exploded the Democratic Party coalition. Beginning in the late '60s, the Republican Party gained ascendancy as the party of the "white backlash," including in the formerly solid Dixiecrat South.

The course of recent American history demonstrates that there can be no significant and lasting gains for the working class unless the labor movement is in the forefront of the struggle against the oppression of blacks and other minorities. And the fight for black equality cannot be effective unless it is linked to the struggle of labor against capital, ultimately the struggle for a workers government and a planned, socialist economy.

Labor Press Associates



AFL

Left: 84-day strike in 1947 by over 130,000 East Coast shipyard workers during largest strike wave in U.S. history. Right: 1947 labor rally in New York's Madison Square Garden against strikebreaking Taft-Hartley Act passed under Democrat Harry Truman.

Part 4: Liberal Union-Busting in the "American Century"

During the 1960s, a middle-aged white industrial worker typically believed in the "American Dream." His economic circumstances were much better and the prospects for his children far greater than when he grew up during the Great Depression of the 1930s. He drove a late-model car and lived in a suburban home with an affordable, government-subsidized mortgage. His children attended a state university or city college with low tuition and easily available, government-guaranteed student loans. He was likely a veteran of the Second World War "for democracy," in which the U.S. was victorious, and had perhaps himself benefited from the educational grants that the "GI Bill" extended to returning soldiers.

Today, the picture is very different and much bleaker. Real wages for blue-collar workers peaked in the early 1970s and have since fallen about 20 percent. Male high-school graduates just entering the job market are being paid almost 30 percent less and female high-school graduates almost 20 percent less than a generation ago. *The State of Working America 1996-97*, a detailed statistical study by the Economic Policy Institute—a left-liberal think tank partly funded by the trade unions—summed it up:

> "American families are beset by a long-term erosion in wages, deteriorating job quality, and greater economic insecurity....
>
> "Our review of indicators suggests that the changes in the economy have been 'all pain, no gain,' that the factors causing the pain of greater dislocation, economic vulnerability, and falling wages do not seem to be making a better economy or generating a 'payoff' that could potentially be redistributed to help the losers. Rather, there seems to be a large-scale redistribution of power, wealth, and income that has failed to lead to or be associated with improved economic efficiency, capital accumulation or competitiveness."

The authors of this study, mirroring the views of the AFL-CIO bureaucracy, blame this deterioration on "general deregulatory, laissez-faire shifts in the economy and forces that have weakened the bargaining power of workers." However, many of the key factors behind the current immiseration of the working class and the gutting of the labor movement were present even during the very period—the decade following World War II—when the "American Dream" looked most real.

The anti-communist witch-hunt of the late 1940s and early '50s drove "reds" and other militants out of the trade unions and consolidated a labor bureaucracy that was openly pro-capitalist and identified with the aims of U.S. imperialism in the international arena. The AFL and CIO leaderships acquiesced to Taft-Hartley and other anti-union laws which crippled the labor movement, especially in organizing campaigns. The militant tactics which built the CIO industrial unions in the 1930s—plant occupations (sit-downs), mass picketing, secondary strikes—could now be used only by ***defying*** the country's harsh anti-labor laws and challenging the union tops' ties to the Democratic Party.

One of the chief victims of the bureaucracy's fealty to the New Deal coalition, which tied the unions to Northern liberals and Southern Dixiecrats, was a drive to organize workers in the South in the late 1940s. Grotesquely named "Operation Dixie," it was abandoned after two years during which the anti-Communist CIO tops did more to destroy what interracial union organizations already existed, by driving out leftist militants, than to build anything new. The toll of this defeat is felt to this day by the labor movement, as many manufacturers began shifting their operations from the industrial Midwest in the 1970s to take advantage of non-union, low-wage labor in the South.

In general, blacks were excluded from the prosperity of the first two postwar decades. A large proportion still lived in the racist police states of the South. But even in the North, black workers were proverbially "the last hired and the first fired." In the mid 1960s, the average income of a black family was 60 percent that of a white family. Even a unionized black industrial worker in the Midwest or Northeast was more likely to live in an inner-city ghetto than in a tree-lined suburb. And he was far more likely to have a son in prison or a daughter on welfare than on a college campus.

The civil rights movement, the mass struggles for black democratic rights and social equality, peaked at a time when American capitalism could no longer afford significant improvements in the economic condition of its working class. The industrial economies of Germany and Japan had recovered from the devastation of World War II and were making deep inroads in world markets, including the American market. The competitive position and overall strength of the U.S. economy were further eroded by the long, losing colonial war in Vietnam. By the late 1960s, wages were stagnating and good jobs were soon to become scarce, especially for young workers. The "American Dream"—which was never intended to include blacks—was beginning to fade even for white workers.

With these changing conditions, racist demagogues like former Alabama governor George "Segregation Forever" Wallace appealed to the insecurities of white workers, blaming social welfare programs which supposedly benefited only the black poor for the country's increasing economic ills. The pro-capitalist AFL-CIO bureaucracy made common cause with right-wing politicians like Wallace and Richard Nixon in attacking black radicalism, for example, supporting the bloody suppression of the Black Panther Party by the FBI and local police forces. At the same time, radical black nationalists and most white leftist students wrote off the mass of the white workers as "bought off" by U.S. imperialism and incorrigibly racist.

The net result was the crushing of all militant struggle for black rights and the weakening of the trade-union movement, setting the political preconditions for the past two decades of union-busting, giveback contracts, two-tier wage systems, mass homelessness and the axing of almost every social program for the poor. There can and will be no effective resistance to the immiseration of American working people without the unity in struggle between the trade unions and the black and Hispanic poor. This requires a revolutionary workers party forged in counterposition to the capitalist Democrats and committed to the struggle for a workers government, which alone can bring about racial equality by providing a decent life for all through a planned, socialist economy.

UPI

Liberal Democrat Robert F. Kennedy (left) spearheaded Senate attacks on Teamsters leader Jimmy Hoffa, 1957.

Labor and the Cold War

The prelude to the postwar assault on the unions was the deal worked out at the beginning of World War II between the Roosevelt White House and the AFL and CIO leaderships. The federal government accepted the unionization of the booming war industries; in turn, the labor tops—foremost among them supporters of the Stalinist Communist Party (CP)—vowed to enforce a ban on strikes and abide by government wage controls.

By the time the war ended in 1945, fully one-third of the country's nonagricultural labor force was unionized. At the same time, the labor bureaucracy's pact with the Democratic administration was coming undone. As the greatest strike wave in U.S. history swept the country, the ruling class responded with a carrot-and-stick approach. The carrot was a substantial improvement in the material conditions of the working class, made possible by the international dominance of American capitalism achieved through the devastation of its main imperialist rivals, Germany and Japan. The stick was political repression and the legal shackling of union power.

The 1947 Taft-Hartley Act barred anyone professing to be a communist from holding union office and outlawed a host of militant strike tactics, such as the secondary strikes which were key to organizing efforts. Although the AFL and CIO tops ritually denounced Taft-Hartley as a "slave labor" act, they nonetheless adhered to it. In 1949, the CIO bureaucracy expelled eleven "Communist" unions, almost 20 percent of its membership. Communist-led unions such as the United Electrical Workers (UE) were subjected to membership raids and reduced to a marginal existence, while a number of CP-linked officials in other unions, like Mike Quill of the Transport Workers Union and Joe Curran of the National Maritime Union, became rabid anti-Communists to secure their positions. Personified by Wisconsin Republican Senator Joseph McCarthy, the anti-Communist witchhunt was expanded to strike at all layers of American society, notably including the universities and the Hollywood film industry.

The rapid destruction of the CP's industrial base cannot be explained simply in terms of government repression or the embrace of Cold War hostility to the Soviet Union by the mass of American workers (which played on widespread repugnance toward Stalin's bloody despotism), particularly with the outbreak of the 1950-53 U.S.-led imperialist war in Korea. The American Stalinists' staunch support for government strikebreaking during World War II had discredited them with a significant layer of militant unionists. The red purge extended to all leftists, including the Trotskyists, many of whom had played leading roles in the wartime wildcat strikes and earlier militant labor struggles, like the campaigns which built the Teamsters into a powerful industrial union representing all over-the-road truckers.

Though this was obviously not the intent of the workers who were drawn in behind it, the red purge strengthened the hand of the capitalists against the unions. Shortsightedly, these workers only saw their wages, benefits and overall living conditions improving, while the unions appeared stronger than ever before. Behind this view was the fact that the U.S. had emerged from the war with by far the largest and most technologically advanced industrial capacity in the world. A recent history of America's premier financial dynasty describes the

Margaret Bourke-White

AP

Depression-era bread line and Jim Crow segregation. The "American Dream" has always been a cruel hoax for black people.

1950s as the "high noon of industrial power, before the European economies rebounded or the Pacific rim threatened," when "the United States dominated automobiles, steel, oil, aluminum, and other heavy industries" (Ron Chernow, *The House of Morgan* [1990]). The men who ran Wall Street and the Fortune 500 corporations could thus buy class peace on terms inconceivable to their predecessors or successors.

The pattern of labor-capital relations in the early Cold War period was exemplified by the 1950 agreement between the United Auto Workers (UAW) and General Motors, which provided for an annual 3 percent "productivity" increase in wages and a cost-of-living adjustment to offset inflation. As leftist labor historian Mike Davis commented in *Prisoners of the American Dream* (1986): "In tandem with the seniority system and internal promotion within the plant, the wage system thus established for the core economy, and for the core only, became relatively immune to cyclical layoffs and the tides of the labor reserve army." The division between older unionized workers in the large manufacturing corporations and the "reserve army" of the unemployed took on an increasingly racial complexion with the massive emigration of Southern blacks to Northern cities during and after World War II.

Beginning in the late 1940s, the social and racial geography of the United States underwent a significant shift. A key factor was the substantial increase in home ownership among better-off working-class families, which was deliberately encouraged by government policy. Agencies like the Federal Housing Administration and Veterans Administration insured or guaranteed home mortgages against default and foreclosure, while interest payments on residential mortgages, unlike rent, were made a tax-deductible expense. The proportion of white families who owned their own homes increased by half between 1940 and 1970. As whites moved out to the suburbs, the inner cities became increasingly black and in some cases Hispanic.

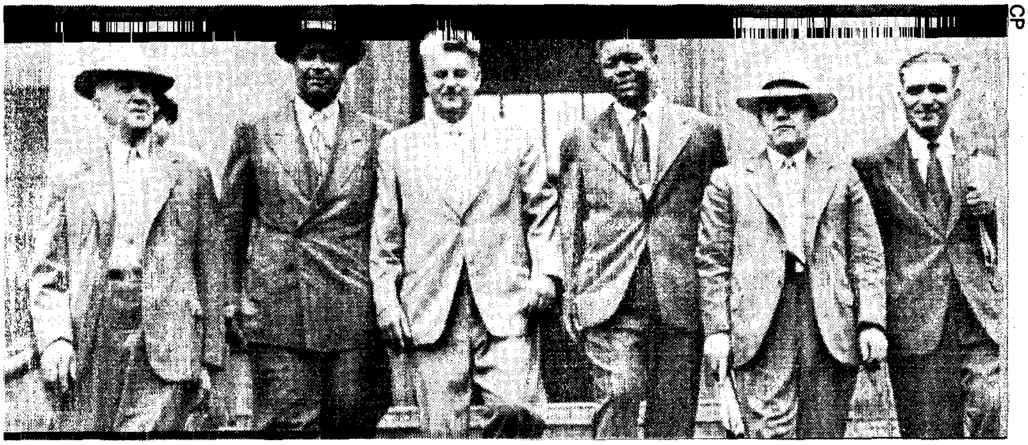
This development would have major effects on the future course of American politics. Racist opposition to residential integration was reinforced by fear-mongering over declining "property values." The civil rights movement was defeated when it moved North in the mid 1960s and sought to overcome not simply the formal legal restrictions on black rights imposed by Southern Jim Crow but also the entrenched social segregation of the black masses. A mob of racist bigots stopped Martin Luther King Jr. from marching in 1967 against segregation in the lily-white Chicago suburb of Cicero. A decade later, the "tax revolt"—a reactionary movement centered on white suburban homeowners—helped to catapult right-wing Republican Ronald Reagan into the White House a few years later. What conditioned the political ascendancy of the right over the past two decades was ***the bankruptcy of liberalism*** when confronted by the decay of American capitalism.

Kennedy, Galbraith and Anti-Labor Liberalism

In the early postwar period, the AFL and CIO provided the organized mass base for the Northern liberal wing of the Democratic Party and was key to Harry Truman's upset victory over Republican Thomas Dewey in 1948. This did not, of course, prevent Truman, like Roosevelt before him, from calling out the National Guard and army to break strikes "in the national interest." Nonetheless, in the late 1940s and early '50s, liberal politicians usually posed as "friends of labor" and voiced opposition to Taft-Hartley.

However, in the late 1950s an important current emerged in the Northern liberal wing of the Democratic Party which maintained that trade unions had become too powerful and were using that power in ways harmful to the majority of the American people. That current was represented at the political level by John F. Kennedy and at the ideological level by John Kenneth Galbraith, who would later become a key economic adviser to the Kennedy White House.

As a Senator from Massachusetts, Kennedy along with his brother Robert first gained national prominence as leaders of a new government offensive against organized labor. The immediate target was the Teamsters union and its colorful president, Jimmy Hoffa. This union was singled out because it was simultaneously economically powerful and politically vulnerable. Outside of and hostile to the AFL-CIO federation, Hoffa's Teamsters, with their well-known connections to "the Mob," were popularly viewed as the "bad boys" of the labor movement. At the same time, benefiting from the shift in transport economics from rail to over-the-road trucking, the Teamsters had become the largest and fastest-growing union in the country. Furthermore, Hoffa was pushing for a single master contract for all over-the-road drivers in the U.S. In his



William Z. Foster (far left), Henry Winston (third from right) and other Communist Party leaders indicted under Smith Act in 1948.

1960 anti-Teamsters tract, *The Enemy Within*, Robert F. Kennedy railed:

> "The Teamster Union is the most powerful institution in this country—aside from the United States Government itself....
> "Quite literally your life—the life of every person in the United States—is in the hands of Hoffa and his Teamsters.
> "But, though the great majority of Teamster officers and Teamster members are honest, the Teamster union under Hoffa is not run as a bona fide union. As Mr. Hoffa operates it, this is a conspiracy of evil."

The attack on the Teamsters was spearheaded by 1957 Senate committee hearings chaired by Arkansas Democrat John McClellan. John Kennedy served as McClellan's right-hand man and his brother as the committee's chief counsel. The AFL-CIO tops tried to dissociate themselves from the Teamsters, with liberal UAW chief Walter Reuther even testifying as a friendly witness. Nonetheless, the Senate hearings had their intended effect of discrediting organized labor in general. Opinion polls showed public approval of trade unions dropping from 75 percent before the hearings to 68 percent afterward, remaining at about that level through the 1960s. The public vilification of the Teamsters was key to the passage of the 1959 Landrum-Griffin Act, which gave the federal government vastly enhanced powers over internal union affairs while strengthening the Taft-Hartley ban on secondary strikes and "hot-cargoing" (refusing to handle scab goods).

While attacking the labor movement by criminalizing the Teamsters, the Kennedys continued to seek electoral backing from the mainstream AFL-CIO unions. For his part, Galbraith, as an academic, was free to launch a theoretical broadside against organized labor at a more general level. Whereas the right-wing Republican enemies of union power called for a return to the anti-labor "free market" environment of the 1920s, Galbraith advocated what in Europe and Latin America is termed a corporate state: a strong government exercising a high degree of direct control over the economy.

In his influential books of the 1950s—*American Capitalism: The Concept of Countervailing Power* and *The Affluent Society*—Galbraith set out the theme that big business and "big labor" were exploiting their monopoly position at the expense of the rest of American society. Under the expansionary conditions of the postwar period, he argued, strong industrial unions like the UAW could demand and extract ever-greater wages and benefits. U.S. Steel, General Motors et al. then passed along these higher costs, adding a bit extra to widen their profit margins, in the form of higher prices to consumers:

> "The wage, price and profit spiral originates in the part of the economy where firms with a strong (or oligopolistic) market position bargain with strong unions. These price movements work themselves through the economy with a highly diverse effect on different groups. Where firms are strong in their markets and unions are effective, no one is much hurt, if at all, by inflation....
> "At the other extreme are those who experience the rising costs but whose own prices remain largely unaffected because they are fixed by law or custom or, at a minimum, by someone else. This is the position, during inflation, of the teacher, preacher, public servant, of (in general) the salaried professional and white collar community and of those who, in effect, are reaping the reward of past services to society in the form of pensions or other such payments."
> — *The Affluent Society* (1958)

In other words, if a high-school teacher couldn't afford the new car he wanted, he should blame not only GM management but Walter Reuther's UAW as well. Indeed, in Galbraith's view there was little difference between the two. In *American Capitalism*, he wrote of "the full coalition between management and labor" which is "partly disguised by the conventional expressions of animosity."

Galbraith opposed the traditional right-wing program for combating inflation by depressing the economy through tight money policy, higher taxes and cuts in government spending, arguing: "Even though the unemployment necessary for price stability is not, as a national total, very great, it will never be uniformly distributed. Black and unskilled workers, often the same, lose their jobs first." Galbraith's alternative was "to combine fiscal policy with control over prices and wages." This prescription was followed in the early 1960s by Kennedy and his successor Lyndon B. Johnson, who sought to impose wage "guidelines" on the major labor unions, a policy finally broken by a strike of airline machinists in 1966.

Even more importantly, Galbraith was the first prominent liberal intellectual to maintain that the interests of unionized workers in the strategic core of the economy were counterposed to those of the black poor. This position would be developed in a more leftist form during the 1960s by young radicals who embraced the then-fashionable doctrines of Maoism and Guevarism. In the New Left view, white workers were seen as "junior partners" of American imperialism, benefiting from the exploitation and degradation of the impoverished toilers of Asia, Africa and Latin America as well as of the black ghetto poor at home. In this way the radical left helped produce a political vacuum which allowed racist demagogues like George Wallace to appeal to white workers who felt neither affluent nor economically secure.

AP

Southern Patriot

Left: Civil rights protesters attacked by cops in Birmingham, 1963. Right: 1960s strike by Charleston, South Carolina hospital workers. AFL-CIO tops betrayed struggle for black rights, union organization in South on altar of alliance with racist Democrats.

Part 5: Labor and the Fight for Black Rights

The 1960s was the most significant, sustained period of mass social struggle and leftist radicalization in the U.S. since the 1930s. However, the social and political character—as well as the outcome—of the struggles during these two periods were very different. In the '30s, the battles had centered on the formation (except in the South) of mass industrial unions, overcoming in part the racial-ethnic divisions which had hitherto crippled the American working class. In many cases, these unions were led by self-described communists or socialists. In contrast, the 1960s saw a widening racial divide within the American working class while the main currents of young radicals emerging from the civil rights and Vietnam antiwar movements were indifferent or hostile to organized labor. Primary responsibility for this development lay with the racist, anti-communist trade-union bureaucracy.

The Spartacist League, which originated in the early 1960s, fought for a different outcome. In the civil rights movement and subsequent black struggles, we intervened around the program and perspective of ***revolutionary integrationism***, linking the struggle for racial equality to that for proletarian power:

> "The vast majority of Black people—both North and South—are today workers who, along with the rest of the American working class, must sell their labor power in order to secure the necessities of life to those who buy labor power in order to make profit. The buyers of labor power, the capitalists, are a small minority whose rule is maintained only by keeping the majority who labor for them divided and misled. The fundamental division created deliberately along racial lines has kept the Negro workers, who entered American capitalism at the bottom, still at the bottom. Ultimately their road to freedom lies only through struggle with the rest of the working class to abolish capitalism and establish in its place an egalitarian, socialist society....
>
> "Because of their position as both the most oppressed and also the most conscious and experienced section, revolutionary black workers are slated to play an exceptional role in the coming American revolution."
>
> — "Black and Red—Class Struggle Road to Negro Freedom" (1966), reprinted in *Marxist Bulletin* No. 9, "Basic Documents of the Spartacist League"

The Southern civil rights movement, in which entire black communities mobilized against the local white-supremacist regimes, provided an exceptionally favorable opportunity to finally unionize the states of the old Confederacy. This would have immeasurably strengthened the labor movement on both the economic and political levels and could have cracked the solid front of racist reaction in the South along ***class lines***. However, the AFL-CIO tops still did nothing to organize the South because doing so would have shattered their political alliance with the Dixiecrats, on which the national dominance of the Democratic Party depended.

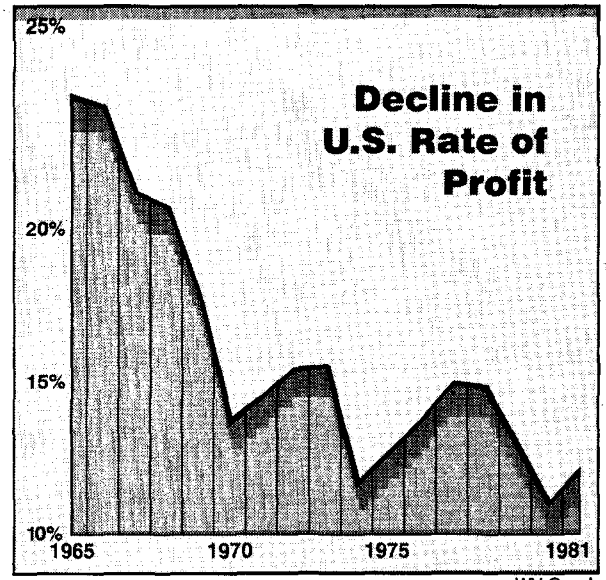
At the 1964 Democratic Party convention in Atlantic City, a group of predominantly black civil rights activists calling themselves the Mississippi Freedom Democratic Party demanded to be seated in place of the official, white-supremacist Mississippi delegation. Hubert Humphrey, the party's leading liberal figure and darling of the AFL-CIO officialdom, successfully maneuvered to defend the Dixiecrats against the black challenge. This, along with innumerable similar actions, rapidly alienated young civil rights militants from the liberalism of the Democratic Party and its labor lieutenants.

Furthermore, the AFL-CIO had its own segregated sector: the building trades, the stronghold of the pre-1930s craft unions. Membership was passed down from father to son and uncle to nephew. Liberal bureaucrats like Victor Reuther occasionally criticized the openly racist practices of the construction unions but did nothing about them. By the 1960s, major industrial unions like the United Auto Workers (UAW) and the United Steel Workers were heavily—even disproportionately—black. But in the eyes of many blacks, especially those outside the unions, the whites-only building trades discredited the labor movement in general.

The politics of the 1960s cannot, of course, be understood solely in terms of struggles within the United States. The blacks who defied the Klan and White Citizens Councils in

WV Photo

Abandoned steel furnace in Cleveland, 1980. Faced with declining rate of profit, U.S. capitalists shifted production to low-wage operations elsewhere, turning Midwest industrial heartland into Rust Bowl and laying off hundreds of thousands.



WV Graph

Alabama and Mississippi and who battled the cops in the ghettos of Los Angeles and Detroit identified with and were partly inspired by the revolt of the dark-skinned peoples of Asia, Africa and Latin America against Western imperialism. The Cuban Revolution, the Algerian War of Independence and, above all, the bloody imperialist war in Vietnam had a profound effect on American politics, especially the consciousness of young leftists. While blacks overwhelmingly opposed the war, the anti-Communist fanatics in the AFL-CIO bureaucracy, headed by George Meany, remained Vietnam War hawks even after Republican president Richard Nixon had given it up as a lost cause by the early 1970s.

The Spartacist League fought for independent working-class action—including labor strikes against the war—in opposition to the reformism of organizations like the formerly Trotskyist Socialist Workers Party, which pushed a strategy of pressuring liberal bourgeois politicians. A wave of important strikes, including the 1970 national postal strike, public employee strikes and Teamsters wildcats showed the potential power of labor in contrast to the impotent "peace crawls" favored by the liberals. To turn this power against the war would have required a break with class collaboration in hard opposition to the liberal, Democratic Party-loyal wing of the labor bureaucracy.

The Rise of Black Nationalism

All of these factors led a significant current of black militants in the mid 1960s to break to the left from Martin Luther King Jr. and Democratic Party liberalism under the slogan of "black power." We wrote in 1966:

> "In contrast to the reform program of the civil rights movement, the demands of the black masses are necessarily and inherently class demands, and demands which the ruling class cannot meet. The call for jobs, for housing, and for emancipation from police brutalization (attacking the very basis of the state)—these cannot be answered by another civil rights bill from Washington. Their pursuit leads inevitably to a sharper and sharper confrontation with the ruling class. It is this transition which is represented by the black power slogan. Its popularization represents the repudiation of tokenism, liberal tutelage, reliance on the federal government, and the non-violent philosophy of moral suasion."
>
> — "Black Power—Class Power," reprinted in *Marxist Bulletin* No. 5 (Revised): "What Strategy for Black Liberation? Trotskyism vs. Black Nationalism" (1978)

At the same time, we warned that the "black power" slogan "can be used by petty bourgeois black nationalist elements who want to slice the social cake along color rather than class lines and to promote reactionary color mysticism. More seriously, it can be degraded to mean mere support for black politicians operating within the system." And that is, in fact, what happened.

In the mid-to-late 1960s, the big urban ghettos—Harlem, Watts in L.A., Chicago, Newark, Detroit and elsewhere—exploded, as black youth took to the streets, battling the cops and looting stores. These rebellions were savagely repressed by the police, National Guard and even army units. At the same time, the ruling class moved to buy off a layer of community activists, including nationalist demagogues, with federal money provided by "poverty" programs. Aiding in this were pseudo-nationalist operators, a development termed "porkchop nationalism" by the more radical Black Panther Party. Over the next few years, many major cities would acquire black Democratic mayors to oversee the ghettos on behalf of Wall Street and the Fortune 500 corporations.

A manifesto of porkchop nationalism was Stokely Carmichael's 1967 *Black Power: The Politics of Liberation in America*, co-authored with black academic Charles Hamilton. Carmichael (now Kwame Ture) had been a leading militant in the Southern civil rights struggles. Now, he and Hamilton demanded that black politicos be given a free hand to run the ghettos while being generously funded by the U.S. Treasury. They were predictably hostile to the trade unions, identifying the racist and pro-imperialist policies of the AFL-CIO bureaucracy with organized labor ***as such***:

> "Organized labor has participated in the exploitation of colored peoples abroad and of black workers at home. Black people today are beginning to assert themselves at a time when the old colonial markets are vanishing; former African and Asian colonies are fighting for the right to control their own natural resources, free from exploitation by Western and American capitalism. With whom will economically secure, organized labor cast its lot—with the big businesses of exploitation or with the insecure poor colored peoples?... The answer, unfortunately, seems clear enough."

The views expressed here were by no means peculiar to Carmichael and Hamilton but in fact were part of the conventional wisdom of late 1960s American radicalism. The Black Panthers, who were influenced by Maoism, thought that all employed workers, black and white, had been bought off by the ruling class and that black lumpens were the revolutionary vanguard.

A prominent leftist intellectual of the day was Paul Sweezy, whose journal, *Monthly Review*, introduced many a leftward-moving young liberal to Stalinist ideology in its Maoist incarnation. Sweezy sought to provide a sophisticated, "Marxist-Leninist" rationale for prevailing New Left/ black nationalist anti-labor prejudices. Noting that Lenin had "argued that the capitalists of the imperialist countries could and do use part of their 'booty' to bribe and win over to their side an aristocracy of labor," Sweezy maintained: "As far as the logic of the argument is concerned, it could be ***extended*** to a majority or even all the workers in the industrialized countries" (*Monthly Review*, December 1967).

This assertion was made at the very moment when American capitalism could no longer concede significant improvements in the economic conditions of its working class. The next decade would see stagnating wages followed by the intensification of the rate of exploitation and a frontal assault on the labor movement.

The Bankruptcy of Liberalism and Ascendancy of the Right

During the 1950s and early '60s, the structural weakness of the trade-union movement and treacherous nature of its pro-capitalist leadership was partly masked by the fact that American capitalism was still strong enough to raise living standards for a majority of the working class while maintaining a high level of profits. By the late 1960s this was no longer the case. The underlying sources of weakness—an aging industrial plant, declining international competitiveness—were exacerbated by the inflationary pressures of the Vietnam War. During the second half of the 1960s, average real weekly earnings of non-supervisory workers increased by a minuscule 2 percent and actually declined slightly in two of the years. Union leaders were no longer delivering to their members at the basic bread-and-butter level, while rhetoric by liberal intellectuals about an "affluent society" provoked bitter resentment among blue-collar workers, black as well as white.

This period also saw the entry of a new proletarian generation—the post-World War II "baby boomers"—into the labor market. Their social and political consciousness, unlike that of their parents, was not shaped by the experience of the Great Depression and the labor battles of the 1930s and '40s. They had no strong loyalties to either the AFL-CIO or the Democratic Party. Young white workers were thus open to right-wing demagogy and to blaming the country's social and economic ills on black radicalism and "welfare liberalism," while young black workers and unemployed ghetto youth were receptive to nationalist denunciations of organized labor as a bastion of white privilege.

The ghetto rebellions and Vietnam antiwar protests have in retrospect obscured the fact that the late '60s-early '70s was

WV Photo

Auto workers protest outside Detroit Chrysler headquarters over closing of Dodge Main plant, July 1979.

also a period of considerable labor discontent and unrest on the shop floor. In 1968, one out of eight contracts negotiated by the union bureaucrats was rejected by the members, whereas this almost never happened in the 1950s. More importantly, that same year marked a postwar high in wildcat strikes, most dramatically in the auto plants of the Midwest.

However, rank-and-file hostility to the Walter Reuther regime in the UAW and kindred union bureaucracies polarized, on the political level, along racial lines. In Detroit, black militants involved in the wildcats formed the League of Revolutionary Black Workers, which was strongly influenced by Maoist ideology. The League called for a separate union for black auto workers and combined legitimate demands against the auto bosses' racist practices (e.g., for more black apprentices in the skilled trades) with demands for more black foremen and other supervisors. At the same time, many of the white workers involved in the wildcats against the Big Three automakers voted for the racist Alabama demagogue, George Wallace, or the victorious Richard Nixon against Democratic "friend of labor" Hubert Humphrey in the 1968 presidential elections, in part out of hostility to the Reuther bureaucracy.

Immediately following these elections, Kevin Phillips, a right-wing, self-described "populist," published an influential book, *The Emerging Republican Majority*, in which he argued:

> "The principal force which broke up the Democratic (New Deal) coalition is the Negro socioeconomic revolution.... The general opposition which deposed the Democratic Party came in large part from prospering Democrats who objected to Washington dissipating their tax dollars on programs which did them no good. The Democratic Party fell victim to the ideological impetus of a liberalism which had carried it beyond programs taxing the few for the benefit of the many (the New Deal) to programs taxing the many on behalf of the few (the Great Society)."

Phillips here combines partisan distortion and demagogy with important elements of truth. The notion that significant amounts of federal tax money were going to the black ghetto poor via President Lyndon Johnson's Great Society programs was a lie. In 1968, the last year of the Johnson-Humphrey administration, slightly less than $12 billion was spent on welfare and all other such programs (the bulk of which went to whites), an amount equal to ***one-seventh of the military budget***. Interest on the federal debt amounted to $11 billion, a form of welfare for Wall Street financiers. The Great Society "poverty" programs were very small potatoes compared to programs from the 1930s New Deal, like Social Security.

Phillips was correct, however, in that liberal Democrats no longer even promised significant economic reforms to benefit the majority of working people. Johnson's Great Society did ***not*** include socialized medicine, free universal higher education or the massive construction of low-rent public housing. Liberals no longer even talked about redistributing income from capital to labor. Insofar as they advocated expanding social programs, they proposed financing these through higher taxes across the board. As real wages declined over the next decade, right-wing attacks on "tax and spend" liberalism would gain increasing potency.

Seeking to regain the White House, the Democrats ran an avowedly pro-business Southern Democrat, Jimmy Carter, former governor of Georgia, as their presidential candidate in 1976. The AFL-CIO bureaucracy and black liberal politicos duly mobilized their constituencies for the most right-wing Democratic presidential candidate in half a century. Seeking to polish the tarnished image of the U.S. after the Vietnam War, Carter laid the ideological basis for Cold War II under the guise of a "human rights crusade." His hapless administration would oversee the worst deterioration in the economic conditions of American working people since the 1930s.

The world economic downturn of 1974-75 exposed the weaknesses of American capitalism, as the after-tax profits of U.S. corporations plummeted over 20 percent. The American ruling class responded with a concerted drive to reduce labor costs through "downsizing," speedup, two-tier wage systems and the shift of production to the low-wage, non-union South and Southwest as well as to Latin America and the Far East. In 1978, UAW president Douglas Fraser accused the leaders of big business of "waging a one-sided class war in this country."

It was indeed a one-sided class war, because Fraser and his fellow labor bureaucrats were fighting on the side of capital. This was clearly demonstrated the following year when Chrysler, the country's third-largest automaker, was on the verge of bankruptcy. The corporation's management, working closely with the UAW tops, successfully lobbied the Carter administration for a government bailout. As part of this deal Carter and the Democratic-controlled Congress demanded that Chrysler workers take a cut in wages and benefits. The Chrysler deal opened the floodgates to giveback contracts throughout unionized industry, using the labor bureaucrats as active and direct agents of capital in intensifying the exploitation of union members.

The last year of the Carter administration witnessed the unusual combination of a sharp recession with accelerating inflation, approaching 20 percent a year. The rapid inflation pushed working-class families into higher income-tax brackets so that take-home pay was falling even faster than real wages before taxes. Right-wing Republican Ronald Reagan won the election by promising large tax cuts along with cuts in social programs, perceived as mainly benefiting the black and Hispanic poor (e.g., welfare, food stamps). This demagogy worked, as half of those white union members and their families who bothered to vote in the 1980 elections supported Reagan over Carter.

Washington Post

Labor/Black mobilization organized by Spartacist League stopped Klan provocation in Washington, D.C., 27 November 1982. Fight for black freedom is key to the struggle for socialist revolution.

Some months prior to the election we pointed out that "the 'tax revolt' is the white backlash at two or three removes." But in contrast to the liberals we insisted: "The white backlash is not however the result of Reagan the Republican, but of decades of betrayal of ***class struggle*** by the labor bureaucrats and liberal black leaders who are tied to the Democratic Party. And it is only through united class struggle that racist demagogy and attacks can be fought and reversed" ("Behind Friedmania," *WV* No. 260, 11 July 1980).

For a Workers Government!

Despite fulminations about "Reaganomics" on the part of liberals and union leaders, the main policies of the Reagan administration expressed the general interests of the American ruling class, including those sections and factions represented by the Democratic Party. Indeed, all of Reagan's major policies and programs, from the massive arms buildup against the USSR to tax cuts for the rich, were endorsed by the Democratic-controlled Congress. As we wrote in a document adopted by the 1987 National Conference of the SL/U.S.:

> "The core goals of the Reagan presidency conform to a reactionary bourgeois ***consensus***, the basic elements of which are: 1) overcoming at the level of popular attitudes the 'Vietnam syndrome,' i.e., disillusionment with the Cold War against the Soviet bloc and unwillingness to make sacrifices for the sake of anti-Communism; 2) increasing military and economic pressure on the Soviet Union, its allies and client states;... 3) decisively weakening the organized labor movement through a combination of giveback contracts, union-busting and the extension of non-union shops; and 4) reversing the limited and token gains of the civil rights movement, and cutting back and dismantling social programs beneficial especially to the black and Hispanic poor and the aged."

This reactionary bourgeois consensus was clearly demonstrated when a Democrat returned to the Oval Office, after 12 years of Republican rule, in the person of another former governor. Under Bill Clinton—not Reagan nor his Republican successor George Bush—the core welfare program, Aid to Families with Dependent Children, has been eliminated. And the current bipartisan agreement to balance the federal budget by 2002 can be achieved only by massively slashing Social Security and Medicare. Having succeeded in their decades-long goal of destroying the Soviet Union, a workers state albeit deformed, and having battered the trade unions at home for two decades, the men who rule this country believe they can now do ***anything*** to the workers, the poor, the elderly, the black and Hispanic communities without the slightest danger of social turmoil—not to speak of revolution.

However, the sudden collapse of the East Asian economic "miracle," which is wreaking havoc on world financial markets, has exposed the fragility of the post-Soviet global capitalist order. And the Teamsters strike of UPS last summer showed on a small scale the power of organized labor, producing worries about a "worker backlash" on Wall Street.

The desire to fight and a mood of anger at the arrogant CEOs of corporate America are certainly there. But that in itself is not enough. There also needs to be leadership and organization, based on the understanding that union rights and black rights go forward together or fall back separately. As we wrote in a special *WV* supplement (27 August 1997) on the lessons of the UPS strike:

> "Two possible roads lie before the working class. There is the revolutionary strategy proposed by us Marxists. In the course of sharp class struggle and through the instrumentality of a revolutionary party that patiently educates the working class in the understanding not only of its social power but of its historic interests, the workers will become conscious of themselves as a class fighting for itself and for all the oppressed against the ***entire*** capitalist class and its government. Or there is the continuation of the bureaucrats' acquiescence to what is possible and 'practical' under capitalism, which over the past two decades and more has led to disaster."

The mobilization of the proletariat in pursuit of its own class interests requires a political struggle against the pro-capitalist labor tops. This is integrally linked to the construction of a revolutionary workers party to fight for a workers government which will expropriate the productive wealth now monopolized by the capitalists, in order to construct an egalitarian, socialist society. ■

reprinted from Workers Vanguard *Nos. 911 and 912, 28 March and 11 April 2008*

Foreclosures, Unemployment, Union Busting:

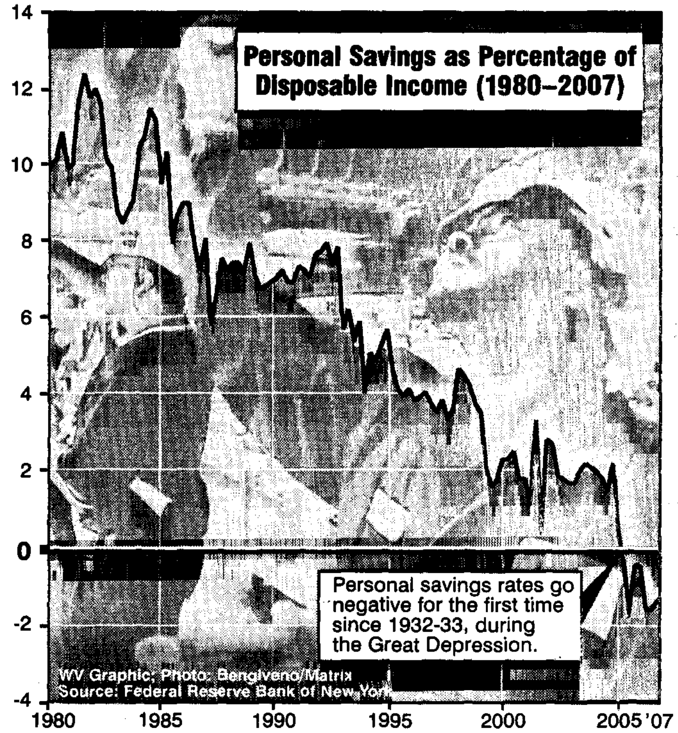
Capitalism U.S.A.

The collapse of the U.S. housing boom is but the most recent visible manifestation of the debt-ridden financial house of cards that is the capitalist economy. The financial crisis that began last summer is now impacting the domestic economy as a whole. In February, payroll employment fell by 63,000, the biggest monthly drop in nearly five years. On March 20, the Labor Department reported that the average of applications for jobless benefits for the prior four weeks had reached over 365,000, the highest level since Hurricane Katrina hit the Gulf Coast in 2005. Almost all business sectors are shedding jobs, with the biggest decline in manufacturing and construction. Another index of a downturn is that last month retail sales declined, especially for autos, furniture and consumer electronics.

Meanwhile, financial turbulence continues to batter Wall Street. Witness the spectacular collapse earlier this month of Bear Stearns, a venerable, major investment bank whose risky investments backfired. One financial analyst commented: "Once you have a run on the bank you are in a death spiral and your assets become worthless" (*New York Times*, 17 March). If Bear had gone bankrupt outright, it would have caused heavy losses for the many financial outfits that have lent money to the investment bank or that market their securities through it.

Thus the masters of Wall Street and Washington organized a "rescue" operation. The Federal Reserve (the U.S. central bank) has agreed to guarantee $30 billion of the firm's "most toxic" investment holdings, while financial giant JPMorgan Chase moved to buy up Bear's stock at $2 a share, less than one-twentieth the firm's market price a few days before. Bear stockholders, including many of its employees who have their retirement funds tied to Bear stock, are furious and are trying to scuttle the deal and force JPMorgan or another bank to put up more money. Whatever the outcome, no one thinks that the "rescue" of Bear Stearns will ease the financial crisis. The question of the day on Wall Street is: who's next?

Indeed, the Fed has allocated some ***$400 billion*** for a series of emergency short-term loans, including for investment banks. For many of these, the government would accept risky investments, including hard-to-sell securities backed by mortgages, as collateral in order to prevent a panicked run on the banks. Moreover, in announcing the Bear deal, the Fed also stated that it was launching a new program to lend money to the 20 largest investment banks that serve as "primary dealers" and trade Treasury securities directly with the Fed. According to the *New York Times* (18 March), "Fed officials raised the stakes by offering investment banks a new loan program without any explicit size limit." This could lead to the wholesale transfer of losses from investment banks to the Fed (i.e., taxpayers),



Break with the Democrats! For a Revolutionary Workers Party That Fights for a Workers Government!

Ho/L.A. Times

Homeless on Los Angeles streets.

"nationalizing" the potential losses of Wall Street parasites caused by the mortgage crisis. Bear Stearns and other investment giants get rescued while working people suffer, many unable to even escape their debts through bankruptcy because of a 2005 bankruptcy "reform" law that received support from Democrats as well as Republicans.

The panicky financial conditions and economic downturn have also demonstrated the bankruptcy, so to speak, of monetarism, which has been the dominant economic doctrine of the bourgeois right since the ascendancy of Ronald Reagan and Britain's Margaret Thatcher in the 1980s. The ideologues of monetarism maintain that the government, in particular, the central bank, can effectively control economic activity by adjusting the amount of money in the banking system along with interest rates. Like many capitalist theorists before them, the ideologues of monetarism believed they could minimize, if not eliminate, economic downturns—i.e., resolve the inherent boom-bust cycles of capitalism. A practitioner of monetarism, former Federal Reserve head Alan Greenspan was hailed as a maestro in bourgeois circles for overseeing for 18 years a massive expansion of financial wealth. But now the bubble has burst and much of that wealth has disappeared. There is real panic among Wall Street bankers and corporate executives while working people are fearful—and rightly so—about what the economic future holds in store for them.

When the Fed lowered interest rates earlier this month by another unusually large 0.75 percentage point—sending stocks up the following day—it revealed a certain improvisational panic. The impending recession has been accompanied by increasing inflation. The Associated Press (18 March) reported that wholesale prices rose again in February, with prices, outside of food and energy, shooting up at the fastest pace in 15 months. Notwithstanding the recent drop in the price of commodities such as crude oil and gold, the costs of energy, such as gasoline for your car, and basic foods (neither of which are counted in "core inflation" figures) have been consistently rising, hitting working people hardest. A cut in the interest rate by the Fed could serve to further drive down the dollar and fuel inflation. As the *Washington Post* (19 March) stated, "By reducing the interest rate financial institutions charge each other for short-term loans, the Fed makes money more readily and cheaply available." The *Post* went on to note: "Through higher consumer prices, all Americans would effectively help pay for the rescue of the financial industry. The decline in housing prices might be tempered, but inflation would eat away at real housing values."

According to the *New York Times* (18 March), the Fed currently has a total reserve of some $800 billion, half of which has already been pledged to rescue failing banks and investment firms. As former treasury secretary under Clinton, Lawrence Summers, pointed out: "There is a fundamental issue, which is that the financial system is short of capital and is under pressure to contract" (*New York Times*, 17 March). As it is, since last summer the Fed had already opened the loan spigot to banks at lower interest rates. But the banks have jacked up their interest rates to borrowers, whether businesses or households, while imposing more stringent conditions for making any loans at all and shunning all but the safest securities. Meanwhile, corporate executives are disinclined to borrow to expand production and employment with an economy that is likely already in recession.

For Class Struggle!

The economic downturn has become one of the central factors in the Democratic primaries between Barack Obama and Hillary Clinton, with each of them proposing plans to stimulate the economy while laying the impending recession on the doorstep of the Republican administration of George W. Bush. But the economic ills suffered by America's working masses are not fundamentally the product of the particular policies of an administration, notwithstanding its overt hostility to workers and the poor. For decades, workers' productivity has drastically increased while real wages have fallen. Economic crises are a result of the irrationality of capitalism, under which social production is based on the private ownership of the means of production.

From the militancy shown by immigrant and black workers in the years-long bitter struggle to organize the Smithfield pork processing plant in Tar Heel, North Carolina, to the 2003-04 strikes by grocery workers in Southern California, to the 2005 New York City transit strike and the ongoing strike against American Axle by the United Auto Workers, working people have shown their willingness to fight to defend their livelihoods. But they face formidable obstacles. Union-busting is a billion dollar industry, and the bourgeois rulers have on their side a panoply of anti-labor legislation and the entire state apparatus—consisting at its core of the police, courts, prisons and military—which exists to defend the rule and profits of the bourgeoisie.

Within the labor movement, the proletariat is saddled with a pro-capitalist union bureaucracy that promotes the lie that the interests of labor and capital are compatible. This bureaucracy, which parasitically sits atop the unions, is on the one hand susceptible to the demands of its working-class base. At times, it is pressured both by labor's ranks and the provocations of the bosses into strikes and other labor action. On the other hand, they have often thrown in the towel or signed egregious give-back contracts. Unions will not get anywhere playing by the bosses' rules. It is necessary to revive mass picket lines that stop the scabs, sit-down strikes and plant occupations, secondary boycotts and other methods of class struggle that built this country's industrial unions and that the trade-union tops have by and large renounced today. This poses the need for a struggle against the politics of the current crop of union misleaders in both the AFL-CIO and Change to Win union federations.

Wall Street is not a world unto itself, governed exclusively by the actions and interactions of investment bankers, money managers, corporate CEOs and other "players." The increasing disappearance of good jobs and their replacement by McJobs, the slashing of pensions and health care benefits, the enormous weakening of the unions—all this and more takes place with the acquiescence of the labor tops. Instead of mobilizing in struggle, they tie working people and the oppressed to the capitalist system, especially through support to the Democratic Party, the other party of American capitalism, racism and war. Every year, millions upon millions of dollars of union members' dues are wasted on backing one capitalist politician or another as a "friend" of labor, as has already begun to happen this election year with some unions supporting Clinton and others Obama (while others are biding their time to see who gets the nomination).

What is necessary is a fight to build a new, class-struggle leadership in the trade unions that begins with the understanding that the interests of labor and capital can never be reconciled. Forged in struggle, such a leadership will link the struggles of the working masses to the fight for immigrant rights, mobilizing for full citizenship rights for all immigrants, and against black oppression, the cornerstone of American capitalism. The need for a fighting union leadership must be part of the struggle to build a revolutionary workers party, independent of and opposed to all the capitalist parties and their politicians, that fights for working-class rule. Within the framework of the capitalist order, trade-union struggles for higher wages and better working conditions are essentially a type of guerrilla struggle. The working class will be subjected to continual attempts to increase the rate of exploitation and to the threat of deepening immiseration until it expropriates the capitalist class through a socialist revolution and establishes a planned economy in which production is for the benefit of the whole of society.

Myths of the Clinton Administration

It is today a widespread illusion—promoted by both the Democrats and the trade-union tops—that the time of the Clinton administration represented "golden years" for America's working people. In fact, the Clinton administration oversaw the massive slashing of social services, such as welfare, the unprecedented rise in the rate of incarceration, especially targeting young black men, and the further weakening of the unions.

One of the main structural changes in the U.S. economy under the Bill Clinton presidency, highly touted by both Barack Obama and Hillary Clinton, was that federal government budget deficits gave way in the late 1990s to surpluses for four straight years for the first time since the boom years of the late 1920s. From the outset, reducing government expenditure was the number one economic priority of Clinton and the "New Democrats." Shortly after winning the election in November 1992, he remarked: "We're Eisenhower Republicans here.... We stand for lower deficits, free trade, and the bond market. Isn't that great?" (quoted in Robert Pollin, *Contours of Descent: U.S. Economic Fractures and the Landscape of Global Austerity*, 2003).

The Eisenhower administration in the 1950s came to power only a few years following U.S. imperialism's victory in the Second World War, which was accompanied by the devastation of European and Japanese industrial capacity. By the early-to-mid 1950s, the U.S. had by far the largest and most technologically advanced productive capacity of any capitalist country. American-manufactured products dominated world trade, while the dollar, then considered "as good as gold," dominated international financial markets. Under these circumstances, American capitalism could thus afford to improve the living standards of most working people while still maintaining more than healthy profits. Not so during the Clinton years.

Lehman/SABA

Welfare recipients in Los Angeles, 1994. Democrat Bill Clinton gutted welfare in 1996, starving millions of single mothers and their children.

Spokesmen for the Clinton administration, notably treasury secretary Robert Rubin, maintained that reducing the government debt was necessary to revitalize the U.S. economy. Financing the large, persistent deficits, they argued, resulted in higher interest rates and crowded out corporate investment in new plants and equipment. In some circumstances, a government budget surplus would—à la Rubin—stimulate additional productive capital investment, but not in the circumstances of the U.S. economy in the late 1990s. In paying down the federal debt, the U.S. Treasury transferred hundreds of billions of dollars from taxpayers to wealthy bondholders. (Eighty percent of the domestic holdings of government and corporate bonds are owned by the top 10 percent of U.S. households in terms of income.) The financial windfall received by these bondholders from Clinton, Rubin & Co. in the late 1990s was mainly rechanneled into stock market speculation and an orgy of spending on creature comforts by the rich and the more affluent sections of the petty bourgeoisie.

Frantic speculation on Wall Street, centered on dot-coms and other technology companies, drove stock prices to irrational heights. In early 2000, the average corporate share was selling for 39 times the company's annual earnings per share. (By way of comparison, just before the Great Crash of 1929 the price/earnings ratio for corporate stocks was 32.) Nonetheless, many bourgeois economic ideologues denied that the stock market was being driven by speculative frenzy, instead claiming that the IT (information technology) "revolution" had fundamentally rewritten the laws governing the capitalist mode of production by creating a "new economy" of boundless prosperity.

But far from fundamentally changing the way in which capitalism operated, the IT "revolution" generated a classic boom-bust investment cycle of the kind described by Karl Marx. As Marx explained, capitalists invest in expanding production capacity on the assumption that the additional output, whether automobiles or Internet services, can be sold for the existing rate of profit—or at a higher rate of profit if they're investing in cost-cutting technology. However, during periods of expansion the average rate of profit tends to fall. Even if productivity rises and wages don't, increased profit per worker does not offset increased capital per worker.

This dynamic was clearly exhibited by the telecommunications industry, one of the mainstays of the "new economy" of the late 1990s. The return on capital for telecom companies fell steadily from 12.5 percent in 1996 to 8.5 percent in 2000. Telecommunications was an extreme case of what happened throughout the economy as the boom went bust. *Business Week* (9 April 2001) summed it up—from the standpoint of capital, of course, not labor:

> "After years of frantically investing to build up the human and physical capacity to keep up with soaring growth, the U.S. economy is struggling with overcapacity as far as the eye can see. From Intel's half-finished building in Austin, to the multitudes of identical retail stores that seem to dot every other corner, to the gaping, empty billboards that loom over New York's Times Square, every sector is struggling with the hangover caused by too many years of too much investment."

Obviously, for working people there cannot possibly be ***too many*** job opportunities and goods and services available. What business executives and their ideological spokesmen mean by "overcapacity" is that the U.S. has the actual capacity to produce more goods and services than can be sold ***at a satisfactory rate of profit***. Writing in the 19th century, Marx explained in *Capital* (Volume III):

> "There are not too many necessities of life produced, in proportion to the existing population. Quite the reverse. Too little is produced to decently and humanely satisfy the wants of the great mass....
>
> "Too many means of labour and necessities of life are produced at times to permit of their serving as means for the exploitation of labourers at a certain rate of profit."

The stock market boom of the late 1990s was driven by ***speculation***, with Wall Street manipulating both the demand for and supply of corporate shares. The price of a corporate share usually contains what Marx called "fictitious capital." That is, the market value of the outstanding shares of a given corporation is ***greater*** than actual value of its productive assets such as plant and equipment. The difference arises because the share price includes an ***expectation*** of future profits. During a stock market boom, the volume of fictitious capital reaches stratospheric levels because the ***expectation*** of higher stock prices becomes the main factor driving up their price.

Beginning in the 1980s, corporate America, encouraged by changes in tax laws, shifted from pension plans with defined benefits to contributing a certain amount to workers' 401(k) plans or other types of individual retirement accounts. Working people were in effect forced to provide for their old age by investing in the securities market, weighing potential gains against risk. Wall Street launched a hard-sell advertising campaign to convince the American public that stocks were the best possible long-term investment. "You can't beat the S&P 500" became the conventional wisdom propagated in brokerage offices, bank trust departments, the financial columns of daily newspapers and TV ads by big Wall Street firms.

During the 1990s boom, most large corporations repurchased on a massive scale their own outstanding shares, expending for this operation an average of $120 billion a year between 1994 and 2000. Some 40 percent of after-tax corporate profits, rather than being invested in increasing productive capacity, was instead expended in giving mainly wealthy stockholders windfall gains to artificially inflate share prices. These financial manipulations thus had a ***negative effect*** on expanding productive capacity, especially in manufacturing. The share of industrial plant and equipment as a percentage of all business assets fell to 18 percent in the 1990s, the lowest level in the entire post-World War II era. Since then, the decline of the manufacturing sector has continued apace. The mainstay of the economy in the first years of the 21st century was the now-collapsed housing boom that added not one whit to real productive capacity.

How Wall Street Fueled Housing-Price Bubble

Not that long ago, most residential mortgages were held by commercial banks or companies specializing in home finance. Then, about the time that the stock market boom went bust in 2000-01, large institutional investors such as corporate and government pension funds, insurance

Indymedia

Striking UFCW grocery workers in Inglewood, California, January 2004. Defense of health benefits was key issue in five-month strike.

companies and hedge funds (private investment pools accessible only to financial institutions and the wealthy) went into the residential real estate market in a big way. Abetting the massive influx of finance capital into residential real estate was Greenspan's Fed, which kept interest rates low by historical standards (or even in the negative once inflation is taken into account).

Financial operators now victimized low-income families, heavily black and Latino, with so-called subprime mortgages—home loans with sky-high commissions and interest rates, often disguised by low initial rates that were then jacked up after a few years. The tidal wave of subprime mortgages had its origins in banking deregulation of the 1980s and '90s. A 21 March piece in the *New York Times* by liberal mainstream economist Paul Krugman noted that to bypass government regulations, Wall Street created a "shadow banking system" that "took over more and more of the banking business, because the unregulated players in this system seemed to offer better deals than conventional banks. Meanwhile, those who worried about the fact that this brave new world of finance lacked a safety net were dismissed as hopelessly old-fashioned."

The sharp increase in cutthroat competition caused many banks to close branches in minority areas and relocate them in higher-income, more profitable areas. The result:

> "Subprime lenders took their place. Because many of these are mortgage and finance companies, they are not regulated as closely as are banks and other depository institutions.... Indeed, it may be that depository institutions set up subprime affiliates for these very reasons."
>
> —Richard Williams et al., "The Changing Face of Inequality in Home Mortgage Lending," *Social Problems*, May 2005

As Bill Clinton was leaving office, a record 47 percent of black people owned their own homes. For many, it would prove to be a cruel illusion.

The financiers involved in the subprime business knew full well that many of those loans could not be repaid. But they figured that as long as housing prices continued to go up, homeowners in financial difficulty, instead of defaulting on their loans, would refinance their mortgages or sell their homes to pay off their debt.

However, the housing-price bubble was not mainly fueled at the low (subprime) end of the mortgage market. Many affluent petty-bourgeois families and some better-off working-class families were burned when the stock market boom went bust in 2000-01. They were then convinced that housing was a much more secure and even lucrative financial investment than corporate securities. By 2005 over one-third of houses sold were ***not*** for primary residences but were rather vacation homes or purely speculative ventures. People were buying houses financed by mortgage loans with the intention of "flipping" them, that is, reselling them at a higher price.

At the same time, many families took advantage of the lower interest rates to extract equity from their homes by refinancing. Consider a family that purchased a house for $300,000 ten years before. Suppose that through a decade of mortgage payments the family had built $150,000 in equity in their home and reduced the outstanding balance on their mortgage to $150,000. They then borrow $200,000 against their house at a lower interest rate, repay the balance of the old mortgage and use the additional $50,000 to pay for their children's education, buy a second car or some other form of consumption. Thus the housing boom of the past half decade has actually resulted in a ***decline*** in family home ownership in ***net financial terms***. While homeowners' equity has increased by $4.3 trillion since 2000, outstanding mortgage debt increased by $5 trillion.

A Rickety Financial House of Cards

Over the past several years there has been an enormous expansion of debt among all major components of the U.S. economy—households, corporations and the federal government. The past decade and a half has seen the effective disappearance of household savings, which three years ago actually turned negative. That is, American families consumed more than they earned mainly by converting home equity into additional mortgage debt. For most working-class families, the disappearance of household savings and escalation of debt has been mainly caused by the stagnation of real income. The *New York Times* (8 March) noted, "Most American households are still not earning as much annually as they did in 1999, once inflation is taken into account. Since the Census Bureau began keeping records in the 1960s, a prolonged expansion has never ended without household income having set a new record."

To make ends meet, working people have borrowed against the equity in their homes, maxed out their credit cards or otherwise had recourse to the loan sharks of Wall Street. In 1995, on average U.S. households owed 62 cents in debt for every dollar in income. A decade later the indebtedness ratio had almost doubled reaching $1.16 for every dollar in income. Many working-class families are one or two paychecks from foreclosure on their homes, repossession of their cars, telling their children that they cannot afford to continue their college education or filing for personal bankruptcy.

In the banking sector, the tremendous expansion of risk and instability since the late 1980s is linked to important changes that have taken place in the structure and functioning of U.S. and global financial markets. The current financial panic was in part set off by a collapse of confidence in the value of CDOs (collateralized debt obligations) and other similar bonds that are issued based on the value of different classes of bundled mortgages, including subprime. The volume of such mortgage-backed securities soared from less than one trillion dollars in 2000 to over $3 trillion in 2003. The current volume of CDOs circulating in financial markets totals $6.5 trillion, an amount ***greater*** than the market for U.S. Treasury bonds.

A key component of the new financial architecture has been the explosive development of derivatives, securities whose value derives from that of an underlying asset. A major attraction of using derivatives for speculation is that the amount of money that can be won if the bet pays can be enormous compared to the initial investment. Hillary Clinton—with a little help from a friendly trader—famously parlayed $1,000 into almost $100,000 by trading cattle futures. However, the losses in derivative operations can also be astronomical. The French bank Société Générale discovered this recently when a rogue trader's secret bets on stock market indices went, in the space of a few weeks, from a gain (on paper) of almost $2 billion to costing the bank a $7 billion loss.

Imperial War Museum, London

Dead German soldiers on battlefield, 1917. World War I was interimperialist carnage for redivision of world markets and spheres of exploitation.

CDOs, derivatives and other new forms of money capital that were touted as spreading financial risk instead spread financial panic. What we are witnessing is a classic financial crisis such as described by Marx in *Capital* (Volume III):

> "This confusion and stagnation paralyses the function of money as a medium of payment, whose development is geared to the development of capital and is based on those presupposed price relations. The chain of payment obligations due at specific dates is broken in a hundred places. The confusion is augmented by the attendant collapse of the credit system, which develops simultaneously with capital, and leads to violent and acute crises, to sudden and forcible depreciations, to the actual stagnation and disruption of the process of reproduction, and thus to a real falling off in reproduction."

Writing in the op-ed page of the *New York Times* (5 March), Stephen Roach, head of East Asian operations for the giant Wall Street investment bank Morgan Stanley, called attention to the parallels between Japan's financial crisis in the early 1990s and that in the U.S. today. During the late 1980s, Japan's central bank pursued a "loose" monetary policy fueling enormous speculative bubbles in both the corporate stock and real estate markets. When the bubbles burst, a large fraction of the "capital" of Japanese banks suddenly was transformed into "nonperforming" loans. As a consequence Japan suffered years of economic stagnation—the 1990s were later called the "lost decade"—followed by a weak and halting recovery. Roach pointed out: "In Japan, a banking crisis constricted lending for years. In the United States, a full-blown credit crisis could do the same."

In fact, as Marx observed in *Capital* (Volume III) more than a century ago, "The credit system accelerates the material development of the productive forces and the establishment of the world-market.... At the same time credit accelerates the violent eruptions of this contradiction—crises—and thereby the elements of disintegration of the old mode of production."

Finance Capital and the Imperialist Epoch

Between the time Marx had written *Capital* and the end of the 19th century, the imperialist system—the system of modern, decaying capitalism—had developed within the most advanced capitalist powers. Underlying the close link between financial crises and the contraction of production and employment is the dominant role of finance capital in capitalist imperialism today.

In his 1916 study, *Imperialism, the Highest Stage of Capitalism*, Bolshevik leader V. I. Lenin emphasized that the monopolization of production and the dominant role of finance capital impel the imperialist powers to divide the world as they strive for markets and spheres of exploitation in more backward capitalist countries in Asia, Africa and Latin America. Lenin underlined that large banks have become "powerful monopolies having at their command almost the whole of the money capital of all the capitalists and small businessmen and also the larger part of the means of production and sources of raw materials in any one country and in a number of countries." In a 1920 preface to *Imperialism*, he wrote: "It is proved in the pamphlet that the war of 1914-18 was imperialist (that is, an annexationist, predatory, war of plunder) on the part of both sides; it was a war for the division of the world, for the partition and repartition of colonies and spheres of influence of finance capital, etc."

The struggle of the imperialist powers to redivide markets and spheres of exploitation also led to the Second World War of 1939-45. But there was a major difference: the existence of the Soviet Union, which emerged out of the 1917 Bolshevik Revolution and remained a workers state despite its degeneration under the nationalist Stalinist bureaucracy. In its drive to dominate Europe, Germany invaded and sought to subjugate Soviet Russia. The defeat of the German Wehrmacht by the Soviet Red Army decisively affected the shape of the postwar world. The United States, with the defeat of its main imperialist rivals, Germany and Japan, became the hegemonic world capitalist power. But the global hegemony of American imperialism was blocked by the Soviet Union, which had emerged from the war as the second-strongest state in the world.

In 1991-92, the Soviet Union, internally weakened by decades of Stalinist misrule, was destroyed by imperialist-backed capitalist counterrevolution. An important aspect of the ensuing bourgeois ideological triumphalism over this world-historic defeat for the international proletariat was expressed in the term "globalization." Henceforth the financiers and industrial capitalists of North America, West Europe and Japan would supposedly exercise untrammeled economic domination throughout the world.

Many leftist critics of "globalization" accepted the basic premise that this constituted a new and fundamentally different form of capitalist rule. They maintained that large banks and industrial corporations had become genuinely "transnational," that they were no longer tied to particular imperialist nation-states. Opposing this position, we wrote in our 1999 Spartacist pamphlet, *Imperialism, the "Global Economy" and Labor Reformism*: "This view expresses a ***liberal idealist outlook*** since it implicitly assumes that capitalists do not need state power—i.e., armed bodies of men—to protect their property against challenges from both the exploited classes and rival capitalists in other countries.... Whether undertaken by corporations, banks or other financial institutions, foreign investment depends on the political, economic and military power of the states controlled by the owners of these capitalist enterprises."

The current international financial crisis has intensified the conflicts of interest between U.S. imperialism and its West European and Japanese rivals. Thus the downward slide of the dollar against the euro has caused alarm in Europe, especially in France. The European plane manufacturer Airbus, citing "life-threatening" losses (jetliners are priced in dollars), is reportedly considering plans to relocate production to Alabama and elsewhere in the dollar zone. Likewise, the recent sharp decline of the dollar against the Japanese yen has hurt major corporations such as Sony and Toyota that are heavily dependent on exports. The German newsweekly *Der Spiegel* (30 November 2007) warned: "Rarely has the world economy been so out of whack or have global imbalances been greater." The magazine expressed the anxiety of the German bourgeoisie over the deepening financial crisis in the U.S.:

> "In this case—when the 'infection spreads,' as a leading German banker puts it—banks would be forced to make far more drastic value adjustments. Not only would this poison the spending climate, but it would also undermine foreign investors' confidence in the US economy. This in turn would lead to a far more substantial slide in the dollar's value, and probably a crash on the markets, which are still at surprisingly high price levels today."

The continued existence of the bourgeois nation-state—the central political pillar of bourgeois rule—is a ***fundamental barrier*** to the rational expansion of productive capacity benefiting working people throughout the world. To achieve that, it is necessary to overthrow the capitalist-imperialist system through a series of proletarian revolutions that lay the basis for an internationally planned, socialist economy.

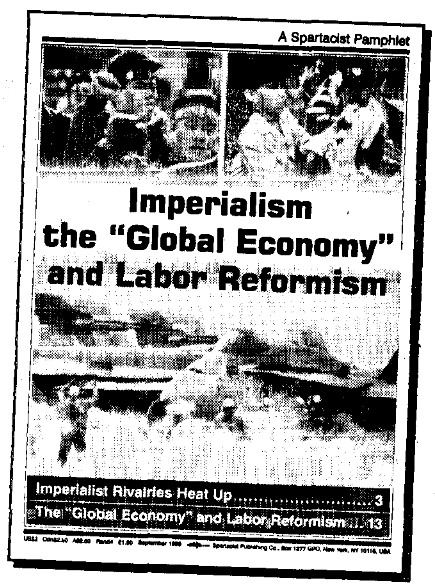
Bipartisan "Solution" to Budget Deficits: Make the Poor Pay

The ongoing economic crisis in the U.S. continues to deepen. Poor and minority families are being driven out of their homes through mortgage foreclosures. Meanwhile, the investment bank crisis—exemplified by the near implosion of onetime financial giant Bear Stearns—continues to shake Wall Street and beyond. According to the Bureau of Labor Statistics, some 80,000 jobs disappeared in the month of March alone, the largest job loss since March 2003. Since the start of the year, over 230,000 jobs have been lost. This sustained job loss points to a deep, impending recession.

Compounding the crisis in the U.S. is the federal budget deficit; the world's wealthiest country is also the biggest debtor nation. Right after George W. Bush took over the White House, he and the Republican majority in Congress pushed through a major tax cut, over 40 percent of which went to the wealthiest 20 percent of U.S. households. At the

Published in September 1999, this pamphlet assesses changes in the world economy in a historical perspective, from the origins of modern imperialism in the late 19th century through the capitalist counterrevolution in East Europe and the former USSR and its aftermath. Reformist ideologues of "globalization" seek to obscure the role of the capitalist nation-state and the danger of interimperialist war which is inherent in capitalism, while amnestying the refusal of the labor bureaucracies to wage class struggle against their respective bourgeoisies.

Exploitation, poverty and social degradation can be eliminated only through proletarian revolutions in the imperialist centers as well as the neocolonial countries, laying the basis for an international planned socialist economy.



$2 (32 pages)

Make checks payable/mail to:
Spartacist Publishing Company, Box 1377 GPO, New York, NY 10116

Johnny Knox

Los Angeles: SEIU Local 660 members and community activists protest against threatened closure of King/Drew hospital's trauma unit, September 2004.

same time, the attack on the World Trade Center and the Pentagon in September 2001 provided a pretext for the U.S. imperialist ruling class to rev up its military spending in the name of "the war on global terror." From 2000 to 2007, the federal government went from running a surplus of $236 billion to a deficit of $162 billion.

Both the Reagan and Bush II tax cuts were deliberately *intended* to produce large federal budget deficits. Why? In order to increase the political pressures for slashing social programs. The late Milton Friedman, dean of U.S. right-wing economists, bluntly stated this strategy in the premier mouthpiece of American capital, the *Wall Street Journal* (19 January 2003):

> "How can we ever cut government down to size? I believe there is one and only one way: the way parents control spendthrift children, cutting their allowance. For government, that means cutting taxes. Resulting deficits will be an effective—I would go so far as to say, the only effective—restraint on the spending propensities of the executive branch and the legislature."

While using different rhetoric and argumentation, the Democrats' "solution" to the budget deficit is substantially the same. They contend that the two big entitlement programs—Social Security and Medicare—are an unsustainable burden on the U.S. economy. Thus Alice M. Rivlin (director of the White House Office of Management and Budget under Clinton) and Isabel Sawhill (a Senior Fellow at the Brookings Institution) insist, "Although few elected officials are willing to say so, retirement programs must be modified to avoid their consuming the entire federal budget" (*Restoring Fiscal Sanity: How to Balance the Budget*, Brookings Institution [2004]). Concretely, these liberal economic advisers to the Democratic Party propose to cut Social Security pension benefits by various mechanisms (increasing the age eligibility for full benefits, adjusting downward the cost-of-living escalator) while reducing spending on Medicare programs.

This country is more than wealthy enough to provide good-paying jobs, a decent living standard and quality medical care, housing and education for everyone who lives here. But for that to be realized requires that the rule of the rapacious capitalist class be overthrown by a proletarian socialist revolution.

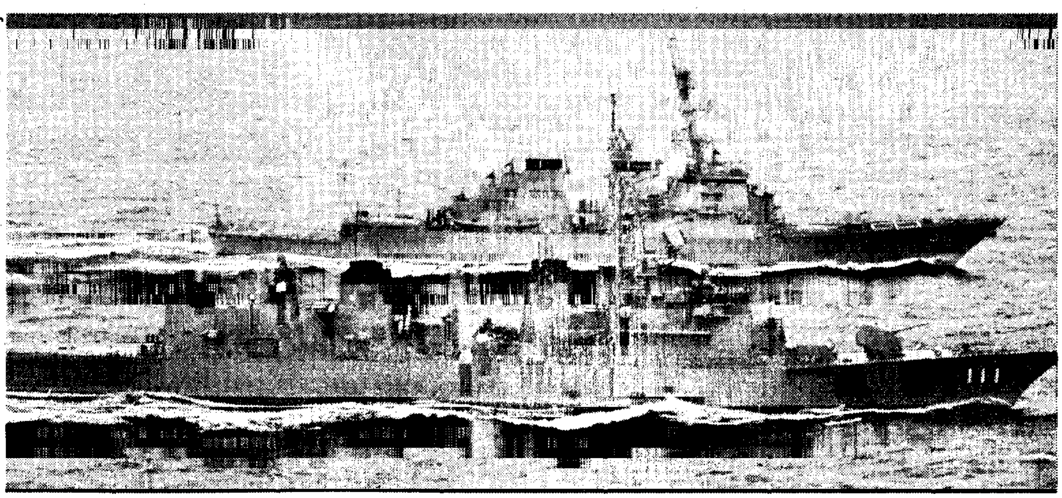
Defend the Chinese Deformed Workers State!

In the mid 1960s, manufacturing output was 27 percent of the U.S. gross national product and its share of employment was 24 percent. By the early 2000s, the weight of manufacturing had been reduced to 14 percent of national output while employing 11 percent of the labor force. Three years ago, a mainstream bourgeois academic economist, Ronald McKinnon, pointed to the connection between the deindustrialization of the U.S. economy and its increasing international indebtedness:

> "The United States is the world's champion borrower in international markets. Foreign central banks, which hold more than half the outstanding stock of U.S. Treasury bonds, have become the principal source of finance for the federal government's burgeoning fiscal deficits.... Besides this massive government dissaving, meager saving by American households forces U.S. corporations also to borrow abroad to supplement finance for domestic investment."
>
> —"America's Financial Mess: It's Time to Eliminate the U.S. Saving Deficiency," *The International Economy*, 22 September 2004

Since then, the conditions described by McKinnon have gotten worse. Expending more than it produces, the U.S. consistently runs large balance of trade deficits concentrated in manufactured goods. Over the past few years, the dollar has undergone a substantial depreciation against the euro and more recently also against the Japanese yen and to a

U.S. Navy



December 2007: U.S. and Japanese warships practice anti-submarine maneuvers in Pacific. U.S.-Japan military alliance is directed against Chinese deformed workers state.

China Photos

Chinese auto workers in Haikou, Hainan Province. China is the world's third-largest producer of motor vehicles after Japan and U.S. Right: Workers demonstrate outside paper products factory in Shenzhen to demand back pay, October 2007.

lesser extent the Chinese yuan. However, the "cheaper" dollar has had little or no effect in reducing the country's yawning trade deficit. What then has to date prevented a free-fall plunge of the dollar in world currency markets and/or a quantum leap in global interest rates as investors guard against that risk? Mainly the willingness of the Japanese and Chinese governments to accumulate an ever larger stock of U.S. Treasury bonds and bills as a major component of their foreign-exchange reserves.

The business press sometimes treats the economic motivations of Japan and China in relation to the U.S. as if they were basically similar. That is, both seek to prevent a too sharp appreciation of their respective currencies against the dollar in order to maintain a competitive advantage in world commodity markets. However, Japan and China are two fundamentally different kinds of states and societies and therefore have fundamentally different relationships to U.S. imperialism. Japan is an imperialist country that is both an economic rival and a political-military ally of the U.S., an alliance primarily directed against the Chinese and North Korean deformed workers states.

The 1949 Chinese Revolution overthrew capitalist/landlord rule and ripped the world's most populous country out of the clutches of the imperialist powers that had long held China in their grip. Emerging from the military victory of peasant-guerrilla forces led by the Stalinist Chinese Communist Party (CCP), the People's Republic of China was and remains a bureaucratically deformed workers state. Despite Stalinist bureaucratic parasitism and mismanagement, the collectivization of the economy has resulted in enormous social gains for workers, peasants and women.

Following the death of Mao Zedong in 1976, the CCP regime introduced a series of market-oriented policies in the economy. These included attracting large-scale investment, concentrated in manufacturing, by Western and Japanese corporations and offshore Chinese capitalists in Hong Kong and Taiwan. There has also emerged a sizable class of capitalist entrepreneurs on the mainland. As a consequence of these developments, there is now a widespread belief, extending across the political spectrum from right to left, that China has become capitalist or is rapidly and irreversibly becoming so. Pseudo-Marxist groups that promote this illusion do so in the service of lining up with their "own" bourgeois rulers' drive for capitalist restoration in China.

In maintaining that China continues to be a workers state, we do not deny or minimize the growing social weight in China of both the newly fledged capitalist entrepreneurs on the mainland and the old, established offshore Chinese bourgeoisie in Taiwan and Hong Kong. However, capitalists in China are still prevented from organizing themselves politically and vying for power. At the same time, the political power of the Beijing Stalinist bureaucracy continues to be based on the fact that the core sectors of the industrial economy remain collectivized while the banking system remains effectively state-owned. These factors have been key to the prodigious expansion of industrial capacity in China in recent decades and with it a corresponding increase in the social weight of the urban working class. China has also developed a large technical intelligentsia. The expansion of industrial capacity has not been one-sidedly concentrated in labor-intensive light manufactures. China is now the world's largest producer of steel and is becoming a major producer of a wide range of industrial goods—for example, automobiles and other motorized vehicles, ships and port cranes—involving relatively advanced technologies, though China's productivity is substantially lower than that of advanced capitalist countries.

Significantly, during the East Asian financial/economic crisis in the late 1990s, China ***uniquely*** maintained a high level of economic growth and industrial development. State ownership of the banking system effectively insulated China from the volatile movements of speculative money-capital that wreaked havoc on the capitalist countries of the region from Indonesia to South Korea. China did experience a decline in exports to the region and also a reduction in investment by offshore Chinese capitalists. However, the Beijing regime was able to offset these losses by expanding and redirecting government and state-owned bank expenditure to industrial construction and infrastructure. While a prolonged international economic downturn today would negatively impact China, the fact that it is a workers state gives the Beijing regime the option of intervening into the economy outside the framework of the global capitalist market to at least partially offset the effects of an economic slowdown. For example, China has the capacity to counteract a steep decline in export earnings by rechanneling investment for domestic purposes.

Smashing the Chinese workers state is a strategic goal for the capitalist powers, centrally the American imperialists, who seek to turn China into a vast sphere of untrammeled exploitation and super-profits. To that end, they are increasing the military pressure on China while pursuing a policy of internal economic and political subversion. The U.S. has continually maintained capitalist Taiwan as a dagger aimed at the Chinese deformed workers state, while promoting counterrevolutionary insurgency such as in Tibet in the name of "human rights." An 8 March article in *Asia Times* by Hampshire professor Michael T. Klare points out that on February 4, Bush announced a baseline military budget of some $515.4 billion for the next year, which did ***not*** include funds for the Iraq and Afghanistan occupations. While China is not mentioned by name in the Pentagon's fiscal year request, the largest in inflation-adjusted dollars since World War II, Klare notes, "Probe a little deeper into Pentagon thinking, and only one potential superpower emerges to justify all this vast spending: the People's Republic of China."

As Trotskyists (i.e., genuine Marxists), we stand for the unconditional military defense of China against imperialist attack and internal counterrevolution, just as we stand for the military defense of the other remaining deformed workers states: Cuba, North Korea and Vietnam. Defense of the Chinese workers state is undermined by the rule of the nationalist Stalinist bureaucracy whose policies are encapsulated in the anti-Marxist dogma of "building socialism in one country" and "peaceful coexistence" with world imperialism.

Along with the Indonesian Communist Party, the Chinese Stalinist regime (as well as the Stalinists in Moscow) offered political support to Indonesian president Sukarno, subordinating the proletariat to his capitalist government. The result of that treacherous policy was the 1965-66 slaughter of over a million Communists, workers, peasants and ethnic Chinese carried out by an alliance between the army and Islamic fanatics and with the direct involvement of the American CIA and its Australian junior partner. For 32 years afterward, Indonesia was ruled by the blood-drenched Suharto regime. In 1972, when the U.S. was raining bombs down on Vietnam, Mao sealed his anti-Soviet alliance with U.S. imperialism. Mao's policy was extended under the regime of Deng Xiaoping, which in the 1980s supported the Afghan *mujahedin* against the Soviet Red Army. Today, in signing on to the U.S.-led "war on terror," the Beijing Stalinist bureaucrats have encouraged U.S. imperialism in its counterrevolutionary drive.


AP

Hu Jintao, now Chinese president, visiting Wall Street, April 2002.

We call for a proletarian political revolution to oust the venal and oppressive CCP regime and replace it with a government based on democratically elected workers and peasants councils and revolutionary internationalism. Despite the enormous gains of the 1949 Revolution, China remains a majority-peasant country with a relatively low level of productivity at its industrial base. A rational collectivization and modernization of Chinese agriculture and industry will, in the final analysis, hinge on the aid that China would receive from a socialist Japan, Europe or America, underlining again the need for international proletarian revolution.

U.S. Imperialism: Military Superpower, Deteriorating Economic Base

The current commercial and financial relations between the U.S. and China are not just governed by calculations of short-term economic advantage but must be understood in the broader context of American imperialism's drive to restore capitalism and reduce China to semicolonial subjugation. By opening its domestic market to manufactured goods from China on a massive scale, the U.S. ruling class has sought to foster economic dependency on the part of elements of the CCP officialdom, newly fledged Chinese capitalist entrepreneurs and a section of the administrative and technocratic petty bourgeoisie. By helping to finance the U.S. government debt, the Beijing Stalinists seek to counter moves toward anti-China trade protectionism and otherwise appease the masters of Wall Street and Washington.

However, the sheer magnitude of the U.S. trade deficit on the one side and the enormous stock of depreciating U.S. Treasury IOUs in the coffers of the People's Bank of China on the other make this arrangement increasingly untenable. Pressure is mounting in Washington for anti-China trade protectionism, especially since the Democrats won the 2006 Congressional elections. Liberal politicians and union bureaucrats use China-bashing to deflect working-class discontent over stagnant wages and corporate attacks on health care and pension benefits. In reality, China has little to do with the U.S. trade deficit, much less the immiseration of the American working class. A large fraction of the goods China exports to North America and West Europe consists of components made in Japan, South Korea and Taiwan. If the U.S. ruling class resorted to general protectionist measures, this could serve to trigger a global trade war, sow chaos in world financial markets and greatly heighten tensions between the major imperialist states, as well as with the Chinese deformed workers state.

For its part, the Beijing Stalinist regime faces a situation in which anti-China sentiment is on the rise in the U.S. while the financial costs of accommodating U.S. imperialism are also increasing. The Chinese central bank has begun, albeit on a very small scale, to shift its foreign-exchange reserves from dollars into other currencies and more lucrative dollar-denominated assets. Last summer, Xia Bin, director of the financial research department of the State Council, suggested that China's $400 billion in U.S. Treasury securities could be used as a bargaining chip in negotiations with Washington over trade and currency realignment.

Along similar lines, an opinion piece in the official *China Daily* by He Fan, an economist with the China Academy of Social Sciences, warned that if China accedes to the U.S. demand to sharply appreciate the yuan against the dollar, the central bank would be forced to sell dollars, "which might lead to a mass depreciation of the U.S. dollar against other currencies" (*Washington Post*, 9 August 2007). Subsequently, the central bank, in an attempt to reassure Washington, announced it had no plans to sell off its dollar assets. Regardless of the short-term policies of the Chinese Stalinist regime and also the Japanese imperialist bourgeoisie, conditions exist for a major international financial crisis disrupting trade and leading to a worldwide recession.

For Workers Revolution!

Following the counterrevolutionary destruction of the Soviet Union in 1991-92, the U.S. ruling class declared its state to be the "world's only superpower" that would henceforth dominate the rest of the world. At the same time, the post-Soviet period is marked by the reduced weight of American capital in international commodity and financial markets. This gives the American imperialist ruling class an especially irrational, destructive and dangerous character. Witness the murderous occupations of Iraq and Afghanistan on the international scene and the escalating attacks on the working class, black people, immigrants and all the oppressed "at home."

War, poverty, economic crisis are all endemic to the capitalist system, which is based on the private ownership of the means of production—the factories, electrical power plants and grids, airlines, oil fields, mines, means of transport, etc. It is a system in which production is based on profits for a few wealthy capitalists, while the rest of the population is faced with increasing assaults on its living standards or utter poverty. But capitalism also creates its own gravedigger: the working class, which is forced to sell its labor power in order to survive. Despite the decline in American manufacturing jobs, the U.S. share of global manufacturing has remained around 20 percent since 1982, underlining the strategic importance of this country's industrial proletariat.

Only the proletariat has the social power and objective interest to sweep away this deeply irrational and inhumane system through social revolution and replace it with a planned economy in which production is based on the human needs of all, rather than profits for the few. The only answer to the anarchy and brutality of the capitalist system lies in the struggle for socialist revolutions internationally to sweep away the bourgeois ruling classes and their capitalist states and forge in their place workers governments where those who labor rule.

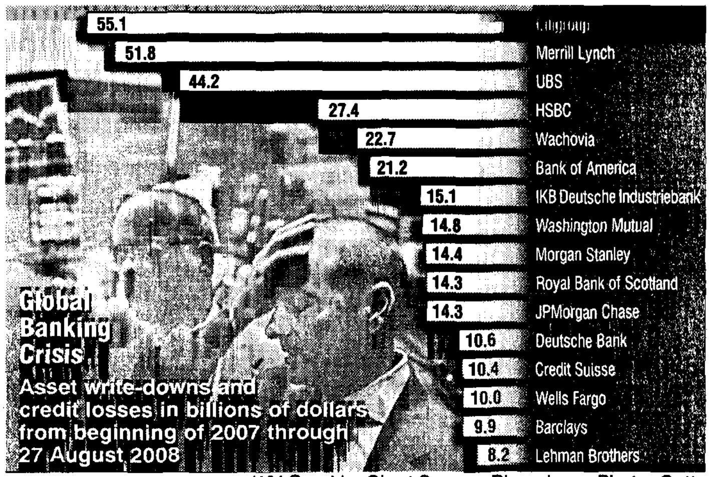
As the impending recession signals even greater immiseration for working people in the U.S. and throughout the capitalist world, the need to struggle against this destructive and exploitative system becomes even more urgent and compelling. Key to such a perspective is a political struggle against the labor bureaucracies of the AFL-CIO and Change to Win trade-union federations, which tie the multiracial American proletariat to its class enemy, especially through support to the capitalist Democratic Party, of which the trade-union bureaucracy is a component.

The fight to build a new, class-struggle leadership in the labor movement must be linked to the struggle to forge a revolutionary, multiracial workers party in the U.S., section of a reforged Fourth International. Such a party would be formed in opposition to all capitalist parties and their politicians and built in political struggle against labor bureaucrats who bind the exploited and oppressed to the bloodsuckers of Wall Street. As Trotsky wrote in the 1938 Transitional Program, the founding document of the Fourth International:

> "The question is one of guarding the proletariat from decay, demoralization and ruin. The question is one of life or death of the only creative and progressive class, and by that token of the future of mankind. If capitalism is incapable of satisfying the demands inevitably arising from the calamities generated by itself, then let it perish. 'Realizability' or 'unrealizability' is in the given instance a question of the relationship of forces, which can be decided only by the struggle. By means of this struggle, no matter what its immediate practical successes may be, the workers will best come to understand the necessity of liquidating capitalist slavery." ■

reprinted from Workers Vanguard *No. 921, 26 September 2008*


AFP



WV Graphic, Chart Source: Bloomberg, Photo: Getty

As foreclosures mount, desperate homeowners line up for credit counseling in Washington, D.C. (left).

Wall Street Nightmare Stalks Working People

"Robbing a bank's no crime compared to owning one!"
—Bertolt Brecht, *Happy End*

SEPTEMBER 22—The mushrooming economic crisis that exploded on Wall Street this month, triggered by the collapse of the housing price bubble last year, reduced some of the country's, indeed the world's, most powerful financial institutions to twisted wreckage. On September 7, the Bush administration nationalized the two home finance giants, Fannie Mae and Freddie Mac—which hold or guarantee half of all U.S. residential mortgages—pledging a bailout of up to $200 billion. One week later, Lehman Brothers, an investment bank with assets greater than the gross domestic product of Argentina, abruptly filed for bankruptcy. Meanwhile, Wall Street colossus Merrill Lynch ("We're bullish on America") averted collapse by selling itself at a fire-sale price to Bank of America. Fearing a worldwide financial panic, the Federal Reserve (the U.S. central bank) arranged an $85 billion bailout for the American International Group (AIG), one of the world's biggest insurance companies, with the government taking over an 80 percent share of the firm's ownership.

For years, Wall Street fat cats raked in multimillion-dollar salaries and bonuses as they gambled their banks' money on various speculative schemes, most recently on the U.S. housing market. Now that the housing bubble has burst, it is not enough that millions are in danger of losing their homes; working people are now forced to watch as their tax dollars are spent on bailouts to replenish the coffers of those responsible for their ruin. Both presidential candidates, Democrat Barack Obama and Republican John McCain, have only minor objections to the bailout plans. Now the Bush administration is proposing an even vaster bailout—the largest in U.S. history—in which the government would buy banks' troubled mortgage-related assets to the tune of up to $700 billion! *New York Times* business columnist Joe Nocera likened the proposal to a Hail Mary pass in football, remarking that "most of the time they fail." Many working people are rightly furious that more than a half-trillion dollars were found to bail out Wall Street while millions are without jobs and health care and face the threat of losing their homes.

With the economy already sliding into recession, the financial meltdown threatens a much deeper economic crisis. Credit markets internationally froze up quickly last week as fearful bankers hesitated to lend—even to each other—and investors shifted their money into the safest havens, like U.S. Treasury bills and gold. Even money market funds, which have long been regarded as just as secure as T-bills, are in

Break with the Democrats, Republicans—
For a Revolutionary Workers Party!
For a Socialist Planned Economy!

trouble. After the oldest such fund, the Reserve Primary Fund, redeemed its investors' deposits by paying only 97 cents on the dollar, the government rushed to commit up to $50 billion to stanch a wave of withdrawals from money market funds that resembled a classic bank run.

The choking off of credit means that businesses will slash investment plans while consumer spending—which accounts for two-thirds of the country's economic activity—will take yet another hit. At the same time, the living standards of working people are being driven down by a sharp increase in the inflation rate, especially for food, gasoline and utilities. The *Wall Street Journal* (18 September) titled a front-page article: "Worst Crisis Since '30s, With No End Yet in Sight."

It could scarcely be clearer that working people need a party that fights for their class interests, a workers party committed to sweeping away the capitalist system through socialist revolution. We stand for the political independence of the working class from the capitalist class enemy. We are opposed to any political support to any capitalist politician—Democrat, Republican, Green or "Independent." A vote for any bourgeois candidate is a vote of confidence in the reformability of capitalism and a vote against the need for socialist revolution.

The burgeoning financial crisis highlights the destructive irrationality of the capitalist system. Since last August, when nearly the entire spectrum of credit markets first seized up, the U.S. and other central banks have provided hundreds of billions of dollars in short-term loans to large banks—in addition to pledging hundreds of billions more in bailouts. Yet the highest pinnacles of finance capital continue to totter as major financial institutions such as Washington Mutual, the country's largest savings and loan, scramble to stave off bankruptcy.

Like all the inevitable economic crises that occur periodically under capitalism, the current crisis reflects at bottom a key contradiction in capitalism identified by Karl Marx and Friedrich Engels: Under capitalism production is ***socialized***, that is, concentrated and organized in vast corporations, but the means of production—and the appropriated, socially produced wealth—remain the ***private property*** of a few. V. I. Lenin, leader of the 1917 Russian Revolution, in his 1916 study, *Imperialism, the Highest Stage of Capitalism*, described how imperialism, the system of modern, decaying capitalism, "leads directly to the most comprehensive socialisation of production" under capitalism. Lenin emphasized that the monopolization of production and the dominant role of finance capital impel the imperialist powers to divide the world as they strive for markets and spheres of exploitation in more backward capitalist countries. He explained:

> "The development of capitalism has arrived at a stage when, although commodity production still 'reigns' and continues to be regarded as the basis of economic life, it has in reality been undermined and the bulk of the profits go to the 'geniuses' of financial manipulation. At the basis of these manipulations and swindles lies socialised production; but the immense progress of mankind, which achieved this socialisation, goes to benefit...the speculators."

Socialized production must be extended to socialized ownership through the producers taking control of society. The way out of the endless cycle of capitalist economic crises and imperialist wars was shown by the Bolshevik Revolution, when the Russian workers took power in their own hands, expropriating the bourgeoisie and establishing a workers state. We fight for international socialist revolution, for the collectivization of the means of production and for economic planning on an international scale.

Financial Crises and the Anarchy of Capitalist Production

In a recent three-part series, "Capitalism U.S.A.," we called the U.S. economy "a rickety financial house of cards" in which there has been an enormous expansion of debt by households, corporations and the federal government (*WV* Nos. 910-912, 14 and 28 March and 11 April). Real earnings for most U.S. households are lower today than they were at the end of the 1990s. To make ends meet, working people have borrowed against equity in their homes, maxed out their credit cards or otherwise had recourse to the loan sharks of Wall Street, with many working additional shifts or even two or more jobs. Between 2002 and 2006, household borrowing grew at an average annual rate of 11 percent, while borrowing by financial institutions grew by 10 percent per year.

The deterioration in the condition of the working class is directly related to the ***deindustrialization*** of America. Since 1979 the share of the labor force employed in the goods-producing sector has fallen steadily from almost 28 percent to under 15 percent. Meanwhile, the U.S. trade deficit, which is equal to more than 5 percent of the gross domestic product, is far higher, in absolute terms and in proportion to GDP, than in any other major capitalist country. The result is an historical anomaly in which the world's most powerful capitalist power is also the world's leading debtor.

Consequently, Asian countries and the Persian Gulf states are accumulating an ever larger stock of U.S. Treasury bonds and bills as a major component of their foreign-exchange reserves. With financial crisis in the U.S. and a steadily declining dollar, this state of affairs is a potential source of enormous instability for the world economy. Should central banks change their minds about parking their capital in U.S. government debt and begin to diversify quickly out of dollars, it could trigger a quantum leap in interest rates and precipitate a world economic downturn. Meanwhile, the flight of money capital into commodities—combined with increasing biofuel production—has helped drive up world food prices, threatening tens of millions with starvation (see "Imperialism Starves World's Poor," *WV* Nos. 919 and 920, 29 August and 12 September).

Shunning investment to expand and modernize industrial capacity and to repair the country's crumbling infrastructure, such as bridges, roads, power grids and levees, American capitalists have expended the economic surplus they appropriate through the exploitation of labor on a succession of speculative binges. First came the stock market boom driven by the supposed "revolution" in information technology (the IT/dot-com hoopla) in the mid-late 1990s. This was followed by the housing bubble—subprime mortgages and all that—in the early-mid 2000s.

Today, we are witnessing a classic financial crisis such as described by Marx in *Capital* (Volume III):

> "This confusion and stagnation paralyses the function of money as a medium of payment, whose development is geared to the development of capital and is based on those presupposed price relations. The chain of payment obligations due at specific dates is broken in a hundred places. The confusion is augmented by the attendant collapse of the credit system, which develops simultaneously with capital, and leads to violent and acute crises, to sudden and forcible depreciations, to the actual stagnation and disruption of the process of reproduction, and thus to a real falling off in reproduction."

The current crisis was conditioned by a broad transformation of the U.S. financial industry since the late 1980s that was exemplified by the repeal, under the Clinton administration, of the Glass-Steagall Act, a Depression-era law that sought to limit speculation by commercial banks. A component of that transformation was the explosive development of derivatives and other forms of "financial engineering." A major attraction of entering into derivatives contracts for the purpose of speculation is that often very little money needs to be spent up front. In such highly "leveraged" investments, both the risks and the possible payout can be astronomical. "Financial engineering" also allows large banks to offload risk onto others. For example, when a bank issues bonds using mortgages as collateral, the buyers of those bonds take on the risk that the mortgages will default.

The enormous expansion in the volume of mortgage-backed securities is what Marx called ***fictitious capital.*** This is an increase in ***paper wealth*** that is ***not*** based on an increase in productive capacity (e.g., in factories, electric-power plants, transport systems, communications networks) or in this case even by an increase in the quantity and quality of consumer goods. The same house that would have sold for, say, $400,000 in 2002 was selling for $600,000 in 2006.

As the bottom fell out of the U.S. housing market and mortgage defaults began to soar, the value of mortgage-backed securities went into free fall. As the financial crisis broke out last fall, the *Washington Post* (1 August 2007) explained:

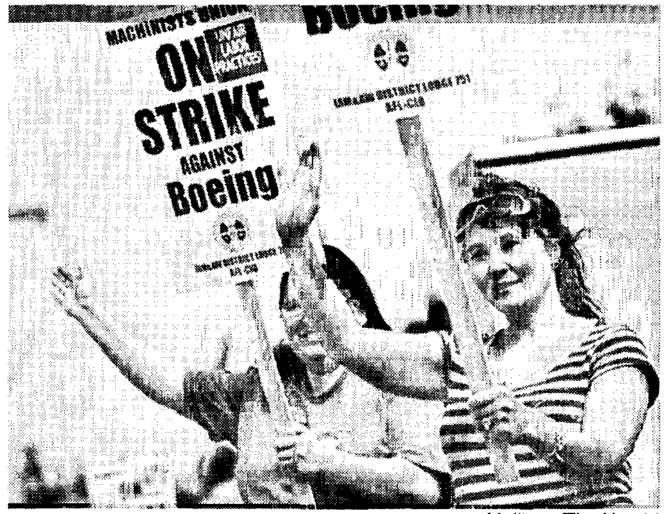
> "In the simple model of yesteryear, a bank would essentially borrow money from its depositors and lend it to households or businesses that needed loans. For every dollar it lent out, however, the bank was required to set aside some of its own money in reserve to cover losses it might suffer if some loans were not repaid.
>
> "But all that went out with deregulation and the rise of financial engineering....
>
> "Financial engineering has encouraged debt to be piled on debt, making the system more susceptible to a meltdown if credit suddenly becomes more expensive or unavailable. And that's precisely what's been developing over the past several weeks."

Government Bails Out Wall Street: "Socialism for the Rich"

And so they have fallen, the titans of Wall Street, one by one. The first to go was the major investment bank Bear Stearns. Last March, the Federal Reserve arranged a fire sale and the firm was effectively liquidated into the bigger and wealthier JPMorgan Chase. To do so, the Fed had to guarantee $30 billion of Bear's most "toxic" mortgage-backed securities. This kind of government bailout is a form of "socialism for the rich," with public money being used to pay off financiers who made bad investments.

A prime example of the capitalist scam of privatizing profits while socializing debts is Fannie Mae and Freddie Mac. Fannie was set up as a government agency in the late 1930s and Freddie in 1970 to promote home ownership by increasing the pool of mortgage money. The former was privatized by Democratic president Lyndon Johnson in 1968 to help pay for the Vietnam War; the latter was created as a private corporation. Until the collapse of the housing-price bubble last year, the two financial giants generally made healthy profits that were distributed to shareholders via dividends and capital gains while the top executives took their own generous share in salaries and other perks.

Financiers throughout the world assumed that if Fannie and Freddie ever got into serious trouble the government would bail them out. The implicit government guarantee gave them a competitive advantage in borrowing at lower



Mulligan/The Herald

IAM machinists on picket line at Boeing plant in Everett, Washington. Some 27,000 IAM Boeing workers went on strike September 6.

interest rates than banks and other financial institutions. And borrow they did. At the end of last year, the two had amassed $65 in debt for every dollar of their own capital!

When the subprime mortgage market went south last year, banks and other financial outfits cut way back on lending for residential mortgages. So Fannie and Freddie became lenders of last resort, financing 80 percent of all home loans this year. At the same time, the collapsing housing market caused huge losses in their holdings of mortgages and mortgage-backed securities. Last month, one independent analyst calculated that Freddie had a negative balance sheet of at least $20 billion and Fannie of $3 billion if their portfolio of securities were valued at current market prices. Their shares plummeted on the stock market while investors pulled back from buying their bonds. An important reason that the Bush gang, spearheaded by Treasury Secretary Henry Paulson, a former top Wall Street executive, decided to take over Fannie and Freddie was that 35-40 percent of the mortgage giants' bonds were held abroad, mainly by Asian central banks and funds. If Washington allowed them to default on these debts, Asian governments and financiers could respond by dumping their U.S. Treasury bonds.

The main political champions of Fannie and Freddie have been Congressional Democrats, while the Bush regime took a jaundiced view of them. Liberal Democrat Barney Frank, chairman of the House Financial Services Committee, has staunchly defended the right of the government-sponsored enterprises to make a profit for their shareholders while urging them to divert some of that profit to finance housing for low-income families. This is a liberal version of trickle-down economics.

A week after the government bailout/takeover of Fannie/Freddie, Lehman Brothers declared bankruptcy. One of the most venerable institutions on the Street—it originated in the 1850s as a cotton exchange in Alabama—Lehman survived the Great Depression and several subsequent financial crises. But not this time. When mortgage-backed securities began their downward slide last summer, Lehman head Richard Fuld judged this to be a short-term blip in the market. He not only refused to sell off part of the firm's securities portfolio, he even bought more. A fatal mistake. When Lehman announced a few weeks ago the biggest quarterly loss in its 158-year history, the already sharp decline in the price of its shares turned into a death spiral.

Fuld desperately tried to find a buyer for the firm, to no avail. As a last resort, he turned to a government bailout à la Bear Stearns, but this time the Treasury and Federal Reserve said no. The semi-official explanation is that Lehman's demise had been anticipated for months by other major financial players who had presumably adjusted their policies to that eventuality. In effect, Paulson and Federal Reserve chief Ben Bernanke gambled that Lehman's bankruptcy would not unduly roil financial markets. They lost that gamble big time. The next day, panic seized stock markets throughout the world, motivated in large measure by fear that AIG would be the next to go.

AIG is the central player in the estimated ***$60 trillion*** global market for credit default swaps. This is a form of insurance that investors buy to cover losses suffered by defaults on the securities they have purchased. (But the companies that issue such insurance do not have to keep reserves to cover the possibility of a payout!) If AIG went bankrupt or failed to meet its insurance claims, financiers around the world would have to devalue the hundreds of billions of dollars in their security portfolios. Furthermore, banks, suddenly deprived of default insurance on their loans, would be forced by government regulations to immediately raise large sums of additional capital. While the effective government takeover of AIG did little to lessen the panicky conditions on Wall Street and in financial centers from London to Tokyo, Bush's proposed mega-bailout of U.S. banks holding mortgage-backed securities has halted the downslide, for the moment. A day before the government bailout of AIG, the head of a money management firm warned: "Its collapse would be as close to an extinction-level event as the financial markets have seen since the Great Depression" (*New York Times*, 16 September).

The Liberal Nostrum of Financial Regulation

An interesting piece in a South African bourgeois newspaper, *The Star* (10 September), blamed the current financial crisis on the ideological triumphalism of the American ruling class following the counterrevolutionary destruction of the Soviet Union in 1991-92:

> "In the absence of the restraining influence that an alternative system's presence offered, however feebly, US-style capitalism moved into extreme mode.... For market players much of the past 18 years has been rather like a drunk being encouraged to drink his way out of a hangover. Instead of acting as a restraining influence, the regulators seemed intent on accommodating each new session of binge drinking."

This piece contains both an important component of truth and a fundamental falsehood. It is true that American bourgeois triumphalism over "the death of communism" was an important factor contributing to the deregulation of financial markets in the post-Soviet period. Here we should emphasize that the main steps of that program were carried out by the Democratic administration of Bill Clinton and spearheaded by his Treasury secretary, Robert Rubin, a Wall Street heavyweight who is now a top man at Citigroup. But it is a liberal illusion that a financial crisis of the current magnitude could have been prevented if only the old financial regulations had been maintained and strengthened. What we are now seeing is a consequence of the fundamental workings of the capitalist system, not an accidental occurrence caused by excessive financial deregulation.

Within just the last two decades, major financial crises have occurred throughout the capitalist world every few years. In 1990-91, a frenzied stock market and real estate boom in Japan collapsed, leading to more than a decade of economic stagnation in the world's second biggest capitalist economy. In the late 1990s, a sudden outflow of speculative money capital wreaked havoc in the capitalist economies of East and Southeast Asia, from South Korea to Thailand to Indonesia. A few years ago the dot-com stock market boom in the U.S. went bust, ushering in a recession.

The need to restore and strengthen government regulation of financial markets is now the order of the day in Washington. In reality, at the core of the crisis are the big banks (which, despite the scrapping of Glass-Steagall, are still regulated) rather than the effectively unregulated hedge funds and similar financial operators. However, the government authorities pretty much let the banks do whatever they wanted as long as they were making money. But now they are regulating with a vengeance, this time to minimize the banks' losses.

Thus, the Securities and Exchange Commission (SEC) has just banned the short selling of almost 800 financial stocks in an effort to prevent speculators from further depressing their prices. When a financial operator sells short, he typically borrows corporate stocks or other securities from a broker and sells them at the current price while agreeing to buy them back later (at an expectedly lower price) and return them to the broker. The difference is pocketed as profit. The intent and effect of the SEC ban on short selling is to strengthen the financial condition of the large banks at the expense of, for example, hedge funds, for whom the practice is their very life's blood. One irate hedge fund manager exclaimed that the government is "turning a football game into badminton" (*New York Times*, 20 September).

The utter disarray of the captains of finance, central bankers and government officials charged with overseeing the economy has demonstrated the fallaciousness of monetarism, the dominant economic doctrine of the bourgeois right since the ascendancy of Ronald Reagan and Britain's Margaret Thatcher in the 1980s. The ideologues of monetarism confidently maintained that economic crises could be minimized, if not eliminated, by adjusting the amount of money in the banking system along with interest rates. Today, that notion stands exposed as a myth.

Republican McCain has indulged in impassioned, pseudo-populist rhetoric usually associated with the left-liberal wing of the Democratic Party, ranting against "the greed and corruption that some engaged in on Wall Street" (*New York Times*, 16 September). Needless to say, Democrat Obama has blamed the current crisis on the Republicans' "economic philosophy" that the market is always right. He should talk! One of his main economic advisers is Robert Rubin who as Clinton's Treasury secretary was centrally responsible for scrapping key regulations governing banking practices that were established during the 1930s. The reality is, as the *Wall Street Journal* (17 September) clearly stated: "Despite the rhetoric, both candidates are looking at generally similar solutions." That is, "solutions" to protect the interests of the capitalist class at the expense of working people.

Toward a Class-Struggle Labor Movement

That the highly despised Bush administration, backed up by the Democrats, has a free hand to unabashedly write billion-dollar checks to Washington's cronies on Wall Street speaks to the low level of class struggle in this country. The increasing disappearance of good jobs and their replacement by McJobs, the slashing of pensions and health care benefits, the enormous weakening of the unions—all this and more takes place with the acquiescence of the pro-capitalist trade-union bureaucracy. Instead of mobilizing in struggle, they tie working people and the oppressed to the capitalist system, especially through support to the Democratic Party, the other party of American capitalism, racism and war. Every election year, millions upon millions of dollars of union members' dues are wasted on backing one capitalist politician or another as a "friend" of labor, as is happening this election year with the unions' support to Obama.

This bureaucracy, which parasitically sits atop the unions, is on the one hand susceptible to the demands of its working-class base. At times, it is pressured both by labor's ranks and by the provocations of the bosses into strikes and other labor action. On the other hand, they have often thrown in the towel or signed egregious give-back contracts. But unions will not get anywhere playing by the bosses' rules.

It is necessary to forge a new leadership of the unions based on the understanding that there are two decisive classes in capitalist society, the proletariat and the bourgeoisie, whose interests are irreconcilably opposed. A class-struggle leadership of the unions would fight for a series of transitional demands, which start from the current consciousness of wide layers of the working class and their daily struggles against the capitalists and lead to the program of proletarian revolution. The fight to mobilize labor in struggle for its class interests must include the fight against all forms of discrimination and for full citizenship rights for immigrants; for a shorter workweek with no loss in pay in order to fight unemployment; against the bosses' union-busting "two tier" contracts; for union defense guards against the scabherders; for mass picketing and plant occupations to win strikes instead of bowing to the bosses' laws.

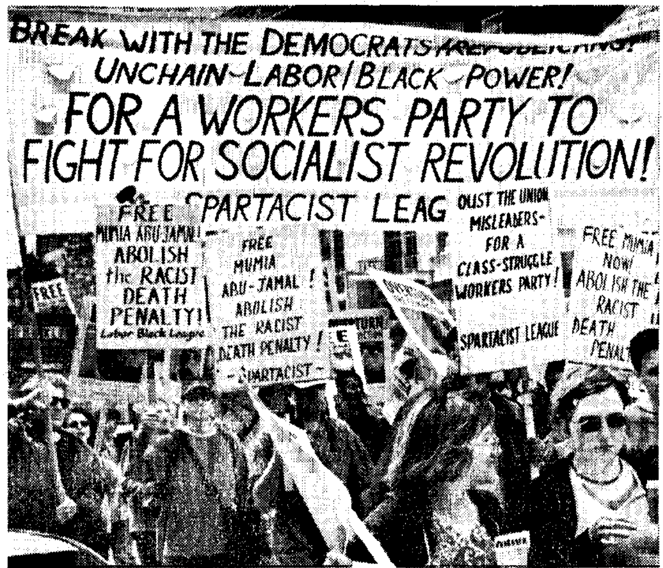
To forge such a leadership requires a ***political*** fight within the labor movement to sweep away all wings of the pro-capitalist labor bureaucracy. This is integrally linked to the fight for a workers party—like Lenin and Trotsky's Bolshevik Party—to provide revolutionary leadership to the struggles of the workers in the fight for socialist revolution and the building of a workers state where those who labor rule.

Expropriate the Exploiters! For a Workers Government!

The reformists of the International Socialist Organization (ISO) provide a classic social-democratic take on the financial crisis (*Socialist Worker*, 19 September):

> "Now that they have bailed out the mortgage giants Fannie Mae and Freddie Mac, shouldn't U.S. taxpayers have a say in the companies' operations? Why shouldn't the public owners of these companies insist on a moratorium on foreclosures on the loans owned or guaranteed by Fannie and Freddie....
>
> "Now that the federal government has gotten into the insurance business with the takeover of the largest insurance company in the world, is there any justification for anyone in the U.S. going without health care coverage, much less 45 million people?
>
> "And when the objection comes that the U.S. government will have to cut spending to pay for the Wall Street rescues, there should be no question about where the money should come from. The federal government could get the whole sum for the AIG takeover from the Pentagon budget and still leave the U.S. military with more money—many times over—than any other country in the world."

Such a statement—including the ISO's backhanded support to a (scaled-down) imperialist military force—could have been issued by such European "socialist" parties as the French Socialist Party or the Left Party in Germany. The ISO protests that its demands are not put forward by "either of the mainstream parties" because that "would strain at the boundaries of the profit system." But their statement is intended to reinforce the reformist myth that one can smoothly make the transformation to "more butter, less guns" by taking over management of the bourgeois state.



WV Photo

Spartacist League banner at May 2001 rally in San Francisco for class-war prisoner Mumia Abu-Jamal.

As Karl Marx and Friedrich Engels taught long ago, the courts, cops, prisons and armed forces are core components of the capitalist state—a machinery of organized violence to protect the rule and profits of the exploiting class. An old socialist noted some years back, on behalf of the working people, that everything the bourgeoisie doesn't have nailed down we are going to steal, and what is nailed down we are going to nationalize. Another, Sidney Hook, before he became a raving right-winger, used to worry whether expropriation should be with or without compensation. Hell, the Emancipation Proclamation was a gigantic expropriation without compensation: by freeing black people from chattel slavery most of the capital of the rulers of the Confederacy was taken away from its owners.

It's a political question at bottom. You can solve a lot of problems with "domestic cash transfers"—make life livable for workers, blacks, Latinos, jobless, homeless, welfare mothers, drug users, etc. And we communists intend to do so. But you have to first smash the power of the bourgeoisie. For that you need to build a workers party, one that doesn't "respect" the property values of the bourgeoisie, a party that says to the exploited and oppressed: we want more, we want all of it, it ought to be ours, ***so take it***. And when we have the wealth of this country, we will begin to build a planned socialist economy on an international scale. Then we can right some historical wrongs and crimes and pay off some debts left over by our rulers, like some tens of billions of dollars to the Vietnamese and others whose countries have been maimed under the passing treads of American tanks. As for "compensation" to the people who have driven the United States to ruin, we can offer to those who don't get in our way that they will live to see their grandchildren prosper in a truly humane society.

We need a workers party to grab the vanishing wealth of America before the bourgeoisie squanders it all. Fight, don't starve—for class struggle against the U.S. capitalist rulers! ■

many are pinning their hopes on the illusion that the coming to power of Democratic Party president Barack Obama will turn things around in favor of the working class. The trade-union tops poured a whopping $450 million into the 2008 elections, portraying Obama, as Gettelfinger did in an op-ed piece in the *Detroit News* online (9 July), as "ready to stand up and fight for our jobs."

It is precisely such delusions, peddled by the venal sell-outs that head the unions, that have sapped the fighting strength of organized labor by shackling it to the parties of the capitalist class enemy. Obama's policies are and will be determined by the interests of the capitalist class that he was elected to serve, as Commander-in-Chief of U.S. capitalist imperialism. Obama himself made that clear immediately upon winning, declaring the need for "sacrifice" in the interests of "national unity"—i.e., the working class and oppressed are to pay in order to restore the profitability of American capitalism. Congressional Democratic Party leaders Nancy Pelosi and Harry Reid told the auto bosses and the UAW to come up with a "viable" plan to restructure the American auto industry as a condition for a bailout. In short, that means restoring profits through eliminating more jobs and ratcheting up the rate of exploitation.

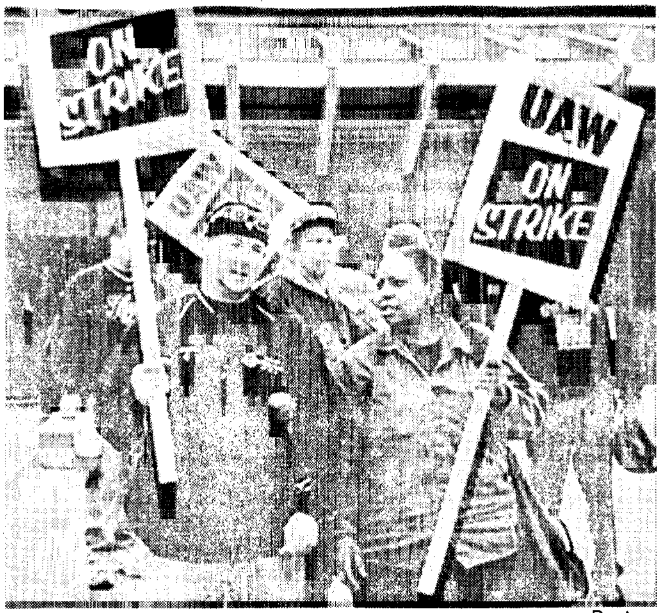
No Bailout of the Auto Bosses!

As Marxists whose aim is to build the revolutionary party that can lead the working class in struggle to sweep away the capitalist system of wage slavery, we are opposed to the bailout of the auto bosses. A government bailout will be purchased through the further destruction of the jobs and livelihoods of working people.

For their part, all wings of the ruling class smell the blood of the UAW. Many bourgeois politicians, like former Republican presidential candidate Mitt Romney, argue that the government should "let Detroit go bankrupt" as a more cost-effective means of gutting the union. Indeed, Chapter 11 bankruptcy has long been a union-busting tool, particularly in the airline industry, allowing the bosses to rip up their contracts with the unions. Others, who worry that bankruptcy would rapidly lead to the total collapse of the auto industry, particularly GM, argue for using the threat of bankruptcy as a sword of Damocles over the head of the UAW to wring out even greater concessions as a condition for a bailout.

An op-ed piece in the *New York Times* (16 November) by retired Army general and former NATO commander Wesley Clark, titled, "What's Good for G.M. Is Good for the Army," argued for a bailout package for the Big Three as a "national security imperative." Clark is representative of that wing of the U.S. bourgeoisie which understands that to maintain and project its military power abroad, the U.S. needs, as he put it, "a strong industrial base." In fact, the main armament for the well-known M-1 Abrams tank was designed in Germany.

A *New York Times* (1 December) article notes that as part of presenting a "viable" bailout, the auto companies "may ask to delay the billions of dollars they planned to contribute to a health care fund" for the workers. *New York Times* (22 November) business columnist Joe Nocera put it baldly: "It is critical for General Motors to be able to break its contracts with both its unions and its dealers. It needs to dramatically reduce its legacy benefits, perhaps even eliminating health care benefits for union retirees. It needs to close plants. It needs to pay its workers what Toyota workers are paid in the United States—and not a penny more." For his



Reuters

October 2007: Striking UAW members outside Chrysler plant in Warren, Michigan.

part, Gettelfinger has already declared, "We're prepared to go back to the bargaining table."

As a positive example for his plan to gut the UAW, Nocera points to the 1979 bailout of Chrysler, where the UAW bureaucrats shoved concessions down the workers' throats with the threat that if they did not swallow them they would lose their jobs. Chrysler stayed open, increasing its profitability, while tens of thousands of workers lost their jobs, and those who didn't were relentlessly driven to increase productivity. For his services, UAW head Doug Fraser got a seat on Chrysler's board of directors. Over some 25 years, GM, Ford and Chrysler have axed more than 700,000 jobs in the U.S., reducing UAW membership from 1.6 million to 500,000, of whom only 150,000 work for the Big Three.

In our article on the Chrysler bailout, "No Government Handout for Bosses! Whatever Chrysler's Worth—Give It to the Workers!" (*WV* No. 238, 17 August 1979), we wrote:

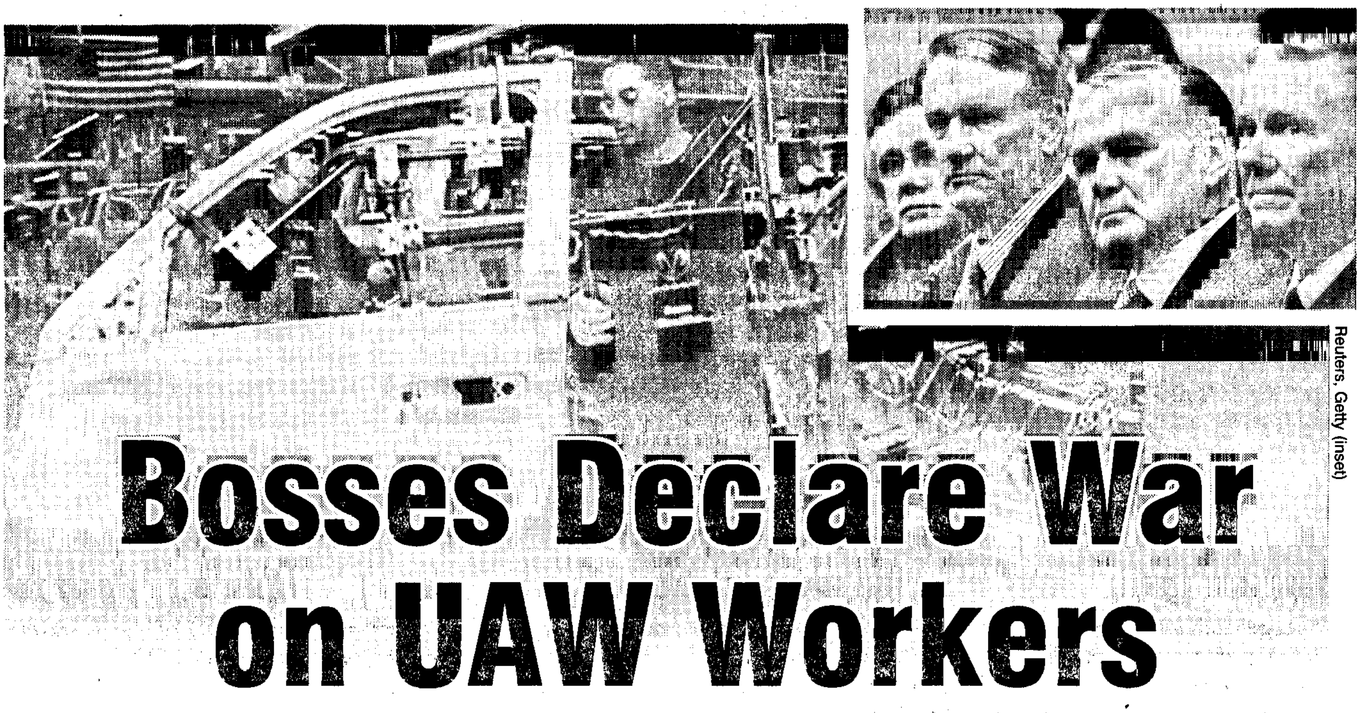
> "The only way workers can hope to salvage this situation of sunk companies is to seize them. Not piracy but mutiny. What then? Either Chrysler is broke or it isn't. If it is broke then the workers ought to democratically elect a board to liquidate Chrysler. But not a cent to the Wall Street shareholders of Chrysler! Let the stocks, bonds and bank debts go down the tubes. All the money from the sale of assets should go to the Chrysler workforce including the foreign workers."

As we argued, this proposal would have provided more to the workforce than any government bailout scheme and represented a radical attack on capitalist property rights, pointing to the need for a revolutionary struggle for a workers government to expropriate the capitalist exploiters and direct the wealth of this country toward satisfying the needs of those whose labor produces it, not the profits of a few.

Today, it is not a single company that is facing bankruptcy. The current crisis in auto is part of a global financial meltdown. Auto sales in the U.S. have plummeted from 16 million last year to an annualized rate of 10.2 million cars. Across the globe, German, Japanese and other carmakers are scaling back. An article in *Spiegel* online (25 November) was headlined, "German Auto Industry Facing the Abyss." Layoffs and plant closings are threatened in France, Germany

reprinted from Workers Vanguard *No. 926, 5 December 2008*

Union Tops Bare Union's Throat—Democrats, Republicans Wield Knife



Reuters, Getty (inset)

Bosses Declare War on UAW Workers

We Need a Planned Socialist Economy!

Above: Chrysler workers assemble Dodge Ram pickup truck in Michigan plant. Inset (left to right): UAW president Ron Gettelfinger with auto bosses Richard Wagoner (GM), Robert Nardelli (Chrysler) and Alan Mulally (Ford) before Congress, November 19.

The car has long been the symbol of the "good life" in America. The Big Three auto producers—General Motors, Ford and Chrysler—have been pillars of American capitalism. In the 1950s, the president of GM was quoted as saying, "What's good for General Motors is good for the country." GM is still the second largest auto producer on the face of the planet. But today it has become the symbol of the decimation of manufacturing industry in the U.S., driven into ruin by the greedy and incompetent capitalist rulers' drive for profit. With the global economy tanking and car sales plummeting, the Big Three auto bosses went to Congress last month begging for another $25 billion bailout. At their side was Ron Gettelfinger, president of the United Auto Workers (UAW).

The UAW, forged in the heroic 1936-37 Flint sit-down strike that was central to the class battles that built industrial unions in this country, was once the symbol of union power in the U.S. Now it symbolizes the devastation of the unions that has been wrought by the class-collaborationist policies of the trade-union bureaucracy, based on the lie of a "partnership" of labor with its capitalist class exploiters and their parties, particularly the phony "friend of labor" Democrats.

In his testimony before Congress, Gettelfinger bragged that the 2007 UAW contract "slashed wages for new hires by 50% [down to $14 per hour!]. Furthermore, new hires will not be covered by the traditional retiree health care and defined benefit pension plans." The 2007 contract gave up nearly ***$10 billion*** in wages and benefits to the bosses—in addition to giving up ***$30 billion*** in retiree medical benefits. Forsaking his members for the sake of making "our companies competitive," Gettelfinger boasted that "the gap in labor costs" between the Big Three and the non-union "foreign transplant operations ***will be largely or completely eliminated by the end of the contracts***." These are the bitter fruits of the labor tops' poisonous "America First" protectionism: they rail against the "outsourcing" of jobs abroad while not lifting a finger to organize the mass of unorganized auto workers in "foreign transplant operations" largely in the American South.

An estimated three million jobs are tied to Big Three auto production, which directly involves coal, steel, rubber, rail and trucking. With the economy in a freefall, home foreclosures taking place at a rate not seen since the Great Depression of the 1930s and 1.2 million jobs lost this year alone,

Reuters

GM workers in Strasbourg, France, protest temporary plant closures, October 28. Banner reads: "Protect Our Jobs and Salaries, Not the Shareholders' Fortunes."

and Britain. Workers in Third World countries like Mexico, with a significant auto industry comprised of U.S.- and other foreign-owned factories, will be hit especially hard.

In this context, we do not propose a workers' auction of the auto industry, which would be tantamount to calling to auction off the entire domestic capitalist economy. The current burgeoning economic meltdown highlights the destructive irrationality that is inherent to the capitalist system. To solve this problem, what is desperately necessary is to arm the working class with a program of class struggle against the industrial magnates and financiers who have looted the economy, a program directed to the understanding that the workers' interests lie in the destruction of this decaying system and its replacement with a rationally planned, socialist economy on an international scale.

A "Workers' Bailout"?

In an article titled "A Bailout for the Auto Industry?" (*Socialist Worker* online, 10 November), the International Socialist Organization (ISO) opines: "The issue is—or should become—what kind of auto industry bailout will take place.... Call the intervention what it is—nationalization. Throw out the management and use their compensation for investment—and put workers' committees in control of production." As a measure of its touching faith in the beneficence of the capitalist state, the ISO feigns "outrage" that "the government should finance Corporate America's elimination of any more jobs" and proposes that "the Obama government should insist on a moratorium on layoffs and guarantees of job security." Such reformist pipe dreams are a repudiation of the most elementary Marxist understanding that the capitalist state—its cops, courts, military and chief executive—exists to defend capitalist rule and profit *against* the working class, furthering its exploitation and violently repressing its struggles, not to provide for the workers' well-being.

For its part, Workers World Party demands: "It's past time for the UAW to call for workers' control. If there is to be a bailout, let it be for us, the workers." In the absence of the working class mobilized in a revolutionary battle against capitalist class rule, the call for "workers control"—which is dual power at the point of production during a revolutionary crisis—simply amounts to the workers "managing" their own continued exploitation under the continuing rule of the anarchic and irrational capitalist marketplace. Moreover, the idea that the sellouts who head the UAW, who have sacrificed their members on the altar of maintaining the competitive edge and profitability of American capitalism, are going to call for "workers control" is about as likely as pigs flying.

The Transitional Program, written in 1938 during the Great Depression by Bolshevik leader Leon Trotsky, addressed questions that are vital to the proletariat today. Trotsky put forward a series of demands addressed to the economic catastrophe facing the working class and "unalterably leading to one final conclusion: the conquest of power by the proletariat." In the face of mass unemployment, Trotsky called for a shorter workweek at no loss in pay to spread the available work, for a massive program of public works and for wages to rise with prices to guard against the ravages of inflation. To unmask the exploitation, robbery and fraud of the capitalist owners and the swindles of the banks, he argued that the workers should demand that the capitalists open their books "to reveal to all members of society that unconscionable squandering of human labor which is the result of capitalist anarchy and the naked pursuit of profits." Raising the call for the expropriation of branches of industry vital for national existence, or the most parasitic of the capitalist rulers, Trotsky underlined that such a demand must necessarily be linked to the fight for the seizure of power by the working class, as against the Stalinist and social-democratic misleaders for whom the call for nationalization was merely a prescription for bailing out capitalist enterprises.

In opposition to the capitalists and their reformist agents, Trotsky argued:

> "If capitalism is incapable of satisfying the demands inevitably arising from the calamities generated by itself, then let it perish. 'Realizability' or 'unrealizability' is in the given instance a question of the relationship of forces, which can be decided only by the struggle. By means of this struggle, no matter what its immediate practical successes may be, the workers will best come to understand the necessity of liquidating capitalist slavery."

No to Chauvinist Protectionism! Organize the Unorganized!

There is no simple trade-union solution to the situation that currently confronts the UAW—the crisis underlines the bankruptcy of capitalism. But there are demands that can and should be fought for to preserve and strengthen the fighting capacity of the working class and its allies. An elementary one is the fight to organize the rest of the auto industry in this country. Beginning in the 1980s, many plants, including those owned by foreign capitalists, were set up in the "open shop" South, where historically racist Klan terror has served as an auxiliary to the forces of the state to keep unions out. Any fight to organize the "right to work" South thus poses the centrality of the fight for black rights for labor's cause. This question is all the more important for the UAW. Over 20 years ago, one in four black workers was a union member, concentrated in industrial unions like auto. As the "last hired, first fired," these workers caught the brunt of the mass layoffs in auto which reduced labor/black Detroit, once known as the Motor City, to a dying urban wasteland.

The deindustrialization of America, beginning some three decades ago, has hit the black population disproportionately hard. Official unemployment for blacks is 11.4 percent, but according to some economists the actual jobless rate for all black people of working age is an astounding *42 percent*. In some black and Latino neighborhoods in the Detroit metropolitan area, one out of every 20 households has been or is in the process of being foreclosed. As an article in the South African Johannesburg *Sunday Times* (26 October) put it, "Motown is now surely home to the world's most skilled army of homeless people." At the same time, black workers are at the core of many unions in this country and thus can potentially provide a living link to, and a class-struggle outlet for, the anger of the dispossessed in the inner cities.

Similarly, immigrant workers, large numbers of whom now labor in the South, provide a vital bridge to the working class in Mexico and other Third World countries, many of whom currently toil in the factories of American auto bosses that have been shipped "offshore." In the face of the current economic crisis, immigrant workers in the U.S. are particularly vulnerable, as the immigration raids on plants in the South and elsewhere have driven home with a cold and calculating cruelty. Already, there have been massive layoffs in the heavily immigrant construction industry. In the fight to bring these workers into the unions, labor must demand: No deportations! Full citizenship rights for all immigrants!

While the auto bosses, the government and their media mouthpieces call for axing the health care and pension benefits of auto workers in order to salvage the profitability of the Big Three, the labor movement would find many allies if it were to take up the fight for socialized medicine—the expropriation of the parasitic health care and drug companies, who are an immediate threat to the well-being of just about everyone in this country. A fight to demand that the government extend unemployment benefits and guarantee the pensions of all workers, not leaving them dependent on the underfunded Pension Benefit Guaranty Corporation, would also garner many allies.

But the fight for such demands directly poses the question of the need for a political fight to oust the present sellout union tops and replace them with a class-struggle leadership. These "labor lieutenants of the capitalist class" see the world through the same lens as their "own" bourgeoisie and its government. Thus, like Gettelfinger, they seek to protect American industry against "foreign competition," arguing that the bosses would then no longer be "forced" to extract givebacks in wages and benefits from the workers they employ. While decrying "cheap labor" abroad, the UAW has done precious little to take on the question of cheap labor here in this country, which abounds in non-union shops. Instead, Gettelfinger promises that UAW wages and benefits will soon be on a par with foreign-owned plants in the "open shop" South.

Pro-capitalist and nationally delimited in outlook, the labor bureaucracy views the "outsourcing" of jobs as nothing but an attack on the labor movement and U.S. industry. But from the standpoint of working-class internationalism, the growth in the ranks of the proletariat in the Third World means the growth of international ***allies*** of the U.S. working class. This can be concretely seen in the car plants of Mexico, which are integral to auto production in North America. This fact poses the possibility of and necessity for joint labor action between U.S. and Mexican auto workers.

The economic slowdown in the U.S. has been accompanied by increasing calls for chauvinist protectionism by both Democratic politicians and the trade-union bureaucracy, with China being a particular target. In pushing trade protectionism against China, the labor tops combine anti-Communism with flag-waving national chauvinism. During the Cold War era, the AFL-CIO bureaucracy was among the most rabid supporters of American imperialism against the Soviet Union. Today, these labor misleaders are directing their virulent hostility toward the People's Republic of China in the name of "workers' rights."

China is not a capitalist but a workers state, albeit one that was bureaucratically deformed from its inception. The fact that capitalist rule was overthrown in China by the 1949 Revolution, leading to the building of a collectivized economy, represents a historic gain for the working class internationally. Despite inroads of "market reforms," the core of China's economy remains collectivized. The aim of the U.S. and other imperialists is to destroy the Chinese workers state and restore bourgeois rule in order to turn the Chinese mainland into one gigantic sweatshop for the generation of capitalist profits. The international working class must stand for the unconditional military defense of China against imperialist attack from without and counterrevolution from within. At the same time, we call for proletarian political revolution to oust the parasitic and nationalist Stalinist bureaucrats and to establish a regime based on workers democracy and revolutionary internationalism.

For a Revolutionary Workers Party!

In his 1940 article "Trade Unions in the Epoch of Imperialist Decay," Trotsky wrote: "The trade unions of our time can either serve as secondary instruments of imperialist capitalism for the subordination and disciplining of workers and for obstructing the revolution, or, on the contrary, the trade unions can become the instruments of the revolutionary movement of the proletariat." Two possible roads lie before the working class. There is the bureaucracy's acquiescence to what is possible and "practical" under capitalism, which has led to disaster. Or there is the revolutionary strategy proposed by us Marxists. In the course of sharp class struggles and through patient education on the nature of capitalist society, the working class will become imbued with the consciousness of its own historic interests as a class fighting for itself and for all the oppressed.

Such consciousness requires a political expression. That means a class-struggle workers party, whose purpose is not only to improve the present conditions of the working class but to do away with the entire system of capitalist wage slavery. ■

International Communist League (Fourth Internationalist)

International Center: Box 7429 GPO, New York, NY 10116, USA
Web site: www.icl-fi.org

Spartacist League of Australia

Spartacist ANZ Publishing Co.
GPO Box 3473, Sydney, NSW 2001, Australia

Australasian SPARTACIST

Marxist newspaper of the Spartacist League of Australia

A$5/4 issues (1 year) in Australia
A$7/4 issues—Airmail

Spartacist League/Britain

Spartacist Publications
PO Box 42886, London N19 5WY, Britain

WORKERS HAMMER

Marxist newspaper of the Spartacist League/Britain

£3/1 year
International rate: £7—Airmail
Europe outside Britain and Ireland: £5

Trotskyist League of Canada/ Ligue trotskyste du Canada

Spartacist Canada Publishing Association
Box 6867, Station A, Toronto, Ontario M5W 1X6, Canada

SPARTACIST CANADA

English-language newspaper of the Trotskyist League/ Ligue trotskyste

Cdn$3/4 issues
International rate: Cdn$8—Airmail

Spartakist-Arbeiterpartei Deutschlands

SpAD, c/o Verlag Avantgarde
Postfach 2 35 55, 10127 Berlin, Germany

SPARTAKIST

Herausgegeben von der Spartakist-Arbeiterpartei Deutschlands

Jahresabo: (6 Ausgaben): € 4,–
Auslandsabo: € 7,50
Übersee Luftpost: € 10,–

Ligue trotskyste de France

Le Bolchévik, BP 135-10, 75463 Paris Cedex 10, France

LE BOLCHEVIK

Publication de la Ligue trotskyste de France

4 numéros: 3 € (chèques à l'ordre de la SEDI)
Europe: 4,50 €
Hors Europe: 6 €
Canada: 5 $Cdn

Trotskyist Group of Greece

Box 8274, Athens 10010, Greece

Spartacist Group Ireland

PO Box 2944, Dublin 6, Ireland

Lega trotskista d'Italia

Walter Fidacaro, C.P. 1591, 20101 Milano, Italy

SPARTACO

Organo della Lega trotskista d'Italia

Abbonamento a 4 + supplemento: € 5
Europa: € 6
Paesi extraeuropei: € 8

Spartacist Group Japan

PO Box 49, Akabane Yubinkyoku, Kita-ku
Tokyo 115-0091, Japan

スパルタシスト

Publication of the Spartacist Group Japan

Subscription (2 years): ¥500
International: ¥1000

Grupo Espartaquista de México

Román Burgos, Apdo. Postal 302, Admón. Postal 13
CP 03501, México, D.F., Mexico

ESPARTACO

Publicación del Grupo Espartaquista de México

México: Méx. $15/4 números (por correo)
Extranjero: US $4/4 números (vía aérea)
US $2/4 números (vía terrestre/marítima)

Spartakusowska Grupa Polski

Jan Jędrzejewski, Skr. 148, 02-588 Warszawa 48, Poland

Platforma SPARTAKUSOWCÓW

Pismo Spartakusowskiej Grupy Polski

Cztery kolejne numery: 6,– zł

Spartacist/South Africa

Spartacist, PostNet Suite 248, Private Bag X2226
Johannesburg 2000, South Africa

SPARTACIST SOUTH AFRICA

Marxist publication of Spartacist South Africa

South Africa: R10/4 issues
International rate: $4/4 issues—Airmail

Spartacist League/U.S.

Box 1377 GPO, New York, NY 10116, USA

WORKERS VANGUARD

Biweekly organ of the Spartacist League/U.S.

US$10/22 issues (1 year)
International:
US$25/22 issues—Airmail US$10/22 issues—Seamail