American capitalism on the edge of a nervous breakdown

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The last ten years have seen US stock markets boom as the country experienced its longest post war economic upturn. Keith Harvey asks, will the coming stock market crash push the world's superpower into steep decline?

0n 19 January, in his State of the Union address to the US Congress, Bill Clinton boasted:

"Tonight I stand before you to report that America has created the longest peacetime economic expansion in our history with nearly 18 million new jobs, wages rising at more than twice the rate of inflation.., and the lowest peacetime unemployment since 1957. For the first time in three decades, the budget is balanced. From a deficit of $290 billion in 1992, we had a surplus of $70 billion last year and now we are on course for budget surpluses for the next 25 years."

He was as bullish as the US stock markets which two weeks earlier, on 8 January, hit an all time high. After a summer which saw share prices drop 20 per cent the market rebounded quickly and ended the year 12 per cent higher than it began. Shrugging off US profit warnings, a creeping Latin American recession and the collapse in Asia and Russia, only two of 54 top economists in the United States predicted a recession in the US in 1999; the country's longest post war recovery cycle is set to continue.

All is for the best in the best of all possible worlds or so it appears.

Before the Russian government's default shook Wall Street in July 1998, the first half of the year had been a golden six months for US capitalism. After a sluggish exit from the recession of 1990 91 the economy picked up steam in 1994 95 after which output, manufacturing productivity, profits, jobs and stock market prices all soared.

Towards the end of 1997 the performance of the United States economy was so robust that many commentators believed that they were witnessing a "new era" of US capitalism.

After 25 years of depressed accumulation that followed the end of the postwar boom (late 1940s tolate 1960s) we were once again witnessing figures for profits, inflation and unemployment that were last experienced in the second half of the 1960s. A "new paradigm" of indefinitely sustainable growth was upon us that was "neither too hot nor too cold" the so called "Goldilocks economy".

Output in the first three months of 1998 was running at an annualised rate of 3.8 per cent. It jumped 1.4 per cent in the first quarter (Q1) alone. Demand for private sector goods and services was running nearly 6 per cent ahead of a year earlier. Inflation during the same three months dived to 2.2 per cent, a 30 year low. In May unemployment stood at 4.4 per cent, lower than at anytime since 1970. 1

The boardrooms of corporate USA had much to be happy about. Between the crash of 1989 and 1997 the mass of profits jumped 82 per cent; the profit rate increased during the same period by 28 per cent, restoring it to its mid 1960s levels, and within 15 per cent of its post war highs. And for a business culture driven by the need to improve "shareholder value" above all else the stock market boom ("bull market") was unparalleled: Wall Street companies tripled in value between October 1987 and October 1997. Between April 1996 and April 1998 alone the Dow Jones index leapt 60 per cent.

In this context it is hardly surprising that US business and the Clinton administration reacted so casually to the crisis and crash that befell the East Asian "tiger economies" in the summer of 1997. It was purely a regional crisis with "marginal effects" on the USA, in the words of Alan Greenspan, the chairman of the Federal Reserve.

Indeed, the US economy for the rest of 1997 and into 1998 seemed to benefit from the collapse in Asia. Capital exited the stricken region in a "flight to quality" and landed in Wall Street, boosting demand and prices for stocks and bonds. The expected flood into the USA of cheap Asian imports on the back of heavily devalued currencies did not materialise for most of 1997 due to the collapse of domestic liquidity and credit for export oriented Asian firms. Meanwhile, US corporations looked forward to a bargain basement sale of banking and industrial assets in East Asia, firms that were viable but technically bankrupt.

Then in mid 1998 the Russian currency collapsed. Loans to the Russian government held by US and European banks were devalued by up to 90 per cent. At the same time Brazil (a huge market for US exports and accounting for 40 per cent of Latin America GDP) looked likely to follow Russia. Meanwhile a creeping decline in industrial output and earnings was visible in US company reports as the effects of the East Asian crash started to work its way through.

It seemed as though the stock markets may crash, and indeed they did tumble 20 per cent over the six weeks from mid August. Pessimism in the financial markets was universal in early October. But then with three interest rate cuts in October and November the stock markets rebounded, "market sentiment" improved and the financial markets rebounded to new highs.

So what does 1999 really hold for US capitalism? Is the revival of US capitalism in the 1990s strong enough to endure the financial instability and collapse of global demand that was such a feature of 1998? Will Wall Street's bull market hold so that US households continue to act as "consumers of last resort"? Will the US ruling class remain united enough to provide leadership and resources for the IMF? The perspective for the global class struggle revolves around the answers to these questions.

The closing year of the second millennium will certainly see global output at its lowest since 1991.2 The US recession is underway. The key question is whether it will engulf all sectors of industry, spread to the service sector and fatally undermine the stock market boom. Or will preemptive attacks on jobs and wages keep profits and investment buoyant while the destructive part of the Asian economic cycle does its work to restore growth and opportunities in 2000?

Finally, if the stock market crashes rather than "corrects" what are the prospects for a return to 1930s style deflation, depression and mass unemployment? This article examines the nature and course of the American recovery in the 1990s and lays out the alternative scenarios for the world's largest economy and only political superpower.

Factors behind the US recovery

The US cyclical upswing, far more vigorous than 1975 79 or 1983 89, has confounded many on the right and left. In early 1994 we wrote in Trot skyist International that on the evidence so far, "the US is unlikely to be able to sustain a robust recovery..." Indeed it was set to be the "weakest of any since 1975")

The evidence for that judgement lay in several factors that were likely to constrain demand during the upswing. Two were most important. First, real interest rates remained high due to the need to draw in foreign money to help pay for the huge US federal government budget deficit a legacy of the Reagan Bush years of "military Keynes ianism" which boosted growth in the 1980s through defence spending. Such high rates were certain to cripple the spending plans of debt ridden households and firms.

In fact the Clinton administration, after its mildly reflationary spending package was rejected by Congress in 1993, did a 180 degree turn and embarked on a historic assault to eliminate the budget deficit. Cuts in defence spending, and above all in welfare entitlement programmes, resulted in a balanced budget by 1997 and a $76 billion surplus in 1998. This has led to lower than anticipated interest rates, thus cheapening the cost of capital and lowering the value of household and corporate debt.4

Secondly, we noted that the rise in the US dollar from the summer of 1993 would hit US exports and thus constrain the fastest expanding element of growth in the US economy since 1985. However, the US dollar returned in 1994 to the path of steady devaluation against the yen and European currencies. Between 1990 95 the dollar lost, on average, 9 per cent of its value a year against the Japanese yen and 2.5 per cent a year against the German mark, making US exports increasingly competitive.

But even so the key factor behind the vigorous growth after 1994 lay elsewhere; namely, the accumulated defeats inflicted upon the US working class over jobs and wages in the 1 980s and early 1990s. These were decisive in improving company profitability and investment by mid decade.

When Ronald Reagan took office in 1981 US unions were standing their ground. They never organised anything like a majority of workers but in industry in 1973 they could still claim to organise just under 40 per cent of those employed and 28.5 per cent of all those in the private sector. In the second half of the 1970s the unions organised, on average, 7,100 recognition elections every year.

Then came PATCO. In a dispute with the USA's airline pilots in 1981 Reagan smashed the union sending shockwaves through the labour movement and emboldened employers everywhere to take the offensive. In 1982 union recognition elections halved and remained there; even then a third of firms refused to sign contracts with the unions where recognition was won. One in seven workers were fired from firms during union recognition election campaigns.

Under the employers onslaught around half a million members were lost every year from the unions in the 1980s.

By the time Bush gave way to Clinton in 1992 the numbers of industrial workers in unions had almost halved from 20 years earlier. Only 11 per cent of private sector employees were now organised.

Table 1: US Investment Rates

Years	Annual growth
1973-79	3.4%
1982-90	2.9%
1990-96	2.0%

This bosses' offensive was intimately connected to the drive to keep wages down. Uniquely for a major G7 economy real wages have been cut in the USA for 20 years. Excluding nonwage benefits, they fell by 1 per cent every year between 1979 90. Between 1990 and 1997 they were stagnant. 5

This achievement by US business was essential given the poor productivity performance of US capitalism after 1973. During the first half of the 1990s productivity was poor as net investment rates were lower than the 1980s (see Table 1).

Since the rate of investment is the main determinant of productivity it comes as no surprise to discover that output per hours worked averaged 0.9 per cent between 1973 96, half the figure for the 100 years before 1973. For the first half of the 1990s it was only 0.7 per cent per annum. Given this, any kind of profit revival was dependent on keeping wages pinned to the floor so that all the productivity improvement could accrue to profits not workers' incomes.

Given that the productivity decline continued into the 1 990s how then do we explain the strong profit revival and the spurt in investment over the last few years? The answer lies in the fact that while overall productivity has fallen there has been an improvement in manufacturing productivity which has boosted investment and profits.

The 1989/90 financial crisis, and 1990 91 recession which followed, worked to improve profitability. "Downsizing" was added to the economic lexicon to express the new vicious scale of sackings that took place then and, indeed, into the first years of the economic upturn; in fact it has never ceased in manufacturing as a whole.

The "repair to company balance sheets" (i.e. profits) in the early 1990s eventually led to a significant turnaround in manufacturing investment after 1992 compared to the 1980s. So for example, between 1985 92 annual net investment averaged zero. But between 1993 97 it climbed to 10 per cent a year. This fed through to a sharp recovery in manufacturing productivity to 5.5 per cent between 1993 96. In Ql 1998, business investment was up 12 per cent on the year and at 12.3 per cent of GDP investment was well above the last cyclical peak of 9.9 percent in 1989.

This took place in the context of a further general decline in overall productivity. That was possible because manufacturing continues to decline as a proportion of total economic activity (18 per cent) in the USA compared to the steady rise in the low productivity service sector. Low wages and poor conditions and contracts have made it easier to employ people here, so much so that the current low rate of US unemployment has been achieved despite the fact that US manufacturing has continued to lose jobs hand over fist two million between 1985-96.

Between 1990 96 more than 8.6 million jobs have been created in the service sector. 'While this sector offers some of the highest salaries available, over a third of the jobs created in the 1990s have been in the low waged hotel, retail, wholesale and restaurant sectors. The bottom 60 per cent of the workforce were working for 10 per cent less in real terms in 1995 than in 1979.

Productivity in this sector has remained low, dragging down the performance of the business sector as a whole and hiding the robust shift in manufacturing productivity.6

But the improvements in industry have been substantial and in the context of a continued decline in real wages up to 1997 this boosted profits. In 1997 manufacturing profitability was 100 per cent above the levels of the early 1980s. Overall, business profits had surpassed their 1973 levels and were around 15 per cent below post war boom peaks.

This profit revival was further underpinned by strong export growth in the 1990s. The steady post 1985 lowering of the dollar's value led to a boom in sales of US manufactured goods abroad, growing at 11 per cent a year between 1993 97. In the twelve months up to the huge devaluations in East Asian currencies in the summer of 1997, US manufacturing exports grew 24 per cent.

This strong profit revival under Clinton's administration proved just how little the Democrats can be considered a "friend of labor". Not only did union recognition and membership continue to fall after 1992. Clinton savaged the welfare entitlements of the most vulnerable ensuring that some 13 per cent of Americans about 35.6 million people are now officially poor. 7 The share of national income going to the top 5 per cent of earners grew faster than during the Reagan years. 8

Credit and the recovery

There is no doubt then that US industry has enjoyed a vigorous mid decade revival in profits, investment and productivity. But its shrinking importance as a whole to US capitalism is also evident. Apart from the 1995 98 period manufacturing output has not been an improvement on the 1970s or 1980s. Clinton's bourgeois critics have underlined this:

"In a longer view the current expansion is not in fact particularly vigorous. In the real economy Americans celebrate growth rates that once would be seen as unexceptional; the Clinton boom has been in the financial sector."9

Since the end of the long post war boom world capitalism has been afflicted with consequences of its own success; namely, generalised overaccumulation of capital. 10 Put simply there is too much capital in operation to be able to guarantee for everyone the kind of profit rates enjoyed in the 1950s and 1960s and with them the levels of employment and wages that the working class was able to extract from their bosses. Systematic overcapacity in all the major branches of industry has been the norm since the early 1970s, leading to periodic but generalised global recessions marked by over investment and overproduction.

'When profit rates started to fall away in the second half of the 1960s, rates of investment fell away too and as a consequence there was a drop in productivity. This naturally worked its way through the system in the form of lower rates of growth, decade on decade. Three major post war world recessions (1973 75, 1980 82, 199092), varying in duration, depth and synchronisation, served to eliminate the least productive branches of industry and firms (and millions of jobs) and created the basis for a revival in profits and investment. Yet, through each cycle of boom and bust unemployment scaled new heights, debt grew and interest rates remained stubbornly high. And although profits and productivity revived they have never, on a world scale, returned to pre recession peaks.

The uneven development of capitalism has ensured that there have been feverish pockets of investment and growth, such as took place in East Asia in the late 1 980s and early 1990s, prompted by imperialist banks and MNCs looking for newer low cost opportunities for investment and loans. While this has produced spectacular growth rates it has only succeeded in adding to the structural crisis of overcapacity in the main lines of industry on a world scale.

In the 1970s all capitalists looked for additional or alternative ways to make money without going through the uncertain business of investing in industry. Under Reagan the US financial sector was deregulated. The brick wall that separated the functions and products of banks and industry was pulled down (i.e. "disintermediation"). In the 1 980s new financial products were invented derivatives which greatly loosened the connection between money and the realm of material production. Products such as futures, options, junk bonds proliferated which allowed money to be made on a vast scale by betting on the anticipated movement of commodity and currency prices.

This was followed by a qualitative leap in "securitisation", that is, the process of loan selling. Company held debt, once merely earning interest was, in addition, now repackaged by companies and used to back the issue of bonds and loans on the basis of a prospective earning capacity rather than an actual one.

The growth of the global financial sector in the last 15 years has been phenomenal, a revolution. As one commentator puts it:

"Today more than at any time in capitalism's history, profits of finance capital are based on fictitious capital formation, namely on debt and exponential debt creation. 11

Financial transactions increase at a far faster rate than production, trade or fixed investments. And the USA has been at the centre of this process. Successive administrations have implemented measures that promoted the financial sector. The top rate of tax on rent and interest was cut from 70 per cent to 28 per cent. The budget deficit of the federal government doubled during the 1 980s, which gave the finance houses and banks huge opportunities for making money by financing it. The richest 10 per cent of US capitalists held 80 per cent of US federal debts.

With the growing weight of the financial sector within US capitalism the macroeconomic monetary polices of the central bank and government shifted. Inflation became the number one enemy because finance needs to see the value of its loans protected from erosion. Conquering inflation also leads to low and stable interest rates, which in turn bring stability in stock market investments.

A raging bull market

Between 1980 90 global cross border transactions in stocks and shares mushroomed at the rate of 28 per cent a year as a result of the explosion in money. Less than one fifth of the money poured into the stock markets results in fixed investments. The bulk is used to feed the mergers and acquisitions frenzy that drives the stock markets higher and higher. 12

Many economic analysts among the bosses are acutely concerned by the overinflated value of the stock market in the USA. The Standard and Poor index of 1000 top businesses climbed 34 per cent in 1995, a further 23 per cent the following year and 26 per cent in 1997. In mid July 1998 the Dow Jones index of leading companies hit an all time peak of 9,337.

This left asset prices higher than at any time since 1920, according to one index (Tobin Q) which compares the stock market worth of companies to the replacement cost of their fixed assets. It is running at double its long run average. Share prices are 23 times the value of corporate earnings, a ratio never seen before. In short, even the profit rebound of recent years does not justify the rate of expansion of equity prices. It is speculation, a bull market of unprecedented strength and irrationality.

By the end of 1997 even the Chairman of the Federal Reserve went public to state that a stock market correction was overdue and that a 10 20 per cent fall in equities would be welcome.

In the summer of 1998 it finally came. On 17 August the Russian government defaulted on its domestic debt and imposed a 90 day moratorium on foreign debt. Several major banks in Europe and the USA had to write off huge loans. One of the largest hedge funds in the USA (LTCM) had to be bailed out by a consortium of banks who lent it money, under pressure from the Federal Reserve, for fear that its collapse would cause a total panic in the financial markets. This blow to the big banks' earnings started a "credit crunch" (i.e. a reluctance to lend to firms or buy up new share issues) which in turn threatened to tip the whole economy into recession.

The stock markets reacted badly. During August and September it looked for a while as though the long overdue "correction" was taking place. On 31 August the Dow Jones fell 512 points to 7,500 as a bad round of company news was announced. During September the markets gyrated wildly. By mid October the Dow Jones index was still below 8,000 15 per cent below its July peak. The central bank acted. In order to cheapen loans and stimulate demand the Federal Reserve nudged interest rates down twice in two weeks and by 6 November Dow Jones had gained 12 per cent again. High technology stocks rose 20 per cent. By the end of November they nearly regained their summer peaks. In the first week of January 1999 they did scale new heights before falling back.

But this has merely exacerbated the problem of an overvalued stock market. As The Economist reminded its readers on 14 November: "in the equity markets irrational exuberance prevails" as profits and stock prices continued to move in opposite directions in Q3.

The concern with the overvalued stocks is a function of the unprecedented role they now play in US economic life, in particular in sustaining domestic demand, which accounts for three quarters of US GDR

Exports may be the most rapidly rising segment of output but domestic consumption remains the bedrock of US growth. Yet here we face a paradox. Real hourly wages have fallen while spending has remained very strong. In the 1980s the rise in household income compensated for the decline in hourly earnings as more women got jobs. In addition households borrowed like never before. On the eve of the last recession in 1990 9 1 total household and corporate debt was at all time highs. While the last recession marginally lowered this it soon climbed again for households if not for firms. In September 1998 the personal savings rate turned negative for the first time since the 1930s (i.e. people spent more than they earned after tax that month).

Given average wages having fallen up to 20 per cent in 25 years, given that consumers are saddled with high levels of debt and have minimal savings to draw upon, how is it that US business been able to sell more and more of its goods and services to its own consumers?

The key factor in the last ten years has been the growth in asset prices and the widespread nature of share ownership in the United States. Over 60 per cent of US households own shares. During the Clinton boom the price of these shares has rocketed. The value of household financial assets rose 42% between 1994 97. This has led to millions of people borrowing on the basis of the increased value of their holdings. And they have spent this money on consumer goods keeping demand and profits up at least in the consumer goods sector. As 1998 drew to a close it was this sector that compensated for the demand and profit collapse in the raw materials and producer goods sectors.

Pathways to recession

By the end of 1998 the US economy was schizophrenic. 'While consumer demand was propped up by strong wage growth in late 1997/early 1998 and stock market strength, US manufacturing output and employment was recording its sixth straight month of decline, lower than at any time since March 1996. Industry's capacity utilisation rate dipped to 79.8 per cent in November from 82.2 per cent in Q1, the lowest since 1992. This was forcing companies to scale down investment plans drastically as they entered the new year. Most forecasters predict a cut of a third to half in capital spending.

The rate of profit of US companies peaked in Q3 1997 at 14 per cent, having climbed from 8 per cent in the recession of 1990 91. Since then overcapacity has stiffened competition. The rate of profit was around 1 3 per cent as 1998 closed. The mass of profits too are falling for the first time since 1991 having also peaked in Q3 1997 (see Table 2). Operating profits (i.e. figures stripped of one off items such as inventory adjustment and capital depreciation) were down 4 per cent in the third quarter of 1998, squeezed by competition from cheap imports and a loss of orders as a result of the collapse of markets in East Asia. But this figure disguises huge unevenness between sectors. Industrial profits as a whole were down 7 per cent. But prices for those firms producing raw materials and basic metals hit their lowest level for two years in JulySeptember and were down 11 per cent in 1998 alone. As a result basic materials companies saw the mass of profits collapse by 50 per cent in the third quartet The situation facing US steel firms was described a "absolutely severe" as the absorbed a 12 per cent fall in profits in Q3.13

'While overcapacity has hit prices in one direction the ability of workers to finally improve real wages at the peak of the cycle in 1997 and 1998 has hit profits from the other direction. Real wages rose 1.5 per cent in 1997 and at a 4.4 per cent annual rate for the first nine months of 1998 as workers took advantage of a tight labour market to demand higher returns.

For 1999 it is possible to construct two alternative scenarios for US capitalism.

* "The worst is over" scenario. This is the position of the professional paid

pundits whose jobs and bonuses depend on it coming true. Above all it depends on US bosses making an early and pre emptive attack on wages and jobs to hold up profits. There are signs of this already. Normally mass sackings occur late on in the cycle when the recession is well underway. But the 1990 9 1 recession in the US witnessed a readiness to "downsize" much earlier in order to defend share value. The same is happening now. Factory employment declined for the seventh month in a row in October and at 52,000 was the largest monthly fall so far in the cycle. In August 359,000 people were sacked, just 11 per cent below the highest monthly jobs' cull set in 1993. In September 1998 sackings were running 37 per cent higher than a year earlier.

At the year's end the Wall Street Journal noted:

"The slump in Asia has dried up demand for U.S. exports. This week, Boeing Co., the world's largest aerospace company, said it planned 20,000 more layoffs, on top of 28,000 already announced. And Johnson & Johnson Inc. said it's eliminating 4,100 jobs, or 4% of its work force." (4 December 1998)

The rate of increase in service sector employment (which employs 80 per cent of all workers) has also slowed right down.

At the macroeconomic level this scenario sees lower interest rates now and in the future which will cheapen the cost of debt servicing for industry. Also the growing trade deficit will put downward pressure on the US dollar which will help lower the prices of exports and boost profit margins. If necessary the optimists point out that demand could be bolstered by government tax cuts, calling on the federal surplus to fund it (even though Clinton ruled out tax cuts funded in this way in his State of the Union address). This would then cheapen costs and boost demand. Finally, the optimists see the Asian recession bottoming out in 1999 as restructuring takes effect, restoring profitable opportunities for new investment for US multinationals.

This benign scenario is not likely to materialise. An aggressive jobs clearout and renewed wage cuts will, in the short and medium term, deepen the recession as consumer demand is hit. Only a new cycle of investment can sustain a vigorous recovery. But the problem is that there is too much capacity at present which needs eliminating. In the medium term an export offensive by the US will exacerbate the world recession adding to the global overcapacity which caused the Asian collapse in the first place.

* The second scenario is for a deepening recession: the question is, how deep and how long. In 1980s

recovery the course of the financial and industrial cycles diverged. Stocks crashed in 1987 before industrial profits peaked and investment fell (1989) and recession became generalised. This then forcibly brought both cycles together.

It is clear that the relationship is inverted this time. The financial bubble is still expanding while the industrial cycle has turned down. Even in Q2 1998, US industry as a whole was adding capacity at an annualised rate of 4 5 per cent. It is clear that much of this new capacity is being left idle. Residential investment fell by 1 per cent in Q3 and producer goods only increased 1 per cent compared to an 11 per cent increase in Q2. There is no doubt that in 1999 further profit falls will lead to renewed cuts in investment.

An autumn 1998 survey by the Business Council revealed that two thirds of its members plan to cut back on fixed investment in 1999. Given that this spending contributed up to 25 per cent of the mid 1990s growth its impact will not be negligible.

It is not only profits that are hitting investment, however. Ever since the Asian crisis, and reinforced by the collapse of the Russian debt market, the cost of capital has gone up despite the lowering of interest rates. This is due to the fact that 70 to 80 per cent of all loans for capital investment come not from banks but from the stock and corporate bond market. The general flight to quality has substantially raised the risk premium that most businesses which want to borrow must pay; this is causing a "credit crunch". The number of firms going to the stock market to raise funds in Q3 was the lowest since the recovery began in 1992.

The fall in profits and aversion to risk will thus hit investment; this will in turn cut out an engine of growth, lead to unemployment and act as a drag on consumer demand, further hitting profits and investment in the consumer goods sector. In turn unemployment will rise in the service sector.

It would refute the law of gravity for the financial markets to continue their "irresponsible exuberance" as Alan Greenspan called it way back in December 1996. For Dow Jones to reach a new all time high at the moment when profits are falling and investment is being cutback is perverse. Nasdaq the share index of high technology companies entered 1999 growing strongly particularly Internet companies, the vast majority of which have yet to make a profit. Having withdrawn their money from emerging markets, with interest rate cuts making bond prices look unattractive, money is pouring into US equities in a way that is creating a huge speculative bubble waiting to be pricked. The markets are in denial. One major piece of bad news is likely to induce panic.

The markets must be brought back into line with profit and growth and Wall Street valuations forcibly realigned with real earnings potential and replacement costs of the listed companies. It is difficult to escape the conclusion that a substantial reduction in industrial overcapacity and financial overvaluation is objectively posed in the USA, if the rate of profit and interest is to be restored sufficient to prompt a new round of investment on the levels seen in the 1995 98 period.

The impact on the US and world economy of a stock market crash depends on how far it falls, over what timescale and what the government response is. Between April 1930 and July 1932 Wall Street fell by 86 per cent. But in addition every government action after October 1929 up to the end of 1932 served to exacerbate the crisis of liquidity, credit and demand. The Hoover administration imposed tariffs on imports thus reducing international trade. The gold standard was abandoned, further cutting international trade. Hoover raised taxes to try to close the budget deficit, which cut domestic demand. There was no federal intervention to control and direct the process of banking collapse. No international agencies existed to co ordinate global counter cyclical action. British imperialism was too weak and US imperialism was unwilling to take on the burden as it was too wracked by differences within its ruling class over what role the US should play in the world.

It is hardly conceivable especially given the record of the Federal Reserve and the IMF in the last fifteen years that they would fail to act to enact counter crisis measures crisis if and when a major crash took place. Rather, the problem would be whether the scale of it would simply overwhelm the available resources singly or combined of the US and IMR Already the costs of US/IMF bail outs from Mexico in 1994 through to Brazil in 1998-runs to hundreds of billions of US dollars.

If a severe US recession takes hold in 1999 then it will serve to deepen the global recession and deflation. The revival of East Asian capitalism, now solely dependent on export markets, will be cut short. China would likely be unable to postpone devaluation any longer to reverse the mauling its exports have taken in 1998.

A domestic recession in US will hit Latin American exports and re raise the question of the sustainability of Brazil, Colombia and Venezuela's budget deficits. A recession in Brazil would hit US firms very hard and further reduce bank lending, reinforcing recession at home.

'What is certain is that, whether 1999 ends with a bang or a whimper, a crash or a correction, will largely determine the shape of the world economy as it enters 2000.*

Endnotes

1 Unemployment started to rise again over the summer before falling again to 4.4 per cent in November.

2 Even the average forecast for 1999
indicates growth in the US will be below 2 per cent.

3 Trotskyist International 12/13 April 1994, p24

4 . Even so, interest rates were raised three times between February 1994 and February 1995 as the Federal Reserve (US central bank) determined to preemptively hit at the merest threat that inflation may take off during the recovery cycle.

5 Whereas between 1890-1973 they rose on average 2 per cent a year, and even in the depression of the 19 30s they rose 1 .2 per cent a year.

6 See Robert Brenner "The Economics of Global Turbulence", New Left Review 229, May/June 1998, p246 248 for his refutation of the arguments by some US economists that the Clinton boom is due to a significant, but unrecorded, improvement in service sector productivity. Brenner demonstrates that there is no real incentive to invest in productivityenhancing technologies in this sector when wages are so low.

7 In 1997 the poverty line for a family of four was $16,400.

8 The top 20 per cent of the wealthy increased their share of national income from 46 to 49 per cent in the same two years.

9 Editorial Wall St journal 30 October 1998.

10 See this issue, pages 34 48

11 A Hoogvelt, Globalisation and the post colonial world London 1998P81

12 In the 1980s there were over 31,000 mergers and acquisitions in the USA to the value of 1.34 trillion.

13 Wall Street Journal, 3 November 1998. Profits were up in Q3 in the consumer goods sector.

14 The mass of profits fell further in Q2 1998; the preliminary figures for Q3 showed a rise but many commentators expressed doubts about the figures, suggesting that extraordinary oneoff items of capital depreciation plus a rebound from the exceptional loss of profits in Q2 (e.g. the General Motors strike) helped explain the rise in Q3

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