

Fragile recovery, robust aggression, looming crisis

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It is now a commonplace to remark upon the increased tension in international relations. The coincidence of the crisis in Ukraine with the centenary of the outbreak of the First World War has not been lost on even the most complacent of commentators. Inter-imperialist rivalries have now sharpened to the point where the seizure of territories is contemplated and there is, once again, the real possibility of armed clashes between the USA-EU-Japan allies and a potential Russia-China block.

This can be seen not only in Eastern Europe and the arc of instability that stretches from North and East Africa, through the Middle East and Iran into Afghanistan and Pakistan but also on the East Asia/Pacific Rim and in the crisis-wracked states of West and Central Africa. In the Middle East, Libya, Syria and Iraq are all in a state of disintegration; the fruits of US occupations and interventions, either direct or by Washington's Saudi and Gulf state allies. Meanwhile, the US has silently approved the installation of a counter-revolutionary military regime in Egypt that has already inflicted a death toll, mass arrests and torture on a scale that outstrip the crimes of Mubarak, achieving in months what he carried out in decades.

The lines of potential conflict are reflected in the US deployment of its military assets; in Europe, as well as the long established core countries of NATO, US F-16 fighter planes and paratroopers are now stationed in Poland, Estonia, Latvia and Lithuania and military 'partnerships' are offered to Ukraine, Moldova and Georgia.

To cover the Middle East, 10,000 US troops are based in Kuwait and another 25,000 are in the Persian Gulf region. Obama has admitted that the US will leave 10,000 troops in Afghanistan after the deadline he set for complete withdrawal expires.

To this must be added the US 'Pivot to Asia', brazenly aimed at 'containing China' by strengthening military and naval forces along the entire western shore of the Pacific. The US already has nearly 90,000 troops here: 40,000 in Japan, 28,000 in South Korea, and thousands on bases in the Indian Ocean (Diego Garcia), the Philippines, Singapore, Thailand, Indonesia, and Malaysia.

Obama even talks of a belt of alliances and mutual security right across Asia, linking his two fronts. Here, however, he will find himself confronted by the already established Shanghai Cooperation Organisation that brings together China, Kazakhstan, Kyrgyzstan, Russia, Tajikistan and Uzbekistan for both economic and military purposes. For China, this represents the first foundations of a new 'Silk Route' by which to enhance direct economic links to Europe and dynamise the development of its own vast interior.

These international tensions, and their potential for rapid escalation, have been most clearly revealed in the Ukrainian conflict. The last months of 2013 and the early months of 2014 witnessed the development of the ongoing crisis caused by attempts by the USA and the European Union and their allies in the

nationalist forces in Kyiv to force through an Association Agreement that would decisively break Ukraine's continued ties to Russia and open the way to NATO membership. The Euromaidan movement, a bogus revolution, was soon revealed as another US attempt at 'regime change'.

The belligerence of the US, its refusal to allow a compromise, indeed its preparedness to sabotage one agreed by European powers, and its willingness to rely on fascist forces to install the government of its choice, all went to show that this was no purely local confrontation between rival oligarchs. On the contrary, it is part of a global strategy by which Washington hopes to restore its role as the world hegemon. In this particular theatre of operations, the objective is to extend NATO's control to the very borders of Russia. Bringing Ukraine and Georgia into the Alliance, along with Bulgaria, Romania and Turkey, would make the Black Sea into a NATO lake and allow the projection of Western influence far into central Asia.

Inter-imperialist rivalry, however, is not limited to a return to the bipolar confrontation of the Cold War. US policy over Ukraine also contains an occluded conflict with Germany, blocking Berlin's plans for economic links to China and Russia. The US, with the aid of its ever-loyal British ally and its satellites in Poland and the Baltic states, intends to create a military-economic barrier that will not only bottle up Russia but also thwart German plans. Similarly, sanctions against Russia, designed to cripple its economy and lay the basis for popular discontent and an eventual 'colour revolution', will also have the effect of disrupting economic ties to western Europe, again especially to Germany. This will not only mean removing a market for finished goods but replacing Russian oil and gas with US supplies, if fracking proves as productive as has been claimed. Russia has responded to the US-EU offensive by consolidating its Eurasian Economic Union with Kazakhstan and Belarus and closing a \$400 billion gas deal with China.

The emergence of China as a new imperialist power is, perhaps, the most destabilising factor of them all. Its dynamic economic growth played a crucial role in the underpinning of US superiority in the 'globalisation' period but, by 2006, the sheer size of the Chinese economy began to have an opposite effect. Having out-competed all significant rivals, China's demand for raw materials began to force up world prices at the same time as its feverish expansion and progress into much more sophisticated sectors of production ensured rising labour costs at home.

The historic importance of this became clear from China's ability to withstand the turbulence of the 2008-9 crisis and even exert a positive influence on economic recovery in some regions; this was now a capitalist Great Power in its own right, a new imperialist power whose continued growth could ultimately only be secured at the expense of others. That this is well understood, and has been long prepared for in Beijing, can be seen in many ways such as the wholesale modernisation of its armed forces, including the construction, for the first time in six centuries, of a trans-oceanic navy, the rapid expansion of capital investment overseas, particularly in Africa and Latin America but also in such strategically important locations as Sri Lanka and, most recently, in the promotion of a potential alternative to the IMF in conjunction with Brazil, Russia and India. Unsurprisingly, this has all been accompanied by an uncompromising assertion of its immediate regional interests, most noticeably in the dispute with Japan over the Diaoyu/Senkaku islands in the East China Sea.

Meanwhile, Japan has also become more bellicose under the government of Shinzo Abe in the rows over those islands, presenting further possibilities of flare-ups. Proposals to remove from the Japanese constitution many of the limitations on the size and potentially offensive role of the armed forces are a clear sign that their use in that capacity is being contemplated.

In South Asia, the electoral victory of Narendra Modi's BJP in India had been assumed to presage a sharp turn towards the 'West' because of Modi's record of neo-liberal policy in his home state of Gujarat. However, since his election there have been increased contacts with China and Xi Jinping held separate

talks with Modi during the BRICS meeting in Brazil in July. This is to be followed by state visits not only to India but also Pakistan and Sri Lanka. The prospect of a rapprochement between China and India would be the clearest sign yet of the profundity of the forces reshaping world politics over the coming decades.

The evidence of increased inter-imperialist rivalry, then, is both mounting and compelling, but what is driving it? After all, it is not so long since it was widely accepted that 'globalisation' had definitively overcome the turbulence of the twentieth century. This journal always rejected that argument and insisted that, while 'globalisation' might be a useful term to describe the period, after the collapse of the Soviet Union, in which US imperialism had been able to impose its will throughout the world, it was only a phase within the imperialist epoch and it would generate its own downfall.

In the February 2007 issue, before the sub-prime mortgage crisis gave the first indication of developing problems in the US economy and a year and a half before the collapse of Lehman Brothers triggered probably the deepest financial crisis in capitalist history, we wrote, '... important developments in the world situation have to be seen against the fundamental tendencies that are at work beneath the surface of capitalist society. The imperialist epoch's general tendency towards decline expresses itself in the present period by over-accumulation of capital and the profit rate's tendency to decline, its weakening power to develop the productive forces and, in general, an increasing decomposition of bourgeois society. Contrary to the claims of the bourgeois globalisation enthusiasts (plus their left-wing stooges) the present cycle in no way expresses a new 'long wave' of economic upswing of global capitalism but rather a continuation of its crisis and declining growth rates.'

Against those who believed that China's growth had allowed it to 'decouple' from the US economy, meaning it would continue its upward trend even if there were a downturn in the US, the same article said, '...any significant decline in the US economy could be expected to have an immediate impact on China's export-oriented industries.'

Two years later, when the enormity of the crisis was acknowledged by everyone, we drew the further conclusion that this was no mere repetition of the 'business cycle', a cyclical downturn that would soon be replaced by a return to growth. On the contrary, we argued, '... a historic crisis of the capitalist system has opened that can only be resolved by an equally historic destruction of capital and redivision of the world's sources of surplus value, raw materials and markets. The economic cycles in the coming period will be marked by severe contractions and stagnation with only weak and faltering recoveries. These conditions will encourage inter-imperialist competition and sharpened class struggles against a background of the continued development of a severe ecological crisis.'

Behind our predictions of weak and faltering recoveries, which have been vindicated by subsequent developments and, as we shall see, were confirmed most recently by the IMF's latest World Economic Outlook, lay the recognition that globalisation, like the imperialist epoch itself, was an expression of what Marx called the 'countervailing tendencies' to the tendency of the rate of profit to decline. Although falling profit rates were a consequence of the over-accumulation of capital and could, therefore, only be fundamentally restored through the destruction of excess capital, Marx noted that this tendency could be offset, at least temporarily, in a number of ways. He himself cited, among others, intensification of work, expansion of foreign trade and cheapening of constant capital as examples.

In the case of globalisation, many such factors came into operation; US global political power and control of international agencies such as the World Bank and IMF gave it the means to force semi-colonial countries to open their markets to US goods and to privatise previously state-owned sectors of their economies; financial support and loans were made conditional not only on high interest rates but on the

adoption of structural adjustment programmes that financed repayments by cutting government spending on welfare and social services. A further very important factor, that allowed US capital to hold down, and even reduce, wages in the USA itself, was the development of Chinese capitalism, which provided an apparently ever-increasing flow of ever-cheaper goods.

Such factors allowed US capital to remain profitable without the clearing out of excess capital. Unwilling to write-off huge past investments in now obsolete production facilities, such as many car plants, US corporations turned to various forms of financial speculation where quicker returns could be made. In the aftermath of the collapse of the 'dot com' boom and the Al Qaeda attack on the World Trade Centre, the Federal Reserve cut interest rates and unleashed a flood of cheap credit to corporations and consumers alike.

It was this combination of cheap credit and financial speculation that set the scene for the financial crisis of 2008. Ironically, the measures taken to control that crisis, whose fundamental cause was an over-accumulation of capital, were aimed at limiting the destruction of capital. Central bank purchase of banks' non-performing assets, that is, loans that could not be repaid, the reduction of interest rates to near zero, a stimulus package of \$400 billion and then massive monthly injections of money through Quantitative Easing, prevented a collapse of the banking system. However, it was the failure to deal with the root cause of the crisis that led us to predict weak and faltering recoveries.

Six years after the onset of the crisis, the scale of the recovery thus far has confirmed our prediction. Of course, recessions and recoveries are not uniform in depth or duration in different economies. The scale of the 2008 crisis, and the resulting collapse in world trade, ensured a high degree of synchronisation in its impact around the world but recoveries depend on many factors specific to the different major economies and not least to the policies their governments pursue.

Among the established imperialist powers, for example, although Germany suffered a decline in GDP of 5.1 percent in 2009, it saw growth of 4.0 percent the following year but slowed to 0.7 percent by 2012. By contrast, the US GDP shrank by 2.8 percent in 2009, returned to a growth rate of 2.5 percent in 2010 and then, after a slowdown in 2011, reached 2.8 percent in 2012. Meanwhile, in Spain, GDP was down by 3.8 percent in 2009, only returned to a minimal growth rate of 0.1 percent in 2011 and then shrank in both 2012 and 2013 by 1.6 percent and 1.3 percent respectively. The comparable figures for the UK are -5.2 percent for 2009, 1.7 percent in 2010, 1.1 percent for 2011, 0.3 percent in 2012 and 1.8 percent in 2013. (<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&...> [1])

Because GDP figures are compiled in much the same way in all major economies, except China, they are reliable enough indicators of relative changes in economic activity both over time and between different economies. However, because, despite the name, they measure activity, the volume and value of transactions in an economy, not production as such, GDP figures give a misleading picture of economic growth. An increased number of housing transactions does not necessarily mean any increase in houses, even more significantly, increased activity on a stock exchange could represent a speculative bubble as much as increased output by the companies whose shares are being traded.

In the light of this, it is particularly significant that manufacturing output has not regained pre-crisis levels in any of the western imperialist powers. According to UK's Office of National Statistics, the US has come closest, 2.6 percent below 2007, while the figure for the UK is -7.6 percent and Italy, France and Japan are still more than 10 percent below.

In the aftermath of the recession, unemployment rose in all major economies, but by very different degrees and on very different timescales. Annual rates in France and Germany, for example, rose from 7.8 percent

to 9.5 percent and from 7.5 percent to 7.8 percent respectively in 2008 and 2009, thereafter, the rate in France continued to rise to 10.6 percent in 2012 while Germany's fell back to 5.3 percent in the same period. A much greater contrast is seen in Spain; from 11.3 in 2008 to 24.9 percent in 2012. (<http://www.gfmag.com/global-data/economic-data/worlds-unemployment-ratescom> [2])

In the USA, 8.7 million jobs were lost from February 2008 to February 2010, unemployment rose from 4.7 per cent in November 2007 to peak at 10 per cent in October of 2009. There was then a steady increase in employment figures over the following three years and March 2014 saw the recovery, at least in numbers, of all jobs lost during the recession, with 9.163 million created since 2010. However, it should be noted that many of these jobs are in the low-paid 'service industries' where wages are below the cost of reproduction of labour power so that even those in work have to claim 'benefits' and rely on food stamps and soup kitchens.

The (cyclical) recovery, much trumpeted in the popular press of the Anglo-Saxon world is not treated so optimistically in the more serious reports. The IMF's World Economic Outlook, (Spring 2014) noted that in the old imperialist heartlands, investment was still falling as a proportion of gross domestic product (GDP), while in the 'emerging markets' there was no prospect of growth rates returning to pre-2007 levels.

From this it concluded;

'An important concern is the possibility of a prolonged period of very low growth ('secular stagnation') in advanced economies, especially if new shocks were to hit these economies or if policies do not address crisis legacies as expected.'

A similarly downbeat tone has been adopted in its most recent Outlook, published in July 2014. Having adjusted down its forecast for global growth by 0.3 percent to 3.5 percent, it estimated that 'global recovery continues but at an uneven pace, and downside risks remain'.

It went on, 'Global growth decelerated more than expected in the first quarter of 2014, largely because of temporary setbacks, including a sharp correction to an earlier inventory buildup and the effects of a harsh winter on domestic demand in the United States.

'Growth also disappointed in China as policies were tightened to dampen credit growth and housing market activity. Growth moderated in other emerging markets due to softer external demand and also because of slower-than-expected investment growth.'

This continued weakness of productive investment indicates lack of anticipation of profits at a higher rate in that sector. However, the mass of corporate profits in the USA has increased massively and the stock exchanges have boomed, indicating 'growth' primarily in fictitious capital. In June, the Dow Jones Index rose to the historic high of 15,000 points, just two months later it broke the 17,000 barrier. US credit figures confirm the trend; in the first quarter of this year, corporate borrowing rose by 9.3 percent, compared to the previous quarter's 7.7 percent and total US credit reached a historical peak of \$59,399 trillion, 347 percent of GDP.

Despite the still low overall rate of growth, consumer credit rose by 6.6 percent in the same quarter. Apart from the disparity with the GDP growth rate, the significance of these figures is that the loans have been taken out at artificially low interest rates, when interest rates begin to rise, as they would do automatically in any sustained recovery, and as they are bound to when Quantitative Easing is removed, repayments will become increasingly difficult, preparing the basis for another financial crisis.

Without productive investment, employment in the sector critical for surplus value generation will not grow

substantially and employment will tend to concentrate yet further in unproductive or lower than average productive sectors. This in turn will not give a consumer-led boost to the economy or a feel-good factor when it comes to elections.

Against this background of a very faltering recovery in the established imperialist states, various apologists of capitalism focussed on supposed alternative engines of economic growth that might take over the role of restoring the global economy to vigorous growth. The first choice for many was the BRICS group, Brazil, Russia, India, China and South Africa.

Several of these did, indeed, begin to post relatively high growth rates shortly after the lowest point of the international downturn. Brazil, for example, went from a shrinkage of 0.3 percent in 2009 to growth of 7.5 percent the following year and both India and China maintained growth even during the 2008 crash and reached 8.5 percent and 9.2 percent respectively in 2009.

However, growth rates could not be sustained in any of these countries; Brazil slumped to a mere 0.9 percent in 2012. The kernel of rationality in the identification of the BRICS as a significant group of countries was that several of them did benefit strongly from the huge stimulus package introduced by one of their number, China, which boosted imports of raw materials, energy and foodstuffs from the others.

Not to be discouraged by the failure of the BRICS to rescue capitalism, other pundits alighted on a different set of countries, the MINT group, Mexico, Indonesia, Nigeria and Turkey as evidence of the restorative powers of capital. While several of the BRICS were beginning to disappoint the pundits by 2010-11, Mexico transformed a previous shrinkage of 5 percent in 2009 into growth of 5 percent in 2010 and Indonesia went above 6 percent in all three years after 2009. Turkey turned a decline of 4.8 percent in 2009 into growth of a full 9 percent just one year later.

Here too, however, as a group, the MINT could not keep up the pace; although Nigeria was able to post more than 6 percent in 2012 and 2013, Mexico was down to 1.2 percent and Turkey to 3.8 percent by the latter date. One factor that threatens these and other 'emerging markets' is the prospect of US interest rates rising; as soon as even the possibility that Quantitative Easing by the FED might begin to taper off was mentioned, capital began to flow back to the US from such economies in anticipation of quicker returns.

Political consequences

It is the faltering character of the recovery from the deepest recession in modern times that provides the material basis for greater belligerence on the part of capital both regarding the domestic class struggle in each country and the international rivalry between the Great Powers. The new period in world politics is thus one of sharply increased inter-imperialist conflict in which, to use Lenin's clear and straightforward formulation, the Great Powers are preparing for a redivision of the world.

This is not to say that there is an imminent threat of direct conflict, as opposed to confrontation, between the Great Powers themselves. On the contrary, what is to be expected is a combination of extensive use of 'soft power' to advance their strategic interests and of localised battles between smaller states which, even where they do not begin as 'proxy wars', have the potential to draw in the principals. Moreover, while it is ultimately the underlying economic dynamics that are driving the Great Powers towards confrontation, political turmoil in apparently less important countries could provide the trigger for the next economic crisis just as readily as another spectacular bankruptcy such as that of Lehman Brothers.

This scenario highlights the need for revolutionaries to assess national or regional political developments

by reference to this bigger, global picture. All such incidents have their own characteristics, derived from the class struggle in the particular country, but the potential involvement, overt or covert, of the imperialist powers makes more important than ever the development of politically independent working class parties.

Internationally, too, revolutionaries must be alert to the strategic aims of the different imperialisms, emphasising that, as well as solidarity with all struggles against exploitation and oppression, in all the imperialist countries themselves, the main enemy is at home.

These fundamental principles are more important than ever because of the experience that imperialism has gained from a wide range of movements that originated as democratic oppositions not only to Stalinist bureaucracies, as was the case with Solidarnosc, but also to other oppressive regimes such as apartheid South Africa and the Philippines under Marcos. Clearly, the lessons learnt were central to the 'colour' revolutions in Europe and more recently the Euromaidan in Ukraine.

The potential for similar interventions also exists with regard to China. Most immediately, in addition to democratic rights, including political and trade union rights throughout the country, the crucial issues include the national questions in Tibet and Xinjiang, the widespread corruption of its Communist Party-business elite and the increasing number of environmental calamities.

The capitalist development of China has inevitably brought with it all the dynamics of a class-divided society and, despite the dictatorship of the Party, elemental forms of class struggle. In the context of rapid growth, these have been sufficient to force improvements not only in pay and working conditions but also social security entitlements, housing and education. Recognising the potential for the development of radical, anti-regime movements, some moves have been made towards changing the role of the official state unions but there has also been a steady growth in forms of self-organisation and demands for elected union negotiators are increasingly common.

It is in this flux, that unions and NGO's based in the 'democratic' imperialist powers, particularly those funded by European social democratic parties and unions, are increasingly active in promoting their own model of class collaborationist and labour aristocratic trade unionism. This is not only fully in keeping with 'western' imperialist strategy for undermining the regime but is also a dangerous trap for the Chinese workers whose principal needs are for mass-based, democratically controlled unions and a politically independent workers' party able to advance workers' interests against bureaucrat, bourgeois or imperialist alike.

Against such exercises of 'soft power?', Beijing has already demonstrated its ability to mobilise Han chauvinism in anti-foreign, especially anti-Japanese, campaigns and economic prosperity has allowed concessions to be made both to resolve specific conflicts and to provide reforms. Clearly, this would be threatened by any sustained slowdown in international trade.

Against this background of simmering inter-imperialist rivalry and faced with the prospect of another financial crisis in the not too distant future, working class organisations, both trade union and political, have shown only the most limited capacity to defend past gains. They have been prepared to accept real terms wage cuts, or even give-backs, in order to limit job losses amongst their own members, doing little or nothing to organise those forced into 'precarious' working conditions or the ever increasing numbers of youth who see no prospect of employment at all, let alone jobs that fulfil their aspirations.

That this should be true of the political descendants of those who led the betrayal of 1914, the reformist parties and unions, should come as no surprise. All too often, as with the British Labour Party or Germany's Social Democrats, they actually led the governments that implemented the policies that contributed to the crisis.

More surprising, at least initially, has been the inability of the major tendencies originating from Trotskyism to recognise what the US and the EU have been doing in Eastern Europe and, more specifically, Ukraine. Far from warning that the 'Euromaidan' movement was of a piece with the various 'colour revolutions', initiated and funded by the Western imperialist block, led by the USA, these groups, with the Fourth International to the fore, equated it with the genuine, spontaneously democratic, movements of the Arab Spring and the resistance to austerity in the EU.

The root of this error lies in their long-standing misinterpretation of Trotsky's theory of permanent revolution as a 'process' that ensures the achievement of historically progressive goals by mass movements, even where they lack revolutionary leadership. Having seen the potential of Tahrir Square, but failed to see the danger of either the Muslim Brotherhood or mass illusions in the army in Egypt, they appear to have assumed the same content for the Maidan movement simply because of the superficial similarity of the occupation of a town square. This blinded them not only to the reactionary, pro-EU, demands of the Maidan but even to the very obvious leading role of fascist organisations in the movement.

This then led them to recognise the legitimacy of the Yatsenyuk government that ousted the elected (but certainly corrupt and authoritarian) government of Yanukovych with the support of fascist militia and rewarded them with ministerial posts. By now completely oblivious of the evidence of US involvement in bringing that government to power, they then compounded their errors by seeking to minimise the slaughter in Odessa and Mariupol, accepting on this, as on everything else, the blatant misinformation of the western media in presenting the victims as the aggressors.

Vitaly important as the conflict in Ukraine is in its own right as an advance in the geo-strategic position of the US-led western imperialists, it is also a true sign of the times, an expression of the warlike dynamics of an increasingly unstable world. In this respect, the abject failure of much of the Left, the ease with which the supposed heirs to those who raised a revolutionary banner in 1914, forgot all the lessons learnt at such cost, underlines the urgent need for a new, Fifth International. Its watchword will be, once again, "The main enemy is at home!"

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[1]

<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec00115>

[2] <http://www.gfmag.com/global-data/economic-data/worlds-unemployment-ratescom>