Fictitious Capital and Contracted Social Reproduction Today; China and Permanent Revolution[1]

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"Capital is the moving contradiction, (in) that it presses to reduce labor time to a minimum, while it posits labor time, on the other side, as the sole measure and source of wealth."
Marx, *Grundrisse*[2]

This quote from the *Grundrisse* identifying the fundamental contradiction of the capitalist mode of production, succinctly describes the situation on a world scale today: once again, as in 1914, capital requires, in order to survive as capital, a vast devalorization of all existing values, however great the destruction of human beings and means of production which that entails.

This has in fact been the situation since ca. 1970/73. Global capital has put off the day of reckoning, a full- blown deflation, by a vast pyramiding of debt—fictitious capital—and by a series of "countervailing tendencies" which have supported that debt while contracting social reproduction.

Two World Conjunctures Contrasted

Prior to looking at the specifics of the four decades since 1970/73, let us first sketch the broad shifts which have occurred. The post-World War II Bretton Woods system of fixed exchange rates anchored on the U.S. dollar had just collapsed. At that time, world accumulation was clearly divided into the three zones of 1) advanced capitalist (OECD) countries (the US- Europe- Japan), 2) the "socialist" bloc (the Soviet Union, and Comecon) and 3) the "Third World" of "non-aligned" countries, with China as an outlier. Both the "socialist" bloc and the Third World were deeply indebted to western banks, and would become more so in the course of the 1970's. The working class in the U.S. and western Europe was in the midst of its biggest strike wave since the immediate post-World War II period. Third World nationalism of the "Trikont" variety, promoted by countries such as Algeria and Cuba, was still a potent force, and would culminate in the mid-1970's in the U.S. defeat in Indochina, the independence of Portugal's colonies in Angola, Mozambique and Guinea-Bissau, and pro-Soviet regimes in Somalia and Ethiopia on the Horn of Africa. The anti-apartheid struggle in South Africa had reached a new level in the 1976 Soweto riots. A new independence of the Third World was even echoed in the emergence of OPEC (Organization of Petroleum Exporting Countries) in the oil price surges of 1973 (and later 1979), however linked most OPEC nations were in reality to the

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[1] This article previously appeared, in abridged form, in Mute Magazine (UK).
[2] *Grundrisse*, 1973 ed. p. 706.

U.S. and U.S. financial markets[3]. At the United Nations, a "Group of 77" of Third World countries aggressively attacked Western economic dominance. "Euro- communism" seemed to be on the march in France, Spain and Italy[4]. The US-backed Shah of Iran aspired to be a regional power in the Middle East. Few in the West had yet heard of Islamic fundamentalism, either of the Shi'ite or Sunni variety, and few yet took seriously the "Four Tigers" in Asia (South Korea- Taiwan- Hong Kong- Singapore), still in the early phase of their industrial emergence. China, still largely autarchic and still in the last convulsive throes of the "Cultural Revolution" was a "*quantité negligeable*" in the world economy. France and Germany by the late 1970's were in the first stages of forming a single European currency to stop their whip-lashing by the fluctuations of the dollar. The southern cone of South America (Argentina- Chile- Brazil- Uruguay) was under vicious military dictatorships propped up by the United States.

Forty years later, and thirty-five years into the "neo- liberal" era, we see first of all the (relative) decline of the United States. The European Union, conceived as a counter-weight to American hegemony, is endangered by a meltdown of its single currency and, following that, by outright disintegration. In the U.S., (if not quite as much in Europe), strikes receded, until quite recently to near- invisibility[5]. The Soviet bloc has collapsed, with only Poland and the Czech Republic having, to date, regained a precarious footing. The Third World has fragmented with the full emergence of the "four Tigers"[6], followed by the "flying geese" of aspiring tigers, currently led by "socialist" Vietnam[7]. Islamic fundamentalism has swept aside Third World nationalism in much of the Arab world and in Afghanistan and Pakistan. The small populations of the oil-rich Gulf states and Saudi

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[3] On the recycling of Petrodollars into U.S. capital markets cf. Michael Hudson, *Global Fracture* (1977)

[4]The Italian Communist Party received its all-time postwar electoral high in the 1976 elections there; the French Communist Party looked like a key partner to Francois Mitterand's Socialist Party for the 1978 legislative elections; and the Spanish Communist Party played a key role in containing the Spanish working class in the post-Franco transition.

[5] This has been modified somewhat in the past year by the Longview (Washington) longshore struggle, the stalemated Verizon strike of summer 2011, the defeated Caterpillar strike and the recently-concluded (mid-September 2012) Chicago teachers strike. But for the 40-year period in question, 20% of American workers were involved in strikes or lockouts each year in the 1970's, and only 0.05% in 2009. Cf. my article "The Sky Is Always Darkest Just Before the Dawn: Class Struggle in the U.S. from 2008 to the Eve of Occupy" on the Break Their Haughty Power web site http://home.earthlink.net/~lrgoldner.

[6] South Korea joined the OECD in 1996; Taiwan was restricted to "observer status", under pressure from China.

[7] These also include Malaysia, Indonesia, and Thailand. 7 Africa has 13% of the world's population and 3% of world GDP.

Arabia are in a class by themselves, but their large imported South Asian work force is a potential regional time bomb. One-third of the world's population, in Africa[8] and in parts of Latin America has been trapped in economic stagnation since 1980.

China, in the meantime, fully in synch with neo-liberal global restructuring and, in fact, a key to its success globally, as shall be shown, has become the manufacturing "workshop of the world", in counter-point to the hollowing out of so many other countries. We will return to the practical implications of this for world revolution after analyzing in detail the "balance sheet" of the world austerity aimed at preserving fictitious values. Most of the past four decades have been a period of defeat and recomposition for the working class; in the following, we will (somewhat artificially) bracket class struggle while distilling the "economic" drift of the period, and conclude with a world strategic outlook.

Capital Hits Up Against Its Historical Limit a Second Time

Capital had inaugurated a comparable, extended period of devalorization once before, on the eve of the First World War, when the mere sharp collapse of paper values, the bankruptcy of weaker capitals, general price deflation and a period of extended unemployment for the working class to push down wages were no longer sufficient to achieve the necessary devalorization, as had been the case through the 19th century. Outright physical destruction of labor power—of workers—and of capital plant became part of the process whereby capital destroyed enough "value" to restart production at an adequate rate of profit. Between 1914 and 1945, two world wars, the 1920's period of brief reconstruction[9], the 1930's decade of depression, fascism and Stalinism were all part of the process which laid the foundations for the 1945-1970/73 postwar boom. The world process of devalorization[10], like all shakeouts before it (the decennial crises studied by Marx from 1817 to 1866 and the "long deflation" from 1873 to 1896) moved production and reproduction as a whole to a new "standard of value", or what Marx refers to in *Capital* as a "revolution in value". Each capitalist phase of boom and bust (from "peak to trough" as the jargon goes) constitutes a "manifold" based on such a new standard, an "apples to oranges" transformation in which a unit of socially necessary labor time is incommensurate with that of the preceding phase, or with the following one. The "cluster" of new modes of transportation in the mid-19th century, from canals to railroads to steamships, was one such manifold; the new electronics, chemical and automotive technologies from the 1920's to the 1940's was another, or closer to our own

[8] Africa has 13% of the world's population and 3% of world GDP.

[9] In key countries such as the US, the UK and Germany unemployment rates never fell below 8%. At the same time, in both the US and Germany, major firms engaged in capital-intensive rationalization.

[10] Which also included some important technological innovation in the 1920's and even in the 1930's in electronics, chemicals and automobile production.

time, the revolution in both communications and in the transport of commodities (maritime and airborne) since the 1970's.

By the late 1960's, the postwar boom had brought world capital to another moment in which the current cost of reproducing labor power could no longer serve as the systemic "numeraire", the common denominator, for commodity exchange. Capital again, as in 1914 but more diffusely, entered a new period in which physical destruction on a world scale was a necessary part of the movement of devalorization and potential revalorization.

Every capitalist cycle of boom and bust produces fictitious capital as it is peaking: this consists of paper claims on surplus value which correspond to no actual surplus value from the immediate process of production or sources of loot from primitive accumulation. Rampant speculation aside, as occurred in particular in the past two decades (and also in the run-up to the 1973-1975 world downturn, the biggest of the postwar period up to that time[11]), the initial source of fictitious capital is devalorized fixed capital in the immediate[12] sphere of production itself. This devalorization results directly from one of the most vital aspects of capital: regular advances in the productivity of labor.

Capital Appears to Capitalists As Paper Titles to Profit, Interest and Rent

Capital, however, appears to capitalists not, as in the first two volumes of Marx's book, as "value valorizing itself" but rather as paper titles to wealth, stocks (profit), bonds (interest) and the various claims on rent from land dealt with in vol. III. These are claims on *future* cash flow whose "value" is not immediately determined by the "price/value" conundrum discussed ad nauseam by readers fixated on the first section of vol. III, but by a *capitalization* of that cash flow relative to the generally available rate of profit[13]. As this mass of hot air grows- *fictitious* relative to the actual surplus value available to valorize it--it is sustained temporarily by anti-deflationary actions of the central bank and by various

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[11] And subsequently surpassed in depth in 1980-1982 and since 2008.

[12] Note the "Hegelian" overtones of this use of "immediate" by Marx, namely *unmediated*. The "mediation" of the "results of the immediate process" is the task of vol. II (circulation) and of vol. III, the division of surplus value into its visible capitalist forms of profit, interest and ground rent.

[13] "Capitalization" refers to the practice of valuing an asset based on the anticipated profit it will generate, with reference to a "floor", usually (in recent decades) the current rate of interest on a U.S. Treasury bill. If a $10,000 T-bill pays 2%, a $10,000 corporate bond paying 4% is "capitalized" at e.g. $12,000; a comparable bill paying 1% (or 0.1%, as is the case at this writing) is worth $9,000, and so on. When one considers this concept applied to a 100-year old slum tenement, paid off decades ago and depreciated for tax purposes five times since, but still generating $1 million a year in rental income with minimal expenses for upkeep, the capitalized value and the "real" value can diverge far more widely.

"countervailing tendencies"[14]. The mass of hot air *circulates*, like any other capital, until it can no longer be valorized through the classic M-C-M' movement that defines capital[15]. The ensuing bust collapses these titles to wealth, aligning them with the actual underlying available rate of profit, or even below it, in the initial phase of a new expansion. This is the phase we have been in since 2008. But what occurred in 2008 was merely the latest, acute phase, as indicated, of a long process of debt pyramiding concealing (or not, as it were) an extended period of contracted social reproduction on a world scale since the early 1970's, in contrast to the capitalist recovery from depression of 1945-1970/73.

Let us then look more closely at the history by which these fictitious titles to wealth took on the huge dimensions they had acquired by 2007-8, and which, five years into the crash, they still possess today. The contemporary reader can easily recognize such titles in the activities of hedge funds, as well as in derivatives, "securitized finance", the worldwide "asset inflation" in stock markets and in private and commercial property values, "credit default swaps", "collateral loan obligations", the ballooning of the "FIRE" (finance-real estate- insurance) sector, not to mention the increase of U.S, government debt from $10 to $15 trillion in four years, and comparable recent increases in the balance sheets of the European Central Bank, the Bank of Japan, and the Bank of China. The contracted social reproduction, under the weight of these paper claims, is most immediately visible on the streets of Greece, Italy and Spain, and the current 50% rate of unemployment on a world scale for those under the age of 25.

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[14] These include pushing the total wage below the cost of reproducing labor power; the incorporation of labor power from outside the core wage labor-capital relations, as in massive recruitment of petty producers from the countryside; the running down of fixed capital past its full depreciation period; and the looting of nature, as in environmental destruction, strip mining or depletion of soils through agricultural exploitation. All of these amount to "non- replacement" (non-reproduction) of either C (constant capital) or V (variable capital). See my "Fictitious Capital for Beginners: Imperialism, 'Anti-Imperialism', and the Continuing Relevance of Rosa Luxemburg", http://home.earthlink.net/~lrgoldner/imperialism.html

[15] The movement M-C-M' is based on the simple M-C-M movement of exchange described in the opening chapters of vol. I of Capital; M-C-M' is the money thrown into the valorization process by the individual capitalist, in which M' returns as M expanded by contact with living, exploited labor power. These triadic movements further form the opening section of Vol. II, in which Marx considers circulation from its point of departure of money capital, of production and of the commodity. Finally, in vol. III we find the breakdown of the M-C-M' movement in the heart of crisis, showing the "architecture" of the three volumes to be based on a phenomenology moving from the "simple cell" (the commodity) through to full-blown breakdown of accumulation. The truth is in the whole, the oak is the truth of the acorn (Hegel) and the simple commodity form already implies the breakdown of the system.

1970: End of the Postwar Boom

Few today remember the U.S. corporate liquidity crisis of 1969-70[16], or the 35% fall of the U.S. stock market in the same year, following on the "dollar crisis" of March 1968[17], or finally the sharp U.S. recession that followed. But these events can arguably be seen as signaling the end of the post-World War II boom, and, despite occasional appearances to the contrary, the world system has been haunted ever since by the specter of the outright deflation underway today. This credit crunch and ensuing recession was followed by Richard Nixon's August 1971 suspension of the gold convertibility of the U.S. dollar, and a series of other measures designed to lift the U.S. economy into an inflationary super-boom guaranteeing his re-election in 1972[18].

The breaking of the link between the dollar, then as now the main world reserve currency, and the gold backing established at the Bretton Woods conference of 1944, began the process of levitation of the then-existing fictitious capital bubble into the colossal proportions it has taken on today.

Simultaneous to (and related to) these events in world capital markets was the quadrupling of the world price of oil in 1972-1973[19].

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[16] This was marked by excess corporate debt (a postwar high of the "debt to equity ratio"), which came under intense pressure with the May 1970 collapse of the Penn Central Railroad, and ensuing near-bankruptcies of such major firms as Lockheed and Rolls Royce. See John Brooks, *The Go-Go Years* (1971).

[17] Trading in the dollar was suspended for several days at that time, as world foreign exchanges became concerned over the outflow of gold from the U.S, undermining the whole foundation of the Bretton Woods system of fixed exchange rates. 17 "It was at this juncture (early 1970's-LG) where the U.S. state itself...jumped onto the bandwagon by fashioning Eurodollar market-based speculation against the inflating U.S. dollar into de facto U.S. government policy. The rapid upward spiking of Eurodollar loans...is indicative of ...real capital investment dearth in the moribund US production- centered economy." Richard Westra, *The Evil Axis of Finance: The U.S.-Japan-China Stranglehold on the Global Future* (2012) p. 99.

[18] This severing of the world reserve currency from any relationship to gold opened the way for all the subsequent "new financial products" invented by the global banking system, especially after 1980.

[19] The real basis of this increase is controversial; some explain it by the classical operation of the laws of ground rent (either Ricardian or Marxist); others (cf. S. Artesian in *Insurgent Notes* Nos. 3 and 4) disagree. Be that as it may, the effect on world financial markets was neutralized by agreements of the major exporters in the Organization of Petroleum Exporting Countries (OPEC) to recycle their "Petrodollars" back into the Western financial system, (Michael Hudson, *Global Fracture*, 1977), primarily in New

In 1973-74 as in 2008, the major capitalist governments reflated in classical Keynesian fashion, producing (in the former case) the "stagflation" of little growth plus much inflation, which by 1979 was running at 15% in the U.S. and higher in the U.K. There were effectively negative interest rates in a period where creditors and all people on fixed incomes were punished and debtors rewarded[20]. European countries and Japan were forced to import American inflation with their chronic balance-of-payments surpluses in trade with the U.S. This period ended in 1979 with a second "oil crisis" most immediately associated with the Iranian Revolution, together with the coming to power of Thatcher in Britain and a year later of Reagan in the U.S., while the U.S. Federal Reserve Bank under Paul Volcker ran up interest rates to 20% to stop a run on the dollar and (in order to do so) to choke off U.S. inflation[21], which was achieved by an even deeper recession (1980-82) than that of the mid- seventies. World capital entered the "neo-liberal" era, and by 1985 Reagan, Thatcher, Mitterand, Gorbachev and Deng were in synch in turning their backs on the "social" dimensions of the state that had theretofore characterized the post-1945 era.

"Neo-Liberalism"

"Neo-liberalism" (in itself a term coined to divert attention from the word "capitalism") had its origins far back in the postwar era[22], in the thought of the "Austrian" theorists Friedrich von Hayek and Ludwig von Mises, and promoted in the Anglo-American world in another variant as "monetarism". Though most potential readers of this text are all too

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York and in U.S. government paper (Treasury Bills), as well as direct investment in the Western economies. The effect on most countries, particularly those in the Third World, was not neutralized, resulting in an exponential increase in their foreign indebtedness through the 1970's and 1980's, and in the subsequent IMF and World Bank enforced austerity programs. Meanwhile, the OPEC countries acquired billions of dollars of state-of-the-art weaponry, primarily from the U.S. Hudson's book describes both the arrangement between the US government and the main oil producers to recycle "petrodollars" in US capital markets, but also the large-scale acquisition of weaponry and some Western assets by OPEC governments.

[20] The U.S. stock market from 1966 to 1982 produced a net zero rate of return after inflation is taken into account.

[21] The huge interest payments on U.S. government paper and the similarly huge deficits of the Reagan years were made possible by massive loans from Japan (cf. R. Taggart Murphy *The Weight of the Yen*, 1996).

[22] The Mont Pelerin Society was founded in 1948 by these die-hard anti-Keynesians, who were in the wilderness until the 1970's "stagflation" era, as well as military dictatorships in Chile and Argentina, gave them their moment. For these "anti-statists", some states are not as bad as others, a proclivity they had already shown in their 1930's preference for fascism over "communism".

familiar with the term and its ramifications, rehearsing the latter is still worthwhile to give a sense of neo-liberalism's global impact, which is not yet exhausted today. While marginal in the first years of the crisis of the 1970's, except in southern South America (Chile, Argentina)[23] neo-liberalism dominated the world for 30 years, and its run is not yet over. We might neatly define it as multiple means of destruction of V (variable capital) and C (constant capital)[24] aimed a propping up the ever-growing fictitious bubble of hot air with sufficient S (surplus value). The backdrop to its rise was the post-1968 reversal of the trend to income equality in the West[25]; it dominated ideology during a period in which income inequality in the U.S., at least, surpassed that of 1929, and the gap between the "rich" and "poor" countries grew far greater than it was in 1973[26]. Neo-liberalism involved a war on the social, by which was meant the postwar welfare state and, in other contexts, "communism"; the privatization of state functions[27], usually for

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[23] Chile, Argentina and Uruguay were the laboratories for neo-liberal policies, under extreme military dictatorships. In Chile, the "Chicago boys" had been preparing for their moment since the mid-1950's, in collaboration with a small Catholic university in Santiago. See T. Moulian, *Chile actual : anatomía de un mito*, 1997.

[24] Michael Perelman, *The Pathology of the U.S. Economy Revisited* (2002) not only provides extensive material on the decline of infrastructure in the U.S. economy (pp. 80-91) but also shows how the dominant neo-classical paradigm is blind to the very question of material reproduction: "...Keynes must have known that depreciation charges cover the vast majority of all investment...Still, he generally assumed that capital replacement occurs automatically when a capital good reaches a certain age...You might wonder why anyone should care about the distinction between replacement investment and investment in general. In fact, inadequate replacement investment was one of the keys to the decline of the U.S. economy in during the late 1960's and early 1970's" (ibid. p. 114). "...accurate data on the scrapping and upgrading of installed plant and capital do not exist...Over time, more and more capital goods ceased to be very productive, falling into the category of phantom capacity... (in the postwar boom), management gave little indication that it had much of an inclination to maintain a healthy capital stock (ibid. pp. 134-135 24 From 1945 to 1968, the gap between the richest and poorest fifth of the populations of OECD countries steadily declined; after 1968, it reversed itself and became greater than prior to the 1930's depression.

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[26] This gap should not obscure the "grey" reality of greatly increased poverty in the "rich" countries and the existence of an important, wealthy "globalized" group in the "poor" countries, as in the cases of China, India, Mexico or Brazil.

[27] With the mantra that "market forces" are always superior to the "state", these privatizations almost invariably tended to make services more expensive, often followed by bankruptcy and their simple disappearance. Sometimes there was a "public-private" collaboration, (as in one example among thousands) the recent case of a Virginia judge

short-term looting purposes; the casualization and "flexibilization" of labor[28], often with "just in time" techniques originated in Japan; the serious de-industrialization of both the U.S. and the U.K.[29]; the great reduction of taxes on the wealthy in the name of "trickle down" economics; the vaunting of the "entrepreneurial" small firm (in many cases, self-exploitation of the formerly employed) and the ascendancy of "high tech"[30]; the reduction or outright dismantling of state regulation of banking and stock exchanges as well as of labor conditions, health and safety; the untrammeled outsourcing of production to cheaper labor markets; the dismantling of (some) tariffs and the promotion of regional, supra-national trade agreements at the expense of workers and peasants. In the U.S., neo-liberalism was accompanied and promoted by the "culture wars", in which issues such as abortion, sex education, contraception, religion and rejection of Darwin, eclipsed for many, including those most directly affected, "economic issues" in a general backlash against the 1960's and 1970's.

A critical opening volley in the new period was California's 1978 Proposition 13, a populist tax revolt capping property taxes on housing, which dropped the national ranking of California public schools from No. 1 to No. 48 over the following 30 years. This was an early manifestation of the "opting out" of wealthy strata into low-tax enclaves with gates visible or invisible, enforced by the new mass industry of private "security". The same wealthy strata drove ordinary working people from urban areas with worldwide gentrification. "Free market" neo-liberalism internationally was quickly

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whose juvenile court sentenced thousands of teenagers, usually with the most rapid sham trial for the most trivial offense, to a private prison which charged their families serious money for incarceration, and which paid the judge generous kickbacks. In the U.S. invasion of Iraq, thousands of private "consultants" in such burgeoning fields as "security" were performing tasks previously done by military personnel.

[28] On the psychological damage wrought by this casualization, cf. Richard Sennett*, The corrosion of character: the personal consequences of work in the new capitalism* (1998); though deeply flawed, Robert Putnam's *Bowling Alone* (2000) is an arresting presentation of the many forms of enforced solitude in the new organization of labor and society.

[29] Answering skeptics about U.S. de-industrialization, Michael Perelman writes: ""the government data are misleading because they overstate the share of manufacturing in the aggregate economy, because they fail to account for the imports used in production...the government merely tallies the final output of the manufacturing sector." (Cf. Perelman, op. cit., p. 173. The U.K. went from having 25% of international trade in 1952 to 2.9% in 2012. Cf. Nicholas Comfort. *Surrender. How British Industry Gave Up the Ghost 1952-2012* (2012). For one excellent case study of de-industrialization and its impact, cf. David Ranney's study of Chicago, *Global Decisions, Local Collisions* (2003).

[30] Tom Frank, *One market under God: extreme capitalism, market populism, and the end of economic democracy* (2000), shows (among other things) the ideological origins of this new constellation in the American counter-culture of the 1960's, as part of the "revolutionary" revolt against "bureaucracy".

challenged in the Latin American debt crisis of 1982 (Brazil and Mexico first of all), requiring massive intervention and debt restructuring by the U.S. government, and leading to IMF austerity programs in the dozens of countries weighed down since 1973 by the increased cost of oil imports[31]. In 1980 the biggest employers in Brazil were steel and auto plants; by 2000 they were private security companies and McDonalds[32]. Neo-liberalism involved the ramping up of Cold War II and increased military expenditure[33]. It led to the Plaza Agreement of 1985, in which the U.S. forced a major revaluation on Japan and Germany (thus devaluing the large dollar holdings they had built up supporting the dollar and Volcker's high interest rates after 1979). It continued and intensified the incarceration of the (racially-coded) "relative surplus population" in the U.S., reaching 7 million people, or 3% of the population today[34]. It led to the world stock market crash of 1987. Months before, Alan Greenspan had taken over the Federal Reserve Bank (FRB, or Fed) from Volcker, and during and after the crash inaugurated two decades of the "Greenspan put", the assurance that massive credit infusion from the Fed would create a floor under any financial or stock market downturn. "Free market" "small state" neo-liberalism didn't mind using the state to bail out its follies, something repeated on a far greater scale after 2007[35]. It forced through (in the U.S.) "welfare reform", requiring

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[31] "...the rise in interest rates savaged third world economies with output dropping to such an extent that it would not be until 1996 that third world output as a whole approached the level it had attained in 1979." Westra, op. cit. p. 88.

[32] Between 1980 and 2002, the third world remitted $4.6 trillion to financial institutions based in the advanced OECD states." "(This) "ensured that they would never again be able to attempt full-scale industrialization...and would stay the IMF/WB (World Bank) course since debts forever compound, eliminating possibility of repayment." Westra, op. cit. p. 100. "Thus, in manufacturing, (TW countries) are rendered little more than cogs in globally dispersed and fragmented value chains." (p. 104)

[33] Hazy historical memory and America-centric Cold War triumphalism attribute the collapse of the Soviet bloc to Ronald Reagan's 1980's vast rearmament. In fact, the Soviet bloc had been sinking into stagnation and torpor since the 1970's; Emmanuel Todd, in his 1976 *La chute finale: essai sur la decomposition du sphere sovietique*, had already pointed out that birth rates in Russia, the empire's heartland, had turned negative. Gorbachev, for his part, claimed after his fall that it was the Polish workers' uprising of 1980-81 that convinced him that the system as it existed was finished.

[34] Either in prison or awaiting trial or on parole. Cf. Christian Parenti, *Lockdown America* (1999)

[35] "Small state" neo-liberalism also had its finest moment in international trade and tariffs with the so-called Doha Round (2001-2011). Where the "Washington Consensus" had been all too happy to force weaker countries to drop their protection of local industry and agriculture, the Doha Round failed (in 2011) because of the refusal of Western countries, led by the U.S., to lower tariffs protecting their own domestic industries and agriculture.

welfare recipients to take menial jobs at minimum wage instead of receiving a welfare check. It pioneered the junk-bond, "leveraged buyout"[36] (LBO) era of the Ivan Boeskys and Michael Milkens, in which debt was piled onto corporations for tax purposes, thereby forcing them to asset strip and downsize to their core "cash cows", after which the LBO artists then resold the company, paid off the debt and took a huge profit a few years later. It promoted the ideology of "shareholder value", meaning that the short-term stock price trumped all other considerations in the management of firms, and showed the door to "old economy" long-term investment strategies and R+D. It deregulated the savings and loan (S+L) banks in the U.S., leading to a real estate credit binge that ended by the late 1980's in $500 billion in losses, picked up by and added to the U.S. government debt[37]. The "junk bond" era ended at the same time (though it was reborn as "private equity", alive and well today). Between 1990 and 1993, in the "mild" U.S. recession, housing prices fell dramatically and major financial institutions such as Citicorp, holding billions in uncollectible Third World debt[38], tottered, until their debts in turn, like those of the S+L fraud, were nationalized with little fanfare.

Clinton and a "Kinder, Gentler" Neo-Liberalism

By the early 1990's, the previous New Deal "liberalism" associated in the U.S. with a (very modest) Keynesian welfare state had been won over to the new mantra, and came to power with Bill Clinton in the wake of the 1990-1993 recession. He was followed by Tony Blair, Gordon Brown and Anthony Giddens in Britain in 1997, after the latter trio had cleansed the Labour Party of its gritty, proletarian trade-union image with their "Third Way" to market meltdown. Clinton was immediately informed by his cabinet, led by Treasury Secretary Robert Rubin (a former Goldman Sachs banker), of the paramount

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[36] The leveraged buyout strategy (LBO) took advantage of an old (1909) corporate tax law which made stock dividends subject to income tax but interest payments on corporate debt tax deductible. Hence the LBO artists were able to shift corporate balance sheets from equity (stock) to debt, claiming a nice tax deduction in the process. Cf, George Anders, *Merchants of Debt: KKR and the Mortgaging of American Business* (1992) and Connie Bruck, *The Predators' Ball* (1988).

36 "Because of the vast sums of money that the bailout consumed, the government curtailed spending on health, education and infrastructure." (Perelman op. cit. p. 148)

[37] "Because of the vast sums of money that the bailout consumed, the government curtailed spending on health, education and infrastructure." (Perelman op. cit. p. 148)

[38] According to the World Bank's *Global Financial Development* (2012), Third World debt today totals $4 trillion. It has receded from the headlines primarily because, in 90 or 100 national cases, it has been "rationalized" with the principal written off as uncollectible, and the country in thrall to interest-only payments stretching far into the future.

need to calm the bond markets[39] by refraining from any socially-minded deficit spending. Clinton pushed through NAFTA, the North American Free Trade Agreement with Canada and Mexico[40]. His much-touted and labyrinthine health care reform, like Obama's reform bill 15 years later, was designed to curb health care costs while still maintaining the prerogatives of the private health insurers and pharmaceutical companies[41], and was dead on arrival in Congress. Clinton introduced a mild income tax increase, but hardly reversing the tax cuts of the previous 12 years[42]. He pushed through "tough on crime" legislation to put one million new cops on the streets, his most direct contribution to expanding employment. On the eve of his 1992 election, as then- governor of Arkansas, he had overseen the execution of a mentally-retarded death row prisoner and later denounced Jesse Jackson to show he was no old-style liberal "soft on crime" or the death penalty. In 1996, on the eve of his re- election, he abolished "welfare as we know it", pushing workfare and back-to-work initiatives, a cheap electoral ploy saving the government a few billions but consigning millions of single mothers to minimum wage jobs and long commutes, and millions of children to "latch-key" neglect. Starting in 1995, the Silicon Valley "high tech" bubble took off, along with general asset inflation. 1995 was also the year of the "reverse Plaza", in which the dollar came off the floor against the German

[39] Rubin was a spokesman par excellence for the ascendancy of finance over production in the "New Economy": Douglas Dowd points out "Corporate profits were more than ten times as high as net interest in 1949; more than five times in 1959; more than two-and-a-half times in 1969; a quarter more in 1979; in 1989 and since corporate profits have been less than net interest." (quoted in Perelman, op. cit. p. 151) "(Christoper Niggle)...notes that the ratio of the book value of financial institutions to the GNP of the U.S. was 78.4 in 1960...By 1984, it had reached 107.4." (ibid. p 158)

[40] A muckraking account of Clinton's strong-arm campaign to force through NAFTA is in John MacArthur. *The Selling of "Free Trade"*. (2000). NAFTA more than anything was an abolition of prior Mexican restrictions on capital flows and imports, and quickly threw millions of Mexicans into unemployment.

[41] Health care costs in the U.S., then as now, are higher than in any comparable country, and still leave 45 million people uninsured. Estimates of the additional cost of the "take" of private insurers (HMOs, Health Management Organizations) are on the order of 20-30% of total cost, which amounts to 14% of "GDP". Obama's "Affordable Healthcare Act", legally requires the uninsured to purchase private health care costing more than $1000 per month for a family of four, or face stiff fines. George Bush Jr. had preceded this gift to the HMOs with a $500 billion gift to the pharmaceutical companies in his loudly-touted subsidies to seniors for their medication. Less touted were the cost-plus prices for these drugs established on a "no bid" basis, as well as other legislation and government action forbidding states to buy cheaper drugs in Canada.

[42] The tax rate on the wealthiest income strata in the U.S. into the late 1970's was 52%; today it is 25%.

mark and the Japanese yen, to peak 10 years later[43]. The Federal, state and local revenue from asset inflation produced a Federal surplus by 1996, and "surpluses as far as the eye could see" were projected well into the 21st century. The labor market tightened to levels not seen since the early 1960's. The IMF and the World Bank in those years were direct enforcers of U.S. neo-liberal policy, in "structural adjustment" programs in 100 countries.

International Backdrop of Clinton's Neo-Liberalism

One must, however, see the brief, "fine-tuned" Clinton conjuncture against its international backdrop. First, the Japanese "miracle" had come to an end in the stock market crash of 1989-1990, with the Nikkei index dropping from 38,000 to 10,000 and never recovering, beginning 20+ years of much slower growth. This was the result of the Plaza Agreement, which had radically revalued the yen. Japanese capital went on a shopping spree, including in the U.S. but also in Southeast Asia[44]. The high yen, however, hit Japanese exports hard, and lack of available outlets pushed funds into real estate speculation and other types of asset inflation, leading to the 1990 crash from which Japan has never fully recovered. Many of the Japanese investments in the U.S. went bad. The Japanese, in an atmosphere of constant Japan-bashing by American politicians, industry

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[43] This "see-saw" of the dollar has followed the business cycle going back to the 1950's; it amounts to the tossing of the bubble of hot air back and forth between the U.S. and its creditors. The dollar crisis began in the late 1950's and early 1960's, during the Bretton Woods fixed exchange rate system; after the end of Bretton Woods in 1971-73, the dollar declined against the yen and European currencies. The U.S. balance of payments has been at zero or in surplus only in a few years coming out of recession. As soon as "recovery" kicks in (1975, 1983, 1994, 2003) it goes negative and dollars resume accumulating abroad. It is one manifestation of the "seignorage" privilege of the world reserve currency; the U.S. alone prints the currency in which its massive foreign debts are denominated, and as in the 1970's (with Germany and Japan) or with Japan (1985) or potentially today with the Asian central banks, led by China, depreciates those debts representing billions of exports to the U.S. As Richard Westra puts it, "...the main villains of the Asian Crisis were really the U.S. itself...By the mid-1990's bloating US current account deficits and private sector borrowing requirements desperately needed monies that were flowing into a Japan-centered economic growth pole...Through the G-7, then, the U.S. sought to correct "misalignments" of major currencies vis a vis the dollar which Treasury Secretary Rubin deemed were not reflective of purportedly strong U.S. economic "fundamentals"...we can concur with Michael Burke that no account of the purported US new economic "boom" can do justice to the question in absence of consideration of the Asian Crisis." (op. cit. pp. 132-134)

[44] "Japan's net foreign assets rose from 10 to 30 percent of GDP between 1990 and 1998...in 1997 and 1998 Japan's external position of \$958 billion and \$1.153 trillion respectively is a virtual mirror image of that of the U.S.,--\$1.066 trillion and -\$1.537 trillion respectively." Westra op. cit. p. 128.

and some unions, were prohibited from making others. This was accompanied by battles over trade and tariffs, and Japan was pressured by the U.S. to ramp up military spending. All in all, the flow of Japanese capital into the U.S. was one factor easing credit conditions in 1990's.

The Clinton years also witnessed the bond market crisis of 1994 when the hawkish Fed back-footed bond dealers with several rapid interest rate increases, causing billions in losses.[45]. That year also saw the second Latin American debt crisis, beginning in Mexico and ricocheting through Latin American financial markets[46]. Whereas the Clinton administration had claimed that the NAFTA free- trade agreement would be worth $50 billion in new annual export production in the U.S., it was instead required to provide a $50 billion US government bailout for American holders of Mexican debt after the peso plummeted.

The Mexican crisis of 1994-95, however, paled in comparison to the Asian crisis of 1997-98. Whereas months before, the new Asian "tigers" had been touted as the success story of the 1980's and 1990's (including by blindsided American ideologues who imagined these highly statist economies to represent a triumph of the "free market"), what began in July 1997 as a run on the Thai currency snowballed into a panicked flight of short-term capital from precisely those countries who had responded to the neo-liberal siren song

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[45] The bond market reflects the process of "capitalization" described earlier. When general interest rates rise, they immediately lower the value of all bonds paying less than the going rate of interest. The 1994 rate rise left bond dealers, who earn their commissions with a constant turnover, with large portfolios of such devalued bonds.

[46] After Brazil's "lost decade" following the 1982 debt crisis, it suffered a second lost decade in the 1990's. Cf. I. Lesbaupin (coordinator) *O Desmonte da Nacao. Balanco do Governo FHC* (1999). As elsewhere, neo-liberal policies in Brazil included further upward transfer of wealth in what was already one of the world's most unequal societies, the fracturing of social security and health care, and large-scale sell-off of public assets at bargain-basement prices. In Mexico, "the 30 years 1982-2012 are a single unity, made possible by the alliance between the PRI (Partido Revolucionario Institucional) and the PAN (Partido de la Alianza Nacional). This includes selective and massive repression, the disappearance of people, electoral fraud, the change of generation with the arrival of young people with no future who have adapted to a degraded situation, the reorganization of school curriculum eliminating historical consciousness (even in its bourgeois, constitutionalist, liberal, national forms) ..." ("Letter from Mexico", in *Insurgent Notes* No. 7, October 2012). Following the 1982 debt crisis, the living standards of Mexican workers and peasants fell by 50%; following the 1994-95 crisis, they fell by another 50%. "The reduction of the wages of Mexican workers was achieved at the same time as the Pinochet regime, with the sole aim of making Mexico into an international maquiladora center." (ibid.)

and liberalized their exchanges, and spared those countries (China, Malaysia, India) which had resisted it. By early 1998, South Korea, Indonesia and Thailand were prostrate and under IMF control. To qualify for IMF and other loans, countries such as South Korea had to agree to massive layoffs of state employees, to scrap controls on foreign acquisitions of key industries, while Western vulture capitalists rushed in to buy them up at bargain-basement prices, a massive global leveraged buyout[47]. Clinton ideologue Lawrence Summers, then Undersecretary of the U.S. Treasury, rushed to Asia to oversee this process, and stopped a Japanese attempt to form an Asian Monetary Fund to staunch the crisis in its tracks. Capital fleeing the collapsing Asian economies returned to the U.S., again strengthening capital markets there.

In the eastern bloc, which had collapsed in 1989/1991, the Clinton administration backed draconian austerity. There was no "new Marshall Plan" (nor did the capital exist for one)[48]. The U.S. backed the "democrat" Yeltsin to the hilt, after (in 1993) he bombed an elected parliament. The U.S. abetted the takeover of the Russian economy by the oligarchs, who were taking U.S. and IMF money and stashing it abroad. Top U.S. advisers oversaw the privatization of the Russian economy, which quickly culminated in its takeover by criminal elements, many of them former officers of the Soviet KGB[49]. This looting of Russian industry and natural resources was momentarily interrupted by the 1998 collapse of the ruble. Throughout these years, more than half the Russian population was forced into poverty. By the late 1990's, living standards in some of the former Soviet Central Asian republics were at 30% of their previous levels[50].

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[47] One account among many is Donald Kirk, *Korean Crisis. Unraveling of the Miracle in the IMF Era* (1999). Under IMF bailout conditions, all candidates for the Korean presidency in December 1997 had to sign off on their commitment to honor the IMF austerity package.

[48] Even a Cold Warrior of impeccable credentials such as Richard Nixon denounced the West's miserly, vengeful treatment of prostrate Russia after its collapse.

[49] 48 On this, see the article "The Harvard Boys Do Russia" http://www.thenation.com/article/harvard-boys-do-russia#. The author later wrote a book-length treatment of this Ivy League/ U.S. government/ Wall Street looting condominum: Janine R Wedel, *Collision and Collusion: The Strange Case of Western Aid to Eastern Europe* (2001). Another member of the "best and the brightest" was French Mitterand ideologue Jacques Attali, who in 1991 helped found the European Bank of Reconstruction and Development (EBRD), ostensibly to finance the Russian transition, and later resigned under a cloud of scandal.

[50] In the 2006 report *The World Economy* (2 vols., 2006) of the very official OECD's Development Center Studies, we learn (p. 25) that as of 1998, in Eastern Europe and Russia taken as a whole, there had a 25% fall since 1973. Unemployment (p. 133) in western Europe in 1994-1998 averaged 11%, higher than that of the 1930's.

1998 also saw the Long Term Capital Management (LTCM) crisis of fall 1998. LTCM was a top hedge fund, founded and headed by Wall Street stars and having two Nobel Prize winning economists on its board of directors. LTCM as well was wrong-footed by the Russian default and the potential impact of its bankruptcy on world financial markets was estimated at $1.4 trillion. The New York Federal Reserve convened an emergency weekend meeting of the involved Wall Streets banks, who jointly provided a $13 billion bailout for damage control, as a small dress rehearsal for the events of 2007-8 and beyond[51].

The Latin American, Asian and Russian financial crises rebounded onto the U.S. economy itself, which was in the midst of the stock market frenzy of 1995-2000 associated with the high-tech "dot.com" "New Economy". Capital fleeing from collapsing markets abroad saw a haven in the rising U.S. dollar (following the 1995 "reverse Plaza" agreement) and the ascent of the stock market into the stratosphere, totally out of synch with underlying profits[52]. Federal, state and local governments were buoyed by tax revenue based on this fictitious asset inflation, and Clinton left office, just in time, more popular than when he was first elected. In spring 2000, the "New Economy" tanked in the dot.com meltdown. The NASDAQ (the stock exchange for high tech firms) fell from 5,000 to 2,000 and never recovered.

This was the era in which Wal-Mart replaced General Motors as the largest U.S. employer, and the brief "Goldilocks" economy achieved in the U.S., while crisis after crisis erupted abroad, is unthinkable without the "China price", the ever-increasing low-cost exports, primarily from foreign firms operating in China[53], which kept consumer price inflation low during a tight labor market and soaring asset inflation in stocks and real estate[54].

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[51] See Nicholas Dunbar, *Inventing money : the story of Long-term Capital Management and the legends behind it* (2000)

[52] Westra, op. cit. p. 81: "...at bottom, globalization is simply a sexed up term for the US transubstantiation into a *global economy*; a global economy where the U.S. parlays dollar seignorage into a Wall Street-dominated international financial axis through which it then shapes the world's material goods production on which it is dependent..."

[53] Cf. the essay of M. Hart-Landsberg et al. "China and the Dynamics of Transnational Accumulation", in M. Hart-Landsberg et al. *Marxist Perspectives on South Korea in the Global Economy* (2007). "...in 2004, China and the US accounted for almost half of the world's growth...In 2002, China became the largest recipient of FDI in the world...China's economic growth has been increasingly dependent on the export activity of these transnational corporations." (pp. 116-117)

[54] Cf. Westra. op. cit. p. 85: Wal-Mart was "the number one single U.S. employer with 1.3 million workers...by 2003. Wal-Mart sales that year were $256 billion...it wielded a network of 60,000 suppliers in over 55 countries. It is estimated that Wal-Mart brought low price savings to U.S. consumers from 1985 to 2007 to the tune of $287 billion!"

Since the 1970's, dozens of Third World economies have been devastated by neo-liberal IMF and World Bank- enforced policies that forced acceptance of cheap imports[55], as in NAFTA's effect on the Mexican countryside, which also forced millions of rural Mexicans off the land and into migration to the U.S., where they worked at minimum-wage (or less) jobs until the 2008 crash. NAFTA is also the little-noted backdrop to the rise of the Mexican drug cartels, who recruited thousands of these impoverished refugees from the countryside into wars that have killed over 50,000 people.

The post-1989/1991 developments in the former Soviet bloc, once again, also fed into the brief halcyon days of the "New Economy". The most important aspect was a whole new dimension of investment for Western capital, with cheap educated labor and attractive urban real estate (Prague, Budapest, Cracow, Riga) to be gentrified.

The people, particularly old people, of Eastern Europe and Russia underwent tremendous austerity and worse[56]. There was massive emigration of educated youth to the west, as well as of whole new networks of criminality. Entire industrial regions were shut down or downsized as the oligarchs took the family jewels. There was the expense of the unification of Germany, which was allowed as a tradeoff for its integration into the European Union. The trillions of marks spent on reunification pushed German interest rates up, deepening recession in the rest of Western Europe[57]. German capital surged into Eastern Europe as well, and French and German firms relocated to Poland. In Poland, old urban industrial areas outside Warsaw were devastated[58].

Dot.com, Housing Bubbles Expand Fictitious Capital

The consequences of the 2000 dot.com crash were localized to some extent, though the "rational allocation of resources by free markets" resulted in the wiping out of $3 trillion in paper value, and 98% of all fiber optic cable laid during the euphoria would never be used. Just when George Bush Jr. seized power in fall 2000, everything was starting to

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54 In *The World Economy* (2 vols., 2006) (op. cit.) we learn (p. 25) that as of 1998, in 168 countries totaling one-third of the world's population, there has been no economic advance since 1980.

56 From 1985 to 1998, Russia suffered the worst demographic contraction ever recorded in peacetime, during which life expectancy fell one year per year from 65 to 52.

57 Unemployment (p. 133) in western Europe in 1994-1998 averaged 11%, higher than that of the 1930's, and had averaged 8-10% through the 80's and 90's as a whole.

58 Cf. David Ost, *The defeat of Solidarity: anger and politics in postcommunist Europe* (2005) for a portrait of some of these cities, which had provided the shock troops for Solidarnosc in 1980-81, after which the aspiring globalized yuppie class reaped the benefits, both in Poland and as expatriates.

turn down. Just as the first Iraq War had diverted attention from the deepening recession under Bush Sr., 9/11 did the same thing for Bush Jr. The U.S. went into recession from 2000 to 2003. This was the era of Enron[59] and World.com, further fallout of the "New Economy". The "dividend" from the high tech boom was over.

It was at this point that the housing bubble took over from the high tech bubble, promoted by the Fed as a new source of consumer spending. American workers with inadequate wages went deep into debt and began using their homes as collateral for more debt. "Securitized finance" –the packaging of income streams from mortgages and other assets and sold off to the unsuspecting with AAA ratings from obliging agencies—came into its own, culminating in the sub-prime mortgage frenzy, construction and housing sales of the last years of the boom[60]. Until 2008 it was the era of the "maxed-out American consumer", buying goods from Asia (increasingly from China). The resulting export boom in China prompted booms in all raw materials providers (Australia, Latin America, Africa). Millions of Mexicans, fleeing the post- 1982 and then post-NAFTA devastation of the Mexican economy, as indicated, worked in U.S. construction and meatpacking at minimum wage during the boom years. As is always the case in U.S. expansions since the 1950's, dollars held abroad began piling up from the chronic U.S. balance of payments deficit[61]. The dollar turned down in 2005, going from \$1=1.50 euros to \$1=0.75 euros by 2008.

This basic triangle of Asian imports to the U.S., drawing on raw materials from throughout the world and funded by increased domestic leveraging (as exemplified by the housing boom) in the U.S. and made possible by foreign lending, began to unravel in

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[59] Among many books on Enron, the paradigmatic corporate Ponzi scheme of the Goldilocks "New Economy", cf. B. McLean/P. Elkind. *The Smartest Guys in the Room*. (2003). Enron perfected the art of concealing debts "off balance sheet" while reporting inflated fictitious profits to boost the company's stock, which the top executives then secretly sold at their peak, inflicting billions in losses on shareholders, including Enron's own employees, who received a significant part of their compensation in Enron shares

[60] Cf. B. McLean/J. Nocera *All the Devils Are Here* (2010) for material on the sub-prime phenomenon. The expansion of housing in turn fed expansions in furniture and household appliances; it was estimated as the boom peaked that these sectors in concert accounted for 50% of all economic activity in the U.S., financed by foreign capital (above all European banks), which in turn was caught in the downdraft when the bust began.

[61] The U.S. Federal debt went from \$1 trillion to \$4 trillion between 1980 and 2000; the U.S., which had been a global creditor since World War I became a net international debtor in 1984; this net indebtedness (dollars held abroad minus U.S. overseas assets) is currently estimated at \$5 trillion.

2007[62]. It was the final phase of the U.S. as the "consumer of last resort" supporting the rest of the world economy, in exchange for its ever-increasing foreign indebtedness[63], going back to at least the 1970's. This should not, however, distract attention from the deeper problem of structural crisis, the need for a massive devalorization of the 1914-1945 variety (however different in specifics, which the entire history outlined here has attempted to sketch out). The "neo-liberal" era, as stated at the beginning, has amounted to four decades of pulverizing real living standards (V) and real fixed assets (C) on a world scale to shift value to surplus value (S), to prevent the massive "de-leveraging" whose possibility has haunted states since the early 1970's.

The Rise of China

The preceding overview would hardly be complete, to put it mildly, without some consideration of the rise of China.

Some skeptical analysts, stepping back from the euphoria around China's undisputed emergence, have pointed to the parallels with the similar euphoria around "Japan as No. 1", "Japan in the passing lane" of the 1980's. There are indeed important parallels: China's amassing of $1.4 trillion in dollars from trade with the U.S. recycled into U.S. Treasury bills; the constant skirmishing by U.S. politicians about China's supposedly overvalued currency; the flooding of the U.S. market with Chinese goods (as mentioned earlier); a huge buildup of unsold real estate, paralleling Japan's 1980's real estate asset inflation; the "zombie banks", carrying countless billions in non-performing loans to the state enterprise sector; China's serious dependency on imports of food, oil and raw

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[62] Westra, op. cit. p. 19: "prior to the recent meltdown the U.S. coveted approximately 70 per cent of all international financial flows to finance its deficit which constitutes over 1.5% of total global GDP."

[63] It should however be pointed out that some of the foreign exporters to the U.S. were themselves U.S. corporations, thereby blurring the picture somewhat. But more than 50% of foreign direct investment in China comes from Hong Kong, Taiwan, Singapore and Japan. The presence of some U.S. corporations did not affect the volatility of the total "dollar overhang", recycled into the financing of the U.S. government debt and its ability to further expand domestic credit. As mentioned above, the U.S. had in the 1970's (with Germany and Japan) and in the 1980's (with Japan) unilaterally devalued those foreign holdings; the possibility of a third devaluation of the $4 trillion held by China, Japan, South Korea and Taiwan was a major concern of the latter until the post-2008 revival of the "haven" status of the dollar put that concern on hold. According to Westra (op. cit.) p. 72, in the postwar expansion up to the early 1970's, "The "selling" of goods by affiliates of US NF (non-financial) MNC's (Multi-National Corporations) back to their home companies in the U.S. accounted for one- third of US imports." This did not save Japan from the 40% revaluation of its imports to the US following the 1971-73 breakdown of Bretton Woods.

materials; the progressive aging of the population. While not as dramatic as Japan's 75% stock market fall in 1990, the Chinese stock market has been drifting downward for the past four years.

In 1960 East Asia accounted for 5% of world GDP; today it accounts for 35%. Most of this growth took place in the post-1970/73 crisis period. How does this undeniable shift in world economic dynamism square with the broad analysis presented here, of forty years of crisis and devalorization? Although South Korea and Taiwan, two of the first "tigers" emerged and still exist under the U.S. military umbrella, China has long since surpassed the U.S. as their major trading partner and, as also with Japan, as a target for investment. Forty years ago, most Latin American countries were under the tutelage of the United States; today, they are increasingly looking to China, much as some Third World countries played off east and west during the Cold War. China is feeling the pressure of even lower-cost production in Vietnam and Bangladesh, but its overseas investments[64] and "soft loans" are offering some Third World countries, especially in Africa, a certain alternative to the rigors of the IMF and the World Bank[65].

In the midst of this, and alongside its "G-2" relationship with the U.S., China has established a special relationship with Germany, as a gateway to the EU[66]. This meshes

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[64] Chinese overseas investments prioritize access to raw materials, as in Canada (cf. Financial Times, 10/11/21), South Sudanese oil (FT 2/21/12) and Australia (FT, 6/25/12); the Chinese Development Bank lent Venezuela $20 billion in 2010 to secure oil shipments (FT 9/24/12). Chinese construction firms build in Africa and Asia, and increasingly look to the EU and U.S. markets (FT, 9/14/11); the infrastructure company Sinohydro has projects underway in 55 countries in Africa and South America (FT 1/4/12) and is moving into Europe (FT 1/21-22/12) as for example into UK utilities (FT, 7/18/11); the agribusiness company Cofco bought the Chateau Viaud vineyard in France (Financial Times 2/5-6/12); Chinese banks have lent $75 billion to Latin America since 2005 (FT, 2/16/12); Chinese exporters have tripled their market share in Africa since 2002 (FT, 3/27/12); China's trade with Africa was $150 billion in 2011, and hundreds of thousands of Chinese unemployed are setting up as traders there (FT 5/8/12); it is increasing investment in eastern Europe (FT 5/18/12); the State Administration for Foreign Exchange has $300 billion to invest, with a "determination to diversify its investments, especially away from U.S. government debt and the dollar." (FT 6/12/12). Last but not least, Chinese acquisitions of U.S. assets have already totaled $8 billion in 2012 (FT 8/23/12) and the Chinese Development Bank has $985 billion in assets and operations in 130 countries (FT 8/24/12).

[65] This move into Africa is not without its critics, such as South African president Jacob Zuma, who said in July (FT 7/20/12) that "Africa's past economic experience with Europe dictates a need to be cautious...". after China announced $20 billion in loans to the continent.

[66] See FT, 5/15/12

with a certain (classical) German geopolitical orientation to Russia and China, as a counterweight to U.S. influence in Europe[67]. German engineers and technicians are hired on a large scale by Chinese firms[68]. German trade unionists fly to Beijing to advise the Chinese government on a facelift of its repressive, state-controlled All-China Federation of Trade Unions. After its export model of growth hit a wall in 2008, China reflated, looking for a model of domestic consumption to replace it, and the German model of corporatism and a new integration of the working class may well fit the bill. Chinese think tanks study the rise of Germany as an "outlier" in the pre-1914 European balance of power, assuming that China occupies a similar position relative to the current U.S.-dominated world system[69].

But the analogy is false. Germany's rise took place in the ascendant period of capitalism, and even then, it had to be absorbed into a "North Atlantic bourgeoisie" through two world wars. We return to this problematic after sketching out the 2007-8 crisis.

World Market Meltdown

Space obviously does not permit a full account of the crisis here, but we will attempt a general outline. The first salvo was the liquidation, in March 2007, of a major sub-prime lender, New Century. This was followed, in June, by the bankruptcy of two sub-prime funds belonging to the global investment bank and securities trading and brokerage firm, Bear Stearns. In that summer, the total derivatives and counter-party contracts outstanding were estimated at $400 trillion. In March 2008, Bear Stearns in turn had to be saved by J.P. Morgan. The "structured investment vehicles" (SIVs) by which the banks keep debts "off balance sheet" were imploding. As deflation accelerated, the price of oil fell from $147 to $107 a barrel. On September 7, the U.S. government had to take control of Fannie Mae and Freddie Mac, the two giant quasi-governmental underwriters of mortgage debt. On September 14, the signature "credit event" of the crisis took place with the bankruptcy of Lehman Brothers, a 158-year old investment bank. An event of the same order took place in the U.K. with the near-collapse of another bank, Northern Rock. Merrill Lynch, still another venerable investment bank, had to be sold to the Bank of America. AIG, the colossal insurance company, which had ventured into the brave new world of derivatives, also had to be rescued. On September 28 and 29, the U.S. Congress, under intense pressure from government and financial circles, led by then-Secretary of the Treasury Hank Paulson, agreed to a $700 billion bailout of the "toxic" assets of Wall Street. J.P. Morgan agreed to take over Washington Mutual Bank, after $46 billion were written off the latter's balance sheet. Money markets were virtually frozen. The pension funds, heavily invested in Wall Street, had lost $2 trillion dollars in the previous fifteen months.

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[67] Germany in 1922 had already established the Rapallo treaty with the Soviet Union to break out of the isolation imposed by the Treaty of Versailles; Willy Brandt's early 1970's "Ostpolitik" moved (more mildly) in the same direction; Gerhard Schroeder, SPD Chancellor from 1999 to 2005, cultivated close ties with Putin to assure a steady flow of natural gas.

[68] FT 6/14/12.

[69] FT, 4/13 and 4/14/2010.

These were only the highlights of the eighteen months preceding the election of Barack Obama to the U.S. presidency at the beginning of November 2008. His government, which took power in January 2009, was highlighted by an economic team made up of former riff-raff from the Clinton era, including the Harvard economist Larry Summers and the head of the Federal Reserve Bank of New York, Tim Geithner. Obama brought the Wall Street CEOs to Washington and told them: "I'm the only thing between you and the pitchforks." He lost no time is showing the role he would play in restoring, in all its integrity, the neo-liberal agenda, by a "light" regulation of the very institutions which had (apparently) caused the crisis, after a reflation of further hundreds of billions of dollars in keeping with the futile Keynesian stratagem of "pushing on a string".

The events of 2007-2008, to date, were the culmination of the true trajectory of the "neo-liberal" agenda which took shape at the end of the 1970's. And yet, four years later, that agenda remains intact, barely concealed behind the flimsiest of ideological facelifts. The same government and central bank policies, on a colossal scale far beyond the first anti-deflationary actions in the late 1950s, are still in place, with the aim of preventing a deflation of the fictitious bubble generated by the real dynamic of S/(C+V.

China's Ruling Class Rides the Reformist Tiger

We return to and conclude, then, with a brief analysis of the geopolitical confrontation of the 21st century: the U.S., and secondarily the West as a whole, with China and the new Asian capitalism, a confrontation which has the same potential to unleash the permanent revolution "crossover" of 1848 and 1917 as theorized by Marx for 1848 and by Parvus-Trotsky for 1905-1917[70]: a working class revolution in the "mature" (in fact, overripe) capitalist heartland linking up with the emerging working class in the rising "peripheral" "weak link" power: Germany in 1848, Russia in 1917, China in some (hopefully) not too distant future. The U.S.-China imbroglio in East Asia is one in which we move from "economics" to the *political* in the critique of political economy.

Rose-tinted analyses of the "rise of Asia", of the "shift of power from west to east", overlook a few inconvenient realities. First, perhaps foremost, Japan succeeded in establishing itself as an industrial (and imperialist) power before the first mass devalorization period of 1914-1945, or the "decadent" phase of capitalism on a world scale. Its statist development after 1868 has been the model for all subsequent "tigers",

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[70] Marx uses the term "permanent revolution" in the 1850 *Address to the Communist League*. The term refers to the role of the working class in a country where the national bourgeoisie (Germany in 1848, Russia in 1905 and 1917) is too weak to fight the ancien regime without enlisting the support of the working class, the "Fourth Estate". Hence the possibility of the working class going beyond the confines of bourgeois demands and making the revolution "permanent". Trotsky and Parvus deepened the theory in applying it to Russia, well before Trotsky proclaimed himself a Bolshevik in 1917; in my view, it constitutes his most important contribution to Marxism and can be separated from his later Bolshevism, particularly since prior to 1905 he had already uncannily foreseen the authoritarian trajectory of Bolshevism in his prescient and little-read critiques of Lenin in *Report of the Siberian Delegation* (1903) and *Our Tasks* (1904).

and now for China[71]. While it has been an imperialist power in its own right since its 1895 military defeat of China, it has never since 1945 freed itself from the tutelage of the United States, and with the recent rise of China, still less so. South Korea and Taiwan are the sole former Third World countries to have crossed the threshold to mature industrial capitalism since 1914. They did so first, as Japanese colonies before 1945, bringing a certain industrialization and second, under U.S. auspices since 1945, where agrarian reform, essential to industrial "takeoff", was permitted and encouraged by the U.S. as a "showcase" counter-weight to North Korea and to China after the revolution in 1949 (the U.S. opposed serious agrarian reform virtually everywhere else in the Third World).

However embroiled in the Chinese economy today, neither Taiwan nor South Korea are in a position to escape from U.S. political and military dominance; indeed, South Korea has just (September 2012) finalized a Free Trade Agreement with the U.S. which will do to Korean agriculture what NAFTA did to Mexico. The case of the "red hereditary monarchy" North Korea, which directly involves South Korea, the U.S., Japan, Russia and China, threatening the latter five countries with a reunification which none of them (for different reasons) want, constitutes, along with the unresolved status of Taiwan, two levers with which the U.S. can keep East Asia off balance. Finally, the depth of nationalism in East Asia, a problem Europe overcame, provisionally, through two world wars, to date precludes any serious regional economic integration that could pose a more unified threat to U.S. dominance.

It is the timing of the crisis in the West in the 1970's with the takeoff of the "tigers" and then, after 1978, of China, which shows the tremendous growth in East Asia as an *expression* of one single world crisis. The flood of cheap consumer goods from Asia, first from South Korea and Taiwan, and then from China, softened the decline of V (variable capital) in the U.S. and Europe: wage austerity in the latter was partially compensated by cheapened production in the former.[72]The needs of the Chinese state bureaucracy, exhausted by a decade of "Cultural Revolution", meshed perfectly with the needs of a Western capitalism having exhausted the accumulation pattern, based on relative surplus value, of the postwar boom.

Let us then look more closely at how the dynamic of permanent revolution applies to China today. Is China today a "weak link" in world accumulation, in the way that Germany was in 1848 and Russia was in 1905-1917?

The theory of permanent revolution was first of all, as indicated, the problematic

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[71] See my text on Asian capitalist development 1868-1930 on the Break Their Haughty Power web site: http://home.earthlink.net/~lrgoldner/asiamarx.html

[72] This convergence is most concisely stated in the excellent book of Bruno Astarian, *Luttes de classes dans la Chine des reformes (1978-2009)* (2009), especially pp. 147-152.

whereby the attempt of the bourgeoisie in an "emerging" country to undertake or complete the bourgeois revolution necessarily sets in motion the attempt of the working class to fight for its own demands, and ultimately for the socialist revolution. The completion of the bourgeois revolution in the full sense of the term is also the solution to the agrarian question, meaning the destruction of pre-capitalist social relationships in the countryside, land to the peasants, and ultimately, in the conditions of the real domination of capital, the radical reduction of the percentage of the population working in agriculture by the emergence of modernized agriculture, as occurred in the U.S. and Europe after World War II[73]. This must be seen as a global problematic, with the world's rural population having only recently dropped below 50%.

It is no secret that China, since 2008, is at crossroads, where its ruling class can no longer rule as before, and to survive must take the leap in the dark of a major reform and restructuring of the economy and with it, of society more generally. The export model, as sketched above, which served it so well for three decades, is broken, in the context of the world crisis. The legitimacy of the regime has depended on steady 8-10% annual growth and the jobs and rising incomes such growth provided, whatever the social costs in infernal working hours and conditions, and the environmental destruction, it entailed. The Western powers as well, through their NGOs and the Hong Kong-based labor scene, know quite as well as the regime that the latter must, if not exactly "change everything so everything can remain the same", embark on a major gamble that can staunch the rising tide of opposition, above all represented by an increasingly militant working class, whose centrality to the social "equation" has now became a banality in mainstream opinion in China itself[74]. (The American New Deal of the 1930's, not in programmatic content but as a template, was one example of such a gamble; Russia under Gorbachev was another such gamble, albeit one that failed.) One is reminded of Tocqueville's remark that the most dangerous moment for an oppressive government is when it attempts to reform itself. Already the recent events in Wukan rank as an important, and apparently successful experiment[75] in integrating deep democratic discontent into a reformed status

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[73] See my pamphlet "Communism is the Material Human Community: Amadeo Bordiga Today"., http://home.earthlink.net/~lrgoldner/bordiga.html . The U.S. population directly engaged in agriculture by the 1960's was 3-4% of the active population; western Europe and Japan emptied their country-sides slightly later.

[74] Already in 2003, the U.S. State Department and the AFL-CIO held a conference in Washington on the future of Chinese labor, naturally attended by various Chinese candidates for a future role of "Lech Walesa" such as Han Dongfang.)

[75] In the village of Wukan, what began in September 2011 as a typical "incident" over a land grab by party official evolved into an armed standoff with 1000 armed personnel surrounding and blockading the village, in a permanent uproar after one of the delegates of the movement died in police custody. Finally, the CCP authorized a special democratic

quo.

Along with its unprecedented growth rates over three decades, China has developed a significant "middle class" which has till now been content to accept the "contract" of apolitical quietism in exchange for higher levels of consumption and upward mobility (however much such mobility is linked to a dog-eat-dog level of competition for jobs among the millions of technically-trained students emerging from China's universities every year). This "middle class" is the basis of a growing would-be "civil society" and a space of criticism through the new social media that the regime never before had to confront. Environmental disasters, corruption at every level, the regime's attempts to finesse such high-level scandals as the fall of Bo Ji Lai or the 2011 wreck of China's high speed train and subsequent attempts at cover- up, are all objects of the scrutiny and commentary of "netizens" which cannot be simply crushed or ignored, however much the older methods are still in use. As was the case in, for example, Egypt in 2011, this electronically-savvy "middle class" can potentially play a role in any coming "regime change", even if (as in Egypt) is can hardly come to power on its own.

This is where the dynamic of "permanent revolution" comes into play. The Chinese ruling class--apparently the entire new central committee of the CCP consists of billionaires--carefully studied the collapse of the Soviet bloc. The prospect of a Chinese "Solidarnosc" is widely held up as a model in the underground labor milieu (although only Solidarnosc of the early, 1980-81 period, with little consideration of what happened after 1989), and, in ruling circles, as a model to be avoided at all costs. The 1989 events in Tien An Minh more than anything alerted the regime to the fact that it was "riding the tiger"[76].

Nevertheless, it confronts a dilemma not unlike the one which the Soviet and East European Stalinists failed to finesse: it wishes to complete the transition to full membership in the capitalist world market, but at the same time its own bureaucratic form of rule is the main obstacle to such a transition. It knows full well that it could be swept away in the torrent just as Gorbachev et al. were. Unlike the post-1985 Soviet Union, however, China for decades after 1978 could offer world capital a decently educated, skilled and very cheap work force, still very much in the process of moving from agriculture to industry and urban life.

A fundamental reason for the CCP's dilemma is that many aspects of the old system are

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election of local officials, hoping to gradually wear down the movement and co-opt it as a one-off experiment.

[76] Tien An Minh, further, was anything but a mere "student" uprising, with street fighting and the destruction of tanks throughout the capital, as well as confrontations in other parts of the country. It is well known that the "students"—the children of the party elite— were allowed to leave the square before the People's Liberation Army opened fire on the increasingly working-class crowd that had joined the demonstration.

still in place. Shanghai may long to join, or even supplant, New York and London as a world financial center, but has none of the depth required to be one. The renminbi is nowhere near being able to play the role of an international reserve currency. Capital flows in and out of the country are still regulated, a regulation that served China well during the 1997-98 Asian meltdown, when countries (South Korea, Thailand, Indonesia) which had dispensed with capital controls were devastated while China was untouched. The state still can maintain the "zombie banks", with huge balance sheets of uncollectible debt, by government fiat. Corruption is endemic and reaches the highest levels. The state-controlled All-China Federation of Trade Unions (ACFTU) must be converted to something along Western lines to retain credibility[77].

The rise of China has been and will continue to be a useful alibi for Western and above all U.S. capital as it goes into the next phase of the post-2008 crisis. Different eruptions of xenophobia and calls for protectionism from both government and union officials appear with every electoral cycle in the U.S. Japan has claimed the Diaoyu Islands, setting off a wave of anti-Japanese riots in China; nine powers lay claims to potential oil discoveries under the South China Sea[78], and Vietnam has given the U.S. navy the use of Da Nang harbor, built by the U.S. during the Vietnam war. Even while the U.S. defense budget is eight times larger than that of the next ten powers combined, the Pentagon denounces every sign of increased Chinese military prowess, such as the recent launching of its first aircraft carrier. The announced American "pivot to Asia" is a further realignment of priorities.

Yet China, with 100,000+ plus "incidents" a year of riots, land disputes between peasants and party officials, not to mention the impressive strikes of 2010, is a powder keg. The regime's legitimacy ever since 1978 has rested on delivering 8-10% annual economic growth and the resulting jobs and rising incomes. It may attempt to implement an updated, "German" corporatist model of free unions and enterprise committees, combined with increased domestic consumption to substitute for declining exports, but the obstacles and risks are great.

Meanwhile, the depth of the crisis in the West has, after decades of rollback, increasingly the proletariat in Greece, Italy, Spain, Portugal, France and even the U.S. is doing what "it is compelled to do" (Marx) by crisis conditions.

When this deepening ferment in the West meets a similar ferment in China, the linkups that failed in 1848 and 1917 (the latter being the turning point of history when history

[77] In early February of this year, a step was taken in this direction with the decision to allow the 1.2 million workers of the Taiwanese giant FoxConn to elect their own union representatives.
[78] These countries include Vietnam, the Philippines, Taiwan, Brunei, Malaysia and China.

didn’t turn, as CLR James put it) may “turn the world upside down” far more than the “bourgeois revolution with red flags” of 1949 ever did.