

## Notes on the political and economic crisis of the world capitalist system and the perspective and tasks of the Socialist Equality Party

By David North  
11 January 2008

*The following report was given by David North, national secretary of the SEP, at a national aggregate meeting held January 5-6 in Ann Arbor, Michigan.*

1. 2008 will be characterized by a significant intensification of the economic and political crisis of the world capitalist system. The turbulence in world financial markets is the expression of not merely a conjunctural downturn, but rather a profound systemic disorder which is already destabilizing international politics. As always, the weakest links in the chain of imperialist geo-politics are the first to break. The assassination of Benazir Bhutto in Pakistan, the eruptions of civil wars in the Congo and Kenya, and the renewed tension in the Balkans over Kosovo are indicative of the increasingly explosive state of world politics.

2. Sixteen years after the dissolution of the Soviet Union, an event which supposedly signaled the definitive and irreversible triumph of global capitalism, the world economy is in shambles. The bursting of the housing market bubble in the United States, which had been fueled by uncontrolled speculative investments in sub-prime mortgages, has resulted in global losses of hundreds of billions of dollars for international banks and other financial institutions. The murky alphabet soup of financial instruments—i.e., SIVs (structured investment vehicles), CDOs (collateralized debt obligations), etc.—had been devised to “securitize” sub-prime mortgages, conceal their dubious character, and spread risk among a large number of institutions. The result is an international financial crisis which, in the words of one analyst, has called into question the viability and legitimacy of the Anglo-American system of capitalism. The *Financial Times* writes that “faith in 21st century financial innovation has since evaporated. The events of last year showed with brutal clarity that risk dispersal does not always prevent financial shocks, but may fuel contagion instead...” (January 2, 2008)

3. That the present economic situation is extremely serious is no longer a matter for debate among informed bourgeois analysts. The most astute and honest among them acknowledge that there is still insufficient data about the extent of financial losses and their impact upon broader sectors of the American and world economy to make firm predictions about the consequences of the still unfolding crisis. The “credit crunch” which developed in the summer of 2007 remains a major threat to the functioning of the world capitalist economy. With the realization that billions of dollars in assets must be written off as unrecoverable losses, the mutual confidence of financial institutions in each other’s solvency has been gravely undermined. Moreover, it is widely assumed that the same sort of lending practices that created the housing bubble were applied in other sectors of the US economy. There is growing fear that a US recession may expose the recklessness in corporate lending. But in this tense situation, initial hopes that the impact of the collapse in housing prices on the broader American economy will be contained are rapidly dissipating. “America has entered 2008,” writes the *Financial Times*, “in greater danger of recession than at any stage since the collapse of the internet bubble in 2000-01, as the world’s largest economy struggles to maintain growth in the face of the credit squeeze, a housing slide and high oil prices.” (January 2, 2008)

4. Another major economic study concludes: “So far as the credit crunch goes, there seems to be widespread agreement that, taking everything together, the present crisis is already more serious than any other that has occurred before in modern times. Major banks and their financial institutions are still, almost daily, revealing huge losses as a

result of imprudent lending. House prices are falling. And there is a general sense that some further deterioration is in prospect, particularly as many more sub-prime borrowers [and some others who obtained (misnamed) ‘interest only’ loans or loans with enticing ‘teaser’ rates of interest] are going to come under increased pressure as the initial rates they have paid get raised over the coming year.” [*Strategic Analysis*, November 2007, Levy Institute of Bard College, p. 9]

5. A crisis of the US economy has direct and immediate global implications. The International Monetary Fund warns that “risks to domestic demand in western Europe and Japan have now shifted to the downside” as a result of the “contagion” emanating from the United States. (*World Economic Outlook*, October 2007, p. 11) Also, the IMF anticipates that “continuing turbulence in global financial markets could disrupt financial flows to emerging markets and trigger problems in domestic markets... [G]rowth [in Asia and Latin America] would be vulnerable to spillover effects from slower aggregate demand growth in the advanced economies...” [ibid., p. 19]

6. Within the United States, the crisis in the housing industry is, first and foremost, a social disaster for millions of working- and middle-class families. It is expected that at least one million families will lose their homes due to foreclosures during the next two years. Millions more who are not immediately threatened with foreclosure are being seriously affected by the crisis. In many parts of the country housing prices are expected to fall by 25 percent or more. Declines of this magnitude must have a devastating impact on the personal finances of working class families. It is well known that home equity loans have played a crucial role in supplementing the wages or salaries of working- and middle-class families. These loans have been used to finance education for children, pay medical bills and meet other pressing needs. This source of additional income will no longer be available for millions of people.

7. Thus, the collapse of housing prices deprives the broad mass of working Americans of one of the principal means by which they have sought to counteract the financial burdens created by three-and-a-half decades of wage stagnation. The income of a male worker in his 30s is now 12 percent below that of a worker the same age in 1978. As former Labor Secretary Robert Reich has noted, the “coping mechanisms” that have been employed to deal with wage deflation have been the massive movement of women into the work force (from 38 percent in 1970 to 70 percent today), and the addition of two weeks to the annual work load. Americans work 350 hours longer per year than the average European. By the turn of the 21st century, when workers reached the physical limit of their ability to make money by working, they began to depend more and more on borrowing, using their homes as collateral. As this means of bridging the ever-wider chasm between income and needs disappears, millions are faced with the specter of falling into the financial abyss. Already, during the first half of 2007, personal bankruptcies in the United States increased by 48 percent. The extent to which workers are stretched financially to the limit is exposed by the fact that 27 million workers will have to borrow money this winter simply to pay their heating bills. But the use of credit cards is becoming just as problematic as home equity loans. As all the traditional and individualistic means for coping with prevailing economic realities recede, the working class is forced to turn to the only means by which it can defend itself—that of collective and conscious social and political struggle against the capitalist system.

8. The revolutionary character and consequences of the struggle of the working class are determined above all by the objective nature of the crisis of the global capitalist system. As stated previously, the expanding crisis is of a systemic character. For the third time in a decade, the world economy has been shaken by the collapse of a bubble that had

---

been created by massive financial speculation. The East Asian financial crisis, which erupted in the summer of 1997, engulfed the economies of Thailand, Malaysia, Indonesia, South Korea, the Philippines and Singapore, and came close to triggering an international financial meltdown. This was prevented by massive counter-measures by the International Monetary Fund, which funded country-wide bailouts to the tune of billions of dollars to prevent a series of cataclysmic national defaults. The vulnerability of the US equity markets to the Asian crisis was reflected in the upheavals on Wall Street. On just one day, October 27, 1997, the Dow Jones average fell 554 points (7.2 percent) in response to turmoil on Asian currency markets. Subsequent efforts to stabilize Wall Street, particularly with low interest rates, further inflated the investment bubble that had begun to develop in the mid-1990s. By 2000, the unsustainable character of the “dot.com” craze, characterized by “irrational exuberance,” had become all too clear. The bubble burst, and the subsequent crash led to the first recession in a decade. Again, the response of the Federal Reserve was to lower interest rates to their lowest levels in decades and flood the economy with liquidity. The means employed to contain the bursting of the dot.com bubble set the stage for the frenzied speculation in the US housing market. The highly speculative character of the housing market was widely recognized, but financial policy makers believed that its continued growth, however dubious in nature, was required in order to prevent a relapse into recession. As noted by the Levy Economics Institute, “The rise in personal expenditure, on which continuous growth of the US economy largely depended after 2001, was directly and indirectly caused by the hysterical boom in the housing market.” [*Strategic Analysis, November 2007, p. 7*]

9. The persistent tendency toward the creation of speculative bubbles arises out of deep-rooted contradictions in the development of the world capitalist system, especially bound up with the historical decline in the global position of American capitalism. The long-term decline in the profitability of US-based industry has propelled the drive by American financial institutions for alternative sources of high returns on investment. The mode of existence of the American ruling elite has been characterized for the last 30 years by the ever-wider separation of the process of wealth accumulation from the processes of industrial production. The latter is of interest to the ruling elite only where the availability of cheap labor provides the possibility of realizing a rate of profit large enough to satisfy its demand for ultra-high levels of personal enrichment.

10. The parasitic character of the American ruling elite is inextricably bound up with the extreme intensification of militarism. In the final analysis, the wars in Iraq and Afghanistan—while exploiting the events of 9/11 as a pretext—grew out of the drive by the American ruling class to maintain the hegemonic global position of the United States. The doctrine of preventive war, unveiled by the Bush administration in 2002, remains in place. The geo-political and economic challenges posed by existent or emerging rivals are to be counteracted through the exercise of military power. The setbacks suffered in Iraq, far from diminishing the aggressive impulses of US imperialism, have created new imperatives for the deployment of US power. The threats against Iran have escalated in response to the fragility of the American position in Iraq.

11. As for the war in Iraq, the slight abatement of violence in Iraq does not mean that Bush’s “surge” has been successful, let alone that the war is drawing to a close. To a certain extent, the temporary decline in violence reflects the degree to which “ethnic cleansing” of neighborhoods—the product of the US invasion—has been carried out. There is also the effect of the massive loss of life that has already been suffered in Iraq. But the outcome of the US invasion has been a tremendous intensification of the social and political contradictions within the country and region. The escalating conflict between Turkey and Iraqi Kurds threatens to break out at any time into full-scale war. At any rate, there exists—apart from the development of a powerful anti-war movement of the American and international working class—no prospect for the withdrawal of US troops in the foreseeable future. As writer Nir Rosen observed in a recent article in the journal *Current History*, “The

US surge is merely a way to kick the problem of Iraq down to the next administration, but the truth is that American soldiers will never leave Iraq. The large bases in Anbar province, such as Al Assad and Taqadum, are built to last—‘an enduring presence,’ as one Marine officer told me. Located in the remote desert, virtually impregnable and only occasionally targeted by mortars, these bases will remain for decades.” [December 2007, p. 413]

12. During the five years since the invasion of Iraq, the strategic position of the United States has deteriorated. Particularly in Central Asia, whose domination is considered by Washington to be essential to the project of global hegemony, the United States is confronted with a more challenging environment. The revival of Russian influence in the region and the continuing economic expansion of China and India are seen as a potential constraint on the imperial ambitions of the United States.

13. For the strategists of American imperialism, the issue of China looms ever larger. The unabated growth of China’s economic strength—which must assume an ever more overt military form—is widely seen as incompatible with the global interests of the United States. The recent formation of the new American military center for Africa—AFRICOM—is a direct response to steadily expanding Chinese influence on that continent. But the conflict between China and the United States for influence in East Asia is fraught with even greater and more immediate tension. As foreign policy expert Christopher Layne has written: “If the United States tries to maintain its current dominance in East Asia, Sino-American conflict is virtually certain, because US grand strategy has incorporated the logic of anticipatory violence as an instrument for maintaining American primacy. For a declining hegemon, ‘strangling the baby in the crib’ by attacking a rising challenger preventively—that is, while the hegemon still holds the upper hand militarily—has always been a tempting strategic option.” [*Current History, January 2008, pp. 16-17*]

14. The drive toward war arises inexorably out of the global geo-political interests and ambitions of the American bourgeoisie. It is also a product of the increasingly malignant state of social relations within the United States. The staggering growth in the levels of economic inequality over the past three decades signifies the build-up of extreme social tensions beneath the surface of official political life and outside the channels of media-sanctioned public discourse. Imperialist militarism is among the most important political instruments employed by the ruling elites to prevent social tensions from assuming the form of domestic class conflict.

15. Recent studies by Edward N. Wolff of the Levy Economics Institute of Bard College document the extreme levels of social inequality in the United States. The statistics relating to the allocation of wealth and income reveal the extraordinary degree of social stratification. The top 1.0 percent of the population holds 34.3 percent of the net worth of households in the USA. The next 4.0 percent holds 24.6 percent, and the next 5.0 percent holds 12.3 percent. All in all, the richest 10 percent of the population holds just about 71 percent of the national household wealth. The next 10 percent holds just 13.4 percent of the wealth. The bottom 80 percent of American households accounts for just 15.3 percent of wealth. Those who fall in the third quintile own just 3.8 percent of the wealth. The bottom 40 percent of households possesses just 0.2 percent of wealth!

16. When non-home wealth is considered, the stratification is even greater. The top 1.0 percent of households owns 42.2 percent of non-home wealth. The top 10 percent owns just under 80 percent of non-home wealth. The bottom 80 percent owns 7.5 percent of non-home wealth. The poorest 40 percent report a -1.1 percent of non-home wealth.

17. Measuring income, the top 1.0 percent receives 20 percent of the total. The top 10 percent receives 45 percent of total income. The bottom 80 percent receives 41.4 percent. The poorest 40 percent accounts for just 10.1 percent of income.

18. Another extremely interesting set of statistics relates to the financial condition of households falling within the middle three quintiles

---

(80-60, 60-40, 40-20). Their homes account for 66.1 percent of their personal wealth. Liquid assets account for only 8.5 percent of their wealth. Investment instruments (stocks, securities, trusts, etc.) account for only 4.2 percent. These figures make all too clear the extent to which the financial position of the middle three quintiles depends upon home valuation and the general condition of the housing market.

19. This fact makes all the more significant the sharp rise in the indebtedness of these sections of the working class and middle class. In 1983, the debt to equity ratio of these sections was 37.4 percent. By 2004, it had risen to 61.6 percent. In 1983, the debt to income ratio was 66.9 percent. In 2004, it had risen to 141.2 percent! In 1983, the mortgage debt on the homes of these three quintiles was 28.8 percent of house value. By 2004, the debt level had risen to 47.6 percent.

20. One last set of statistics: In 2004, according to Wolff, “the richest 1 percent of households held about half of all outstanding stock, financial securities, trust equity, and business equity. The top 10 percent of families as a group accounted for about 80 to 85 percent of stock shares, bonds, trusts, business equity, and non-home real estate. Moreover, despite the fact that 49 percent of households owned stock shares either directly or indirectly through mutual funds, trusts or various pension accounts, the richest 10 percent of households accounted for 79 percent of the total value of these stocks, only slightly less than its 85 percent of directly owned stocks and mutual funds.” [“Rising Trends in Household Wealth in the United States: Rising Debt and the Middle-Class Squeeze,” June 2007, p. 25]

21. What are the political implications of these statistics? The extreme stratification of American society over the last three decades is rapidly approaching the point of open and violent class conflict. The sclerotic American political system, administered by two political parties that serve as instruments for the implementation of the interests of the ruling plutocracy, is organically incapable of responding in any sort of credible, let alone progressive, manner to the demands of the people for significant social change. In the final analysis, the demand for social change, even of a reformist character, runs up against the unyielding determination of the ruling elite to defend its wealth and social privileges.

22. The stolen election of 2000—as the SEP and the *World Socialist Web Site* warned at the time—represented a historical milestone in the degeneration of American democracy. The willingness of the Democratic Party to accept the theft of the election demonstrated that no substantial section of the American capitalist class retained a compelling interest in the defense of the traditional institutions of bourgeois democracy. All that has occurred since the election has substantiated that judgment. The wholesale violations of democratic and constitutional principles carried out under the cover of the post-9/11 “war on terror”—in which both the Democrats and Republicans are complicit—represent ever more brazen preparations for dictatorial forms of class rule. These are not aberrations, but arise out of a deepening social polarization that is ultimately incompatible with the maintenance of the traditional forms of American democracy. It should be taken as a warning that the procedure of “enhanced interrogation”—i.e., torture—is an English translation of a procedure that Hitler’s Gestapo called “verschärfte Vernehmung.”

23. Regardless of who is ultimately nominated by the bourgeois parties and elected president, the logic of social and political developments is leading inexorably toward an intensification of class conflict. Moreover, the protracted deterioration in the social position and living standards of the working class, its ever-decreasing share of the wealth of society, and the unrelenting intensification of its exploitation by those who own and control the means of production have laid the foundations for a profound change in the political orientation and allegiances of the working class. Those who fail to see or who even deny that the profound changes in economic life over the past 30 years have left deep marks in the social consciousness of the American working class expose not only their demoralized skepticism, but also their ignorance of history. Indeed, the absence of open social and class conflict during the past quarter century stands in sharp contradiction to the general pattern of American history.

But this prolonged period of social quiescence, rooted in a complex and exceptional interaction of national and, above all, *international* economic and political processes, is now drawing to a close. The central task of the Socialist Equality Party in 2008 is to prepare in all aspects of its work— theoretical, political and organizational—to meet the challenges posed by the eruption of class conflict.

24. A critical element of this preparation is the review of the lessons of past periods of revolutionary upheaval. This year marks the fortieth anniversary of 1968, a year that was characterized by explosive struggles internationally and in the United States. The events of that year set into motion a protracted period of international revolutionary struggle and intense class conflict within the United States. Significantly, the political eruptions of 1968 were first anticipated and then developed against the backdrop of increased strains in the world economy. The devaluation of the British pound in November 1967, followed by the March 1968 instability in the European gold market, presaged the 1971 breakdown of the Bretton Woods system upon which the post-World War II reconstruction of international capitalism and the dominant role of the United States was based.

25. Let us briefly review the main events of that year: In late January, the government of North Vietnam launched its historic “Tet Offensive,” which utterly discredited the claims of the Johnson administration and the Pentagon that the United States was winning the war. Secretary of Defense Robert McNamara resigned and a ferocious internal struggle erupted within the administration over its Vietnam policy. Also in January, the arch-Stalinist Antonin Novotny was replaced as premier of Czechoslovakia by Alexander Dubcek, setting in motion what was to become known as the “Prague Spring.” In February, Lyndon Johnson narrowly defeated Sen. Eugene McCarthy in the New Hampshire primary, an outcome that was interpreted as a major political defeat for the incumbent president. In March, Sen. Robert Kennedy announced that he would challenge Johnson for the nomination. Two weeks later, Johnson announced both his willingness to enter into peace talks with North Vietnam and his decision not to seek renomination. On April 4, Martin Luther King was assassinated in Memphis and riots erupted in cities throughout the United States. In May, the violent suppression of student protests at Paris’ Sorbonne University led to a general strike of the French working class that paralyzed the DeGaulle government and brought the country to the very brink of social revolution. On June 5, Sen. Robert Kennedy was assassinated in Los Angeles. In August, the Democratic convention in Chicago was besieged by anti-war protests, which Mayor Richard Daley sought to suppress with police violence. During the same week, Soviet tanks entered Czechoslovakia and restored hard-line Stalinist control. In November, Richard Nixon was elected president.

26. The events of 1968 marked only the beginning of a massive upsurge of global class struggle, which persisted for nearly a decade. On every continent mass struggle was the rule, not the exception. The most significant feature of that period was the parallel development of revolutionary movements in both the less developed and advanced capitalist countries. Pre-revolutionary or revolutionary conditions arose in Bolivia, Chile, Argentina, Italy, France, Britain, Portugal, Greece, and Spain. Within the United States, the dominant force in social struggles during that period was not the students, but the working class. With the exception of 1973 and 1976, the number of workers involved in major strikes never fell below one million between the years 1967 and 1979. In 1970 and 1971, the number of workers involved in strikes was 2.4 million and 2.5 million respectively. In Britain, the strike of coal miners in 1973-74 forced the resignation of the Conservative government of Edward Heath.

27. What then accounted for the survival of the capitalist system during this period of tumultuous social struggles? On the political front, the principal reason for the survival of capitalism is to be found in the counter-revolutionary policies of the Stalinist and social democratic governments, parties and trade union bureaucracies, which did everything in their power to sabotage the revolutionary struggles of the working class.

---

---

Moreover, the Pabloite parties and organizations, which had in the 1950s and early 1960s broken with the Fourth International, played a destructive role in covering up for the political treachery of the Stalinists and social democrats and channeling mass struggles into politically impotent protests. In this project, the Pabloites worked arm-in-arm with the organizations of the so-called New Left, whose defining characteristics were disdain for the working class, indifference toward the lessons of history, hostility toward Marxist theory, and bitter hatred of Trotskyism.

28. The political treachery of these forces was abetted by substantial objective factors, of which the most significant was the still-dominant world position of American capitalism. The dollar functioned as the linchpin of the world capitalist economy, convertible into gold at the rate of \$35 per ounce. But politically and economically, the world of 2008 is vastly different than that which existed 40 years ago. The world's principal creditor has become its most indebted nation. The US dollar, whose value on international markets is only a fraction of what it was during the era of Bretton Woods, has lost virtually all credibility as a world reserve currency. Its displacement by the euro or a "basket" of international currencies, a development which is all but inevitable, will only confirm what is already apparent—that the era of the global dominance of American capitalism has come to an end. Moreover, the extraordinary technological changes that underlie the processes known as "globalization" are profoundly revolutionary in their implications. The last three decades have witnessed an immense world-wide expansion in the forces of the international working class. Its social power and potential ability to reorganize the world economy along socialist lines—that is, for the consciously directed purpose of ending poverty and exploitation and serving the needs of humanity—is greater than in any previous period of history.

29. The Socialist Equality Party, in political solidarity with the International Committee of the Fourth International, anticipates with confidence the resurgence of working class struggles. We are convinced that the objective crisis of the capitalist system will provide the impulse for the upsurge of the American and international working class. But the coming upsurge will not automatically solve the problems of developing socialist consciousness.

30. As the initial struggles of the working class in recent months demonstrate, there remains an enormous gulf between the objectively revolutionary implications of the crisis and the present level of political consciousness. Objective conditions will propel the working class into struggle and create the conditions for an immense leap in consciousness. But it would be a mistake to underestimate the degree of struggle that

must be conducted by the party to raise the political consciousness of the working class and overcome the reactionary influence of the bureaucracies, which, while weakened, remain a dangerous and critical prop of capitalist rule. Nor can we ignore the role played by myriad "radical" petty-bourgeois tendencies, which persistently seek to disorient the working class and maintain its subordination to "progressive" sections of the bourgeoisie. The influence of all these different political agencies of the ruling class can be overcome only by fighting for the assimilation of the strategic experiences of past revolutionary struggles and for an understanding of the implications of the developing crisis of world capitalism.

31. During 2008, the Socialist Equality Party will undertake a politically-ambitious campaign to expand its influence within the working class and among youth. This campaign will include:

(a) The participation of the SEP in the 2008 elections with its own candidates in as many states as possible. The purpose of this campaign will be to develop the political consciousness of the working class and its understanding of the program of international socialism, to hasten its political break with the parties of the capitalist class, to fight against poverty, exploitation and all forms of social inequality, to build opposition to American militarism and imperialism, and to recruit new forces into the Socialist Equality Party.

(b) The development, in conjunction with our political co-thinkers in the International Committee, of the *World Socialist Web Site*. This will include a major redesign of the web site to improve readability and make the most effective use possible of modern web technologies. The WSWS will also introduce editorial changes that will strengthen its political, cultural and theoretical content. The goal of all these changes is to expand the readership and political influence of the web site as an instrument of socialist thought and action.

(c) The International Students for Social Equality (ISSE), the student youth movement affiliated with the SEP, will expand its work on campuses throughout the United States. Combined with the efforts of our political co-thinkers in the International Committee, we will strive to develop the ISSE as a genuinely international movement fighting for the political unity and solidarity of youth and workers throughout the world.

32. We appeal to all SEP members to fight on the basis of the perspective outlined in this report for the expansion of the work of the party in 2008. At the same time, the entire SEP membership calls upon the readers and supporters of the *World Socialist Web Site* to recognize the urgency of the political and economic crisis of American and world capitalism and join with us in the fight for socialism.