Military Resistance 11E16

Capitalism's Long Crisis:

"In The Current Depression, No Traditional Solution Has Yet Worked"

"We Are Now Entering The Sixth Year Of The International Economic Crisis"

"A Second Global Recession, When It Comes, Is Potentially More Dangerous Than The First Recession And Collapse"

"A second global recession, when it comes, is potentially more dangerous than the first recession and collapse.

"It will begin, unlike the first, with mass unemployment, already-destroyed working-class savings and reserves, austerity measures that have cut working-class living standards severely in some places, a weak international banking system, a sovereign debt crisis and potential defaults, and the inability to cut interest rates further.

"In short, it will begin from a worse position than the previous crisis and will come at a point when the effectiveness of many of the tools previously used to stabilize the system will have already been exhausted."

By Joel Geier; March- April 2013 International Socialist Review. [Boldface emphasis, graphics & subtitles added to original. T]

We are now entering the sixth year of the international economic crisis.

Despite the prospects that this year economic conditions will improve over last year, we should continue to characterize the crisis as a contained, systemic depression of world capitalism — contained in that there has not been a 1930s-style collapse (with the exception of Greece, and the still-partial collapses in Spain and Portugal); systemic in that it includes all aspects of capitalism (production, exchange, finance, international trade, accumulation, and the self-expansion of capital); and an ongoing small-d depression in the sense of a long-term period of crisis marked by weak growth and the threat of further economic decline.

Despite four years of anemic recovery, there is still no solution or exit on the horizon from depression conditions in the economy, unemployment, living standards; and no exit on the horizon from depression social conditions, including declining birth rates, declining working class longevity, and increased homelessness, violence, crime and so on.

Modern industrial capitalism, from the 1820s on, has had periodic, recurring cyclical recessions — usually every eight to ten years — but until now there have been only two periods of extended, systemic depression — the Long Depression of 1873—96 and the Great Depression of the 1930s.

In those two periods the business cycle dynamic of boom and bust continued — but within the context of overriding depression, no boom, not even periodic strong ones, was able to solve or end the crisis. Both depressions saw explosions of class struggle and of revolutionary organization, but fell short of working-class revolution; these depressions were not capitalism's last crises.

Eventually solutions were found through capitalist restructuring, giving way to renewed accumulation and expansion.

During the Long Depression the economy was in recession for two-thirds of a twenty-three-year period, until a restructuring occurred that included the rise of monopolies and trusts, the triumph of finance capital, and the onset of modern imperialism.

The Great Depression might have gone on much longer had it not been both interrupted and resolved through war and war production during World War II. The immense destruction of capital in Europe and Asia, which saw large areas bombed into rubble and forty-four million people killed, cheapened the elements of capital (plant and equipment, raw materials, and labor costs) and lowered the organic composition of capital — the ratio of variable capital (labor) to constant capital (plant and equipment). This led to renewed, historically rare levels of profitability.

One component of the restructuring of capitalism after the war involved the reorganization of world imperialism — the United States triumphed over all of its competitors through the destruction of its German and Japanese enemies, as well as the rapid decline of its allies, the British and French empires.

A long postwar boom ensued, based on a permanent arms economy. [1]

As far and away the strongest economy, the United States was able to subordinate its capitalist rivals and competitors and establish its unquestioned economic hegemony over the world market.

"In The Current Depression, No Traditional Solution Has Yet Worked"

In the current depression, no traditional solution has yet worked.

The ruling class is already attempting partial restructuring, though it has been insufficient to end the crisis. The state took the initial steps to both save the system and, simultaneously, start the process of rationalization and reorganization in the United States.

The extraordinary levels of state intervention that were required to prevent economic catastrophe are unprecedented during peacetime.

This rebalancing of the relations between state and capital, though it may prove to be temporary, has produced a reaction among the more rearguard sections of the American capitalist class.

The American ruling class, precisely because of its economic wealth and power, has traditionally been hysterically antagonistic to strong state intervention — even when the state acts in its interests. This class panic has contributed dogmatic fuel to the Republican Right's attack on "big government" — as if the government were divorced from their class power. It is a testament to the bizarre, dysfunctional nature of American politics that in the midst of a deep crisis, the GOP is celebrating a divided, paralyzed government as a useful means to check state intervention in the economy.

To fill the vacuum, the Federal Reserve took de facto responsibility for restoring economic stability. The Fed's tools are normally limited to monetary ones, but in the absence of sufficient political leadership it was forced to take on a greater role. The Fed and the Treasury played the major roles first in stabilizing and then in starting to reorganize the system. They accomplished this through extending bailouts, transferring capital's bad private debt to public debt, buying toxic bank assets, expanding the money supply, and setting negative or zero interest rates to subsidize banks and lower capital costs. (Some estimate that a third of corporate profit comes from these lower rates.)

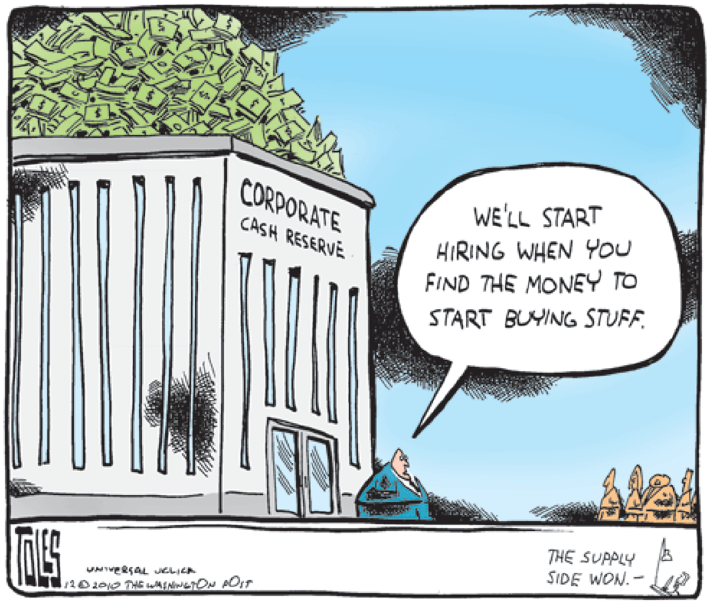
To this was added unusually massive government deficit spending to prevent the collapse of demand (which contributed to US sovereign debt growing by almost $6 trillion in four years) and enormous tax concessions to capital.

The recovery measures were tilted to facilitate the massive transfer of wealth from labor to capital. Yet despite the restoration of profits, there has not been a strong or conventional sustained recovery, nor expanded reproduction (the growth of the means of production).

The United States has had a four-year anemic recovery, the weakest from any post-1930s recession, with subpar annual growth of 2 percent.

The other advanced countries, either unable to engage in state intervention on this scale or led by political parties opposed to these policies, have done worse. The European Union has been in a second recession for almost a year; Britain is now flirting with a third recession; and Japan slips back and forth from stagnation into recession.

"What Are The Barriers To A Strong, Sustained Recovery?"



What are the barriers to a strong, sustained recovery?

First of all, international overproduction of commodities and capital (too many factories producing more goods than the market can absorb) continues, which holds back capital investment.

Second, though fictitious capital (simply put, this is capital created which does not represent any real, material growth) has been destroyed on a large scale by the housing, debt, and financial bubbles; there is still a great deal of bad debt floating around.

Third, the continuous — albeit slow and partial — deleveraging (or paying down of debt) by homeowners, consumers, corporations, banks, and sovereign governments, continues to dampen consumer demand, as do cuts in working-class living standards.

Finally, the still-weak financial system, which has been rebuilding its balance sheets by writing down bad debt and restoring capital reserves, is still unwilling to extend normal credit freely, holding back any normal recovery.

Every time the economy starts to grow through renewed monetary or fiscal reflationary stimulus, it comes up against these fault lines of the neoliberal era, limiting growth and recovery.

A year ago there was substantial fear of looming catastrophe — of another sharp, severe global economic decline. The perceived threats were the breakup of the euro zone, the US “fiscal cliff” (with prospects of big tax increases and large cuts in government spending risking a renewed US recession), and that China would suffer a hard landing and a deeper slump.

The worst of these scenarios were averted.

To prevent another disaster, central banks throughout the world engaged in massive reflation.

The Fed launched a third round of so-called quantitative easing, printing an additional $1 trillion. The Fed flooded the financial system with liquidity (money) to lower mortgages and long-term interest rates in order to overcome risk aversion, force capital into more speculative channels, and produce a wealth effect by inflating real and paper assets.

The Fed used its printing-press money to buy mortgage-backed securities from the banks as well as to fund the bulk of the government’s deficit. It also provided dollar reserves for central banks internationally. Gripped with fear, world central banks imitated the relative success of the Fed and moved away from the mantra preached by the Merkel-Bundesbank, British conservatives, and the Republican Right that austerity was the road to growth.

Instead, they poured massive liquidity into the system to prevent another meltdown, printing trillions of dollars of fictitious capital. An immediate collapse was averted, even if solutions were only postponed — in current capital-speak, “kicking the can down the road.”

The weakest link of the international chain is the European Union.

The EU is a common market with a common currency shared by rival, competing national capitals, lacking the power, authority, discipline, and support of a common state. These contradictions presented themselves as an internal balance-of-payments crisis, married to unsustainable creditor/debtor relations between surplus exporters (Germany, Netherlands, Finland, Austria) and deficit importers (Greece, Spain, Italy, Portugal).

The current EU structure is inherently crisis-ridden, a constant danger that threatens the world economy so long as it continues.

In these depression years, Europe has rapidly exploded into a series of sovereign (state) debt crises, as the losses of private corporations and banks were transferred to public, government debt.

Exorbitant, usurious interest rates followed, putting countries at sudden risk of default. Such excessive rates made it impossible for these countries to service their unsustainable debt loads; to pay their creditors (usually German and French banks) they required bailouts in the form of emergency loans from the EU

In return for these “bailouts,” they had to agree to austerity measures forced upon them by the troika of the EU, the European Central Bank (ECB), and the International Monetary Fund (IMF).

The onerous financial conditions worsened the crisis in these countries, destroying domestic demand and reducing government revenue. This in turn created greater state debt and pushed domestic banking systems to the edge of bankruptcy.

The dynamic of this plan was designed by imperialist Germany, the paymaster of Europe and one of the few beneficiaries of this austerity plan. Capital fled to the safety of Germany, thus lowering its interest rates and capital costs. German exports benefited from a weakened, cheap euro; its domestic labor costs were held down and its economy stimulated.

It was an arrangement that could not long remain confined to the so-called periphery. The looming danger of government defaults, followed by several countries' swift, uncontrolled exit from the euro, created a credit crunch that spread through Europe, threatening the solvency of the German and French banks, while austerity measures in the PIIGS (Portugal, Ireland, Italy, Greece, and Spain) broadened the recession to overwhelm the whole euro zone.

This situation finally overcame Germany's resistance, which had hitherto stalled any solution to the impeding disaster. The ECB provided $1.3 trillion to the European banking system in 2012 through backdoor quantitative easing. This allowed banks in Spain, Italy, and elsewhere to buy their governments' debt, lower government interest rates, postpone any defaults and euro exits, ease the credit crunch (as fleeing capital returned to the EU), and start a modest reflation of the euro zone.

The problem of some European countries edging again toward bankruptcy due to their oversized debt loads has not been completely averted.

The crisis could erupt again; Spain, Portugal, and others may need renewed bailouts. But the worst pressure on the euro zone has been temporarily relieved. Exits from the euro are not imminent, even as the gap between creditor and debtor nations in the EU continues to widen.

However, this delay allows German and other EU banks more time to write down bad loans and to withdraw capital from the peripheral countries, as banking in Europe moves more toward national banking and away from common-market banking. It is a strategy to buy the German, French, and other European banks time to withdraw enough from the weaker countries so that if and when the euro breaks up, there isn't a total meltdown.

European Central Bank liquidity has moved the euro zone crisis back from the immediate brink, but its contradictions will continue to spill over in new forms and remain a latent danger to global banking and the entire international capitalist system.

"China Is The Epicenter Of World Over-Production, With Phenomenal Overcapacity"

Confronted with the impact of the world crisis on the yearlong slowdown and contraction of Chinese manufacturing, the Chinese state engaged in the most massive credit creation of any of the world powers — greater even than that of the United States, with an economy half the size.

China infused $2.5 trillion in credit into its economy last year; it now has a money supply double that of the United States. This explosion of credit eventually recharged the Chinese economy.

But its model of rapid growth, based on investing 40 percent of GDP in infrastructure and new factories geared to exports, does not solve the crisis, it merely kicks the can down the road.

China is the epicenter of world over-production, with phenomenal overcapacity.

There are too many factories with minimal profits, sustained by loans and state subsidies, in an environment where it is increasingly difficult to expand exports from additional factories.

This postponement was bought by overstretching a banking system already saddled with bad loans, particularly to politically connected state companies. China's unstable, unregulated shadow banking system provides cheap credit to keep unprofitable companies alive; the stare's bad loans are a latent threat to the system.

"The United States, Through Political High-Wire Theater, Ultimately Avoided The So-Called Fiscal Cliff"

The United States, through political high-wire theater, ultimately avoided the so-called fiscal cliff.

When the dangers of sudden, severe cuts to deficit spending risked a renewed US slump that threatened to bring down the fragile international economy, the ruling class jettisoned its usual rhetorical spiel about the dangers of deficit and debt.

Instead, the bourgeois consensus — and propaganda — shifted to support of Obama's "balanced" approach of slow cuts and tax hikes and pulled the leash on blowhard Republican austerity drivel.

There is still the threat of a "sequester" — automatic across-the-board cuts to the government budget — which would slow down growth; there could also be a debt default to force through greater cuts to "entitlements" such as Social Security and Medicare. If these politically manufactured crises are averted, the US economy will continue its course of fragile recovery. [2]

With the EU, China, and Japan implementing reflationary measures, the US economy could have stronger growth this year or next than previously anticipated — barring, of course, unforeseen trials, tribulations, and global potholes. Stronger cyclical US growth would be based on pent-up demand, stabilization of the housing market, declining unemployment, a strong oil and gas boom, tremendous cash reserves in the system, and renewed exports.

Pent-up demand is the typical source of robust growth following a recession.

Purchases postponed due to hard times — unemployment, fear of layoffs, lower incomes — resume when conditions stabilize or improve, giving a fillip to production and growth. Traditionally this is centered on autos and housing. One result of postponed purchases is that the average age of cars on the road is now more than eleven years, a record; many have to be replaced, adding to auto production, which has now been restored to more than fifteen million annual sales.

The normal creation of households with home purchases has been suppressed for seven years. The market for housing prices (short of a second recession) bottomed out last summer, easing potential home- buyers' fears of losing money by buying a house. With record-low mortgage rates and housing prices that have fallen by more than 30 percent, renting is now more expensive than carrying a comparable home mortgage. Mortgage credit is still hard to get, but that may ease as banks stop fearing a loss on their mortgages from further declines in housing prices or renewed layoffs. Building and construction employment are therefore rising modestly; however, as a result of union-busting, construction workers' wages in many places are now half of what they were in 2005.

Unemployment remains high (7.9 percent as of early March); the large reserve army of the unemployed will remain for many years if growth stays at the "new normal" of 2 percent. The economy is now creating jobs, most of them low-wage, at a rate of 150,000 a month, or 1.8 million a year, adding to consumer income and spending.

The extraordinary oil and natural gas boom, environmentally destructive as it is, has given an unexpected addition to employment and near-term economic growth. The environmental destruction and future costs of "fracking" (hydraulic fracturing, a process involved in extracting natural gas) are ignored.

Short-term profit for capitalism always trumps self-destruction.

American exports and production could receive major support from reflationary growth globally.

World trade plunged in 2008, and by 2012 exports had barely recovered in the advanced countries. In Germany they were still 3 percent lower in 2012 than in 2008, and in France 8 percent lower, while in Britain and Japan they were 2 percent higher.

In the United States, by contrast, exports were 20 percent higher in 2012 than in 2008 and reached a record share of 14 percent of GDP.

Since the start of the crisis in 2007, exports have exceeded business investments as a share of GDP accounts. Much of this is owed to the cheap dollar, which is 17 percent below where it was in the period from 2002 to 2007 — one of the results of the Feds repeated rounds of quantitative easing, which Brazil's economic minister claimed introduced international currency warfare. In 2012 US exports increased by 4.5 percent. Out of the twelve largest economies, only China's, with an 8 percent export increase, did better.

The $2 trillion corporate cash hoard could provide the capital for expansion, but with overproduction, it is more likely to be used to continue fueling the asset

bubble of the stock market rally of recent months, as cash moves out of low-interest rate bonds into equities, or for merger and acquisition activity.

"Stronger Growth Is A Relative Term; It Does Not Mean Strong Or Sustained Growth, The End Of The Crisis, Or An Improvement In The Living Standards Of The Working Class"

Stronger growth is a relative term; it does not mean strong or sustained growth, the end of the crisis, or an improvement in the living standards of the working class.

Every step to growth is now being met by the Obama administration's "balanced" approach to cutting the deficit, debt, and entitlements.

The administration is shifting from Keynesian deficit spending to austerity measures that will go on for years and will hold back growth.

The tax hikes of the "fiscal cliff" agreement amounted to $212 billion; with the addition of the cuts to government spending, a total of dose to $300 billion will be subtracted from the economy this year.

This is a drag on recovery and is expected to cut growth by 1.3 percent of GDP, a big slice of the 1.5—2.5 percent average annual growth of the last four years.

As part of the drive to make America competitive, the ruling class seeks to permanently cut working-class living standards.

Despite the propaganda humbug of "shared sacrifice,' the austerity drive will be directed at making the working class pay for the crisis through higher taxes and curs to the social wage. [3] While the media hyped the Obama tax increases as taxes on the 1 percent—that is, on those making over $400,000 a year—in reality the majority of tax increases, $125 billion of the $212 billion tax hikes, came from increasing the payroll tax by 2 percent.

This cut wages by 2 percent for everyone who makes $113,000 or less. (In another bipartisan commitment to inequality, payroll taxes are zero on every dollar over that amount.)

This cut, on top of the 10 percent cut in median family income in the last five years (the bulk of it during the “recovery”) will further restrict working-class consumption and hold back retail sales and brisk growth.

Every step toward recovery will be met with further measures to “cut the deficit and debt” by shredding the social wage and pushing through “entitlement reform.”

This will further increase inequality in a system whose recovery in 2010 brought 93 percent of that year’s growth to capital and the top 1 percent.

American capitalism has used the opportunities presented by the crisis to start making itself more competitive on the world market and more profitable than its rivals.

Traditional methods for the restoration of profits have all played their part in restoring profits to lofty levels—cheapening the elements of capital (plant and equipment, raw materials) and labor costs; using the reserve army of the unemployed to raise the rate of exploitation on the job; destroying inefficient capitals; and the healthier capitals buying up their distressed rivals on the cheap.

Profits last year were $2 trillion, surpassing the previous record of $1.5 trillion in 2006, with a GDP only slightly larger than in 2006.

Corporate taxes in 2006 were $375 billion, or 25 percent. Under Obama, corporate tax rates have been halved to 12 percent: $250 billion last year.

After-tax profits have also been used to dramatically increase inequality and the shift of wealth from labor to capital.

Figured on an after-tax basis, corporate profits in 2006 were a record $1.125 billion; in 2012 they were $1.75 trillion, more than 50 percent higher than their previous peak.

This is more than a restoration of the rate and mass of profits.

Profits were the highest percentage of GDP ever recorded, with wages the lowest percentage of GDP historically.

These numbers make a mockery of those radicals who attempt to explain the crisis by arguing that the rate of profit isn’t high enough and that the crisis will be overcome if profits increase.

“Capital Investment Has Been Only Mediocre Because Of The Ongoing Crisis Of Overproduction”

Despite US corporations’ enormous $2 trillion cash hoard and a $5 trillion hoard internationally, capital investment has been only mediocre because of the ongoing crisis of overproduction.

Capital investment in the United States has, however, been stronger than in rival advanced economies; US capital investment grew by 5 percent last year, while it declined in the EU, Britain, and Japan.

The restructuring of American capitalism now under way was first begun under state auspices in the financial sector.

The dominant economic position of American imperialism results from several factors: it has the largest domestic market and the deepest, strongest, most liquid capital market; its currency, the dollar, is the international reserve currency; and it possesses a relatively stable political system.

These conditions allow the United States to be the global haven for holding assets, securities, and debt.

This has given the Fed great leeway to stabilize, subsidize, and rationalize the banking system at a faster tempo than its international competitors.

The Fed’s first objective was to save the financial system.

The enormous multitrillion-dollar Fed bailout of the banks, though largely hidden, continues uninterrupted.

The Fed continues to do everything possible to develop bank profitability and to restructure the banking system so that it can be the most competitive in the world. It organized the rapid, large-scale concentration of the banking system, subsidizing the largest banks’ acquisition of weaker, less efficient banks that were on the verge of bankruptcy.

The historic free-market drive to monopoly capital includes buying up rivals on the cheap in a crisis as a method of reducing capital costs and restoring profit rates.

In this crisis, the state arranged for and provided indirect capital in order to concentrate finance capital. The top five banks (Chase, Wells, Bank of America, Citicorp, and Goldman Sachs) now control more than 70 percent of bank assets, up from 50 percent before the crisis.

The Fed forced through sales (of Washington Mutual, Merrill Lynch, Bear Stearns, and many others) to the top banks at prices beneficial to them, guaranteed the non-performing loans of the banks being sold, and has assured the large bank of its protection on the grounds that they are too big to be allowed to fail.

As a result, the rates the large banks pay for capital are significantly lower than their smaller, weaker, non-Fed-protected competitors, subsidizing their profits by billions of dollars a year.

The Fed has kept interest rates at zero for more than four years, giving the banks free money with which to speculate (in commodities, stocks, junk bonds, derivatives, and the whole symphony of instruments that provoked the financial panic of 2008) and restore their balance sheets.

The Fed has bought $1 trillion of mortgage-backed securities and continues to do so at a rate of $40 billion a month.

Which securities and which banks are hidden, but it can be safely assumed that the government has taken many of the most toxic assets from the banks it most desires to strengthen and protect.

All of these Fed actions have restabilized the US financial system and its profits more swiftly than its European, British, and Japanese competitors. The banks still carry large amounts of bad debt, some of it non-performing.

Other "zombie" loans survive because of extremely cheap negative interest rates, which allow the banks to avoid booking losses through "extend and pretend" provisions.

No one knows how exposed the financial system is to a potential European banking crisis or a renewed real estate sell-off, but American finance capital, despite the lingering threat of its bad debt problems, has been restructured by the capitalist state to be more competitive and stronger than its international rivals, particularly compared to its position at the beginning of the crisis six years ago.

The United States still runs an annual balance-of-payments deficit of more than $500 billion, making it the world's biggest debtor nation and beholden to foreign capital.

America's toughest export rivals, China and Germany, run large balance-of-payments surpluses and, with those reserves, act as creditor nations. This has given Germany its commanding position in the EU: it is able to impose its policies even when its austerity dictates tramples the domestic economies and political stability of Greece and Spain.

The United Stares is slowly attempting to bring down its twin deficits — the government budget deficit and the balance-of-payments deficit.

The balance-of-payments deficit may decline dramatically as a result of the oil and natural gas boom or if American goods become more competitive on the world market, as they have started to in these depression years.

The government deficit, which was $1.5 trillion in 2009, 10 percent of GOP, was cut to $1 I trillion, or 7 percent of GOP last year.

It is slated to be about $845 billion this year, or 5.3 percent of GOP. In two years it is expected to be 2.5 percent of GOP due to the shift to tax increases and austerity cuts.

“American Imperialism’s Dominant Role In The World Depends On Its Economic Strength”

There is agreement from both the Pentagon and the State Department that American imperialism’s dominant role in the world depends on its economic strength, which means being able to compete and win back market share in world trade from Germany, China, and other rivals.

This pushback, while accepting some retreats from costly aspects of American intervention, is not an acceptance of the idea so prevalent among some radicals that the United States will accept economic decline and substitute it with military superiority.

It is a growing view among policy makers that American dominance depends on its successful economic restructuring.

In manufacturing, the United States has begun restructuring in order to overcome its poor competitive position on the world market.

The basic aspects of its strategy are cheaper labor costs, higher productivity, cheaper energy, corporate tax incentives, low land prices, and low transportation costs to win back the domestic marker.

The destruction of unions in private industry, the spread of “right-to-work” laws, and the widespread introduction of two-tier wage systems with greatly reduced benefits all represent an unrelenting drive that is key to this strategy — these are not just random, passing actions.

The Obama administration demanded the two-tier wage system in the automotive industry, which cut new hires’ wages from $28 an hour to $16, as the price of bailing out GM and Chrysler.

The government directed a restructuring of the American auto companies that made them competitive with their European and Japanese rivals for the first time in a generation.

As US automakers won back a greater share of domestic sales, they began to see record profits.

GE, for example, has gotten similar concessions on pay ($13 an hour for new hires versus $22 an hour).

It has been able to boost productivity so effectively—not only through speedups, but also by increasing its use of robotics and automation — that it has decided to bring back all of its appliance manufacturing to the United States from China, where it had been outsourced more than twenty years ago.

This template is now being used throughout US industry.

“To Carry Through Its Restructuring, The United States Is Becoming The Cheap Labor Market Of The Advanced Industrial World”

To carry through its restructuring, the United States is becoming the cheap labor market of the advanced industrial world.

Manufacturing competitiveness has gotten an additional boost through cheap energy, as a result of fracking and horizontal drilling.

US oil production grew by 779,000 barrels a day in 2012, more in any one year than at any time since the start of US oil production in 1859.

That record will be exceeded this year, with a growth of 900,000 barrels a day.

This increase of 1.8 million barrels a day is equivalent to a major discovery as large as the whole production of Algeria or Angola.

Within a few years the expectation is that the United States will be the largest world producer of oil.

Oil prices at home haven’t fallen, since they are determined by the world market price.

But oil imports have dropped to a twenty-year low and are now starting to reduce the balance-of-payments deficit dramatically.

The development of enormous amounts of natural gas production, which given its liquid nature cannot be easily exported, has created a large domestic surplus and cut natural gas costs to less than half of Europe’s and a quarter of China’s.

A large fight is developing within the capitalist class between those trying to find ways to export natural gas and those who want it kept within the US to hold down its domestic price.

The use of natural gas as cheap energy to run factories enhances US industrial competiveness.

Those industries that use large amounts of energy, in which energy costs are decisive in running factories (such as the aluminum, copper, chemicals, and steel industries), are the first to begin a large shift of production from China, Asia, and Europe to the United States.

Add to this mix the low cost of land in parts of the country compared to China and Europe, the low costs of transportation for the domestic market, and tax incentives for corporations, and you have several factors favoring the restructuring and potential revival of US manufacturing.

The process is still early in its development, and there will be other unanticipated developments as the crisis continues.

These, of course, are not just economic dynamics.

“The Outcome Of This Restructuring Also Depends On Resistance, Class Struggle, And Politics, Both At Home And Abroad”

The outcome of this restructuring also depends on resistance, class struggle, and politics, both at home and abroad.

Whatever plans American capitalism develops can and will be challenged by its rivals.

As the crisis persists, new elements, competitive devaluations, and beggar-thy- neighbor policies are gaining strength and could upset these plans.

Even as US capitalism tries to restructure itself the dynamics of crisis in the world system continue; while some countries may have a better year than last year, others will go deeper into decline.

“A Second Global Recession, When It Comes, Is Potentially More Dangerous Than The First Recession And Collapse”

A second global recession, when it comes, is potentially more dangerous than the first recession and collapse.

It will begin, unlike the first, with mass unemployment, already-destroyed working-class savings and reserves, austerity measures that have cut working-class living standards severely in some places, a weak international banking system, a

sovereign debt crisis and potential defaults, and the inability to cut interest rates further.

In short, it will begin from a worse position than the previous crisis and will come at a point when the effectiveness of many of the tools previously used to stabilize the system will have already been exhausted.

The most obvious places where economic catastrophe is developing at a rapid pace are Greece, Egypt, and Spain — the weak links of the capitalist chain and the countries with the potential for the greatest working-class and political resistance.

The impact they may have on world politics and the international Left in the next few years is as important as any of the economic plans of the American capitalist class.

Footnotes:

1. From the preface to Michael Kidron, "A Permanent Arms Economy http://www.marxists.org/archive/kidron/works/1967/xx/permarms.htns:

'The explanation developed primarily by Michael Kidron and known as the theory of the permanent arms economy had two aspects.

'First, it recognised the fact that the system had stabilised itself and set out to find out why. The answer it came up with was that the diversion of a large portion of the total surplus-value extracted from workers into spending on arms offset the basic problem that Marx had identified at the root of capitalist crises: the tendency of the system to overaccumulate capital and so bring down the rate of profit...

'Second, the theory argued that the permanent arms economy represented only a temporary stabilisation of the system.

'Whatever the future holds: Michael Kidron wrote in 1961, 'it is one of irreparable instability, of crises whose violence is such as to question the continued existence of capitalism as a world system at best, or at worst of civilisation itself'....Since the early 1970s, we have seen the boom-slump cycle reassert itself on a world scale and with ever-increasing instability."

2. As ISR went to press, the 'sequester" cuts, beginning this year at $85 billion, had just gone into effect.

3. The social wage refers to benefits to workers that come from a source other than the wage component of their pay packets.

Euro Crisis Mires Continent In Longest Slump Since The War:

“No Recovery In Sight For A Broad Swath Of The Continent”

May 15, 2013 By MARCUS WALKER in Berlin and BRIAN BLACKSTONE in Frankfurt, Wall Street Journal [Excerpt]

The euro-zone debt crisis has mutated into Europe's longest slump of the postwar era, with no recovery in sight for a broad swath of the continent.

Continuing government austerity, banks that can't or won't lend and heavy household debts are weighing on many countries.

Weak business surveys are challenging official predictions, including from the European Central Bank, that growth will return this year.

The euro zone's output of goods and services, or gross domestic product, fell in the first three months of the year at an annualized rate of 0.9%, data out Wednesday showed.

That was the sixth-straight quarter of a recession that began in late 2011, and puts the region in contrast with other recovering economies.

U.S. GDP grew at a 2.5% pace in the first quarter, and early Thursday, Japan said its GDP jumped 3.5% in the quarter. U.K. output rose last quarter as well.

Depression-like conditions in Southern Europe, combined with slowing global growth, are dragging down the core economies: Germany is barely growing and France is steadily contracting.

The 17-nation euro zone, which accounts for 17% of world GDP, remains the weakest link in the global economy, mired well below its level of economic activity before the 2008 financial crisis.

Social strains, political paralysis and rising debt burdens are reigniting doubts about its economic future.

"The ECB's recurrent predictions of an imminent recovery are the triumph of hope over wisdom," said Willem Buiter, chief economist at Citigroup Inc. Euro-zone countries will face a mix of recession and tepid recovery for "two or three more years," he said.

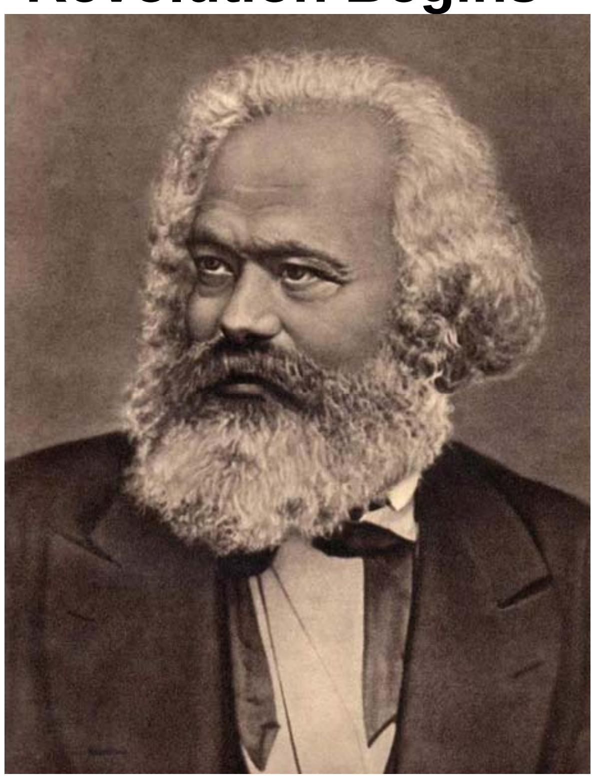
Though the recession that followed the crash of Lehman Brothers was deeper, the current contraction in Europe has lasted longer.

Guess Who Knew:

“At A Certain Stage Of Their Development, The Material Productive Forces Of Society Come Into Conflict With The Property Relations Within The Framework Of Which They Have Hitherto Operated”

“From Forms Of Development Of The Productive Forces These Relations Turn Into Their Fetters”

“At That Point An Era Of Social Revolution Begins”



[The Moor saw it coming.]

Preface To A Contribution to the Critique of Political Economy, Karl Marx, 1859 [Excerpt]

In the social production of their existence, men inevitably enter into definite, necessary relations, which are independent of their will, namely relations of production corresponding to a determinate stage of the development of their material forces of production.

The totality of these relations of production constitutes the economic structure of society, the real foundation, on which there arises a legal and political superstructure and to which there correspond definite forms of social consciousness.

The mode of production of material life conditions the social, political and intellectual life-process in general.

It is not the consciousness of men that determines their being, but on the contrary it is their social being that determines their consciousness.

At a certain stage of their development, the material productive forces of society come into conflict with the existing relations of production or – what is merely a legal expression for the same thing – with the property relations within the framework of which they have hitherto operated.

From forms of development of the productive forces these relations turn into their fetters.

At that point an era of social revolution begins.

With the change in the economic foundation, the whole immense superstructure is more slowly or more rapidly transformed.

In considering such transformations it is always necessary to distinguish between the material transformation of the economic conditions of production, which can be determined with the precision of natural science, and the legal, political, religious, artistic or philosophic – in short, ideological forms in which men become conscious of this conflict and fight it out.

Just as one does not judge an individual by what he thinks about himself, so one cannot judge such a period of transformation by its consciousness, but, on the contrary, this consciousness must be explained from the contradictions of material life, from the conflict existing between the social forces of production and the relations of production.

A social order never perishes before all the productive forces for which it is broadly sufficient have been developed, and new superior relations of production never replace older ones before the material conditions for their existence have matured within the womb of the old society.

Mankind thus inevitably sets itself only such tasks as can solve, since closer examination will always show that the task itself arises only when the material conditions for its solution are already present or at least in the process of formation.

[He also knew what it would take to fix it.]

<u>FORWARD OBSERVATIONS</u>

“At a time like this, scorching irony, not convincing argument, is needed. Oh had I the ability, and could reach the nation’s ear, I would, pour out a fiery stream of biting ridicule, blasting reproach, withering sarcasm, and stern rebuke.

“For it is not light that is needed, but fire; it is not the gentle shower, but thunder.

“We need the storm, the whirlwind, and the earthquake.”

“The limits of tyrants are prescribed by the endurance of those whom they oppose.”

Frederick Douglass, 1852

People do not make revolutions eagerly any more than they do war. There is this difference, however, that in war compulsion plays the decisive role, in revolution there is no compulsion except that of circumstances.

A revolution takes place only when there is no other way out. And the insurrection, which rises above a revolution like a peak in the mountain chain of its events, can be no more evoked at will than the revolution as a whole. The masses advance and retreat several times before they make up their minds to the final assault.

-- Leon Trotsky; The History of the Russian Revolution

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