

**80's ECONOMIC
CRISIS WILL MAKE THE 30's
GREAT
DEPRESSION
LOOK LIKE
A PICNIC**

**PREPARE FOR
DICTATORSHIP
OF THE
PROLETARIAT**

by Jack Shirai

“ . . . Today the workers and poor of this country face an economy careening into a bottomless abyss.

The extent and depth of the crisis—the permanent crisis—we are in goes far beyond the Depression of the 30’s. It’s a completely different world.”

The bourgeoisie today are in a state of advanced freak-out over the prospects for the economy. According to the *Wall Street Journal*, Carter with his economic advisors laying out in lurid detail the dire prospects for the economy, asked them in anguish “What are you trying to do to me?” And debating over whether the recession has hit or not, bourgeois economists puzzle over their traditional indicators which, under the permanent crisis of high unemployment and high inflation, seem to have gone haywire.

Dark predictions of an earth-shaking collapse usher from the mouths of the bourgeois economists, Dr. Harry Ernst, a head of a consulting firm, has said if the unemployment-inflation “loop persists unchecked, it can only end in depression or international financial collapse.” (*New York Times*, April 23, 1980, p.D2). And Felix Rohatyn draws it out further. As head of the Municipal Assistance Corporation which oversees the finances of New York City, overruling even elected officials, and a partner in the Lazard Freres and Company finance capitalists, he said that the U.S. economy is out of control and its government institutions “unresponsive or inept.” He says that continued deadlock over inflation and energy or the “continued application of band aids” will lead to “social and political upheavals.” (*Wall Street Journal*, March 25, 1980, p.6). What is in the back of his mind, of course, is revolution. But the bourgeoisie cannot see the reality. The crisis is already here. Fundamentally deeper than the 1930s, the crisis today is built right into the capitalist system. And as we shall show, only by overthrowing this system and replacing it with socialism—the dictatorship of the proletariat—can we get out of it.

CRISIS OF THE 80s MORE EXTENSIVE AND DEEPER THAN THE 30s

The bourgeoisie have good reason to be fearful. The extent and depth of the crisis—the permanent crisis—we are in goes far beyond the Depression of the 1930s. It’s a completely different world.

While the period since the 1930s has been one of steadily worsening booms and busts, today the workers and poor of this country face an economy careening into a bottomless abyss.

The reason is that the stagnation and decay of the economy has reached levels dwarfing the level of the thirties. Even with the Depression’s massive destruction of productive forces in such industries as steel, auto and construction—the three pillars of the economy today—they did not face the fundamental stagnation they are in, literally dying industries today.

A great part of the reason for the much more extensive and fundamentally deeper crisis today is the measures and policies the bourgeoisie has been forced to take to get out of the Depression and prevent its recurrence. Historically, the crisis of overproduction like the Depression of the 1930s helped restore the relation between the increasing ability of the economy to produce and the increasing drop in

purchasing power—the absolute and relative impoverishment of the masses due to capitalist exploitation in all forms—including bloodthirsty taxation and inflation.

Thus the crisis of overproduction has historically helped to create the basis for the recovery of the economy.

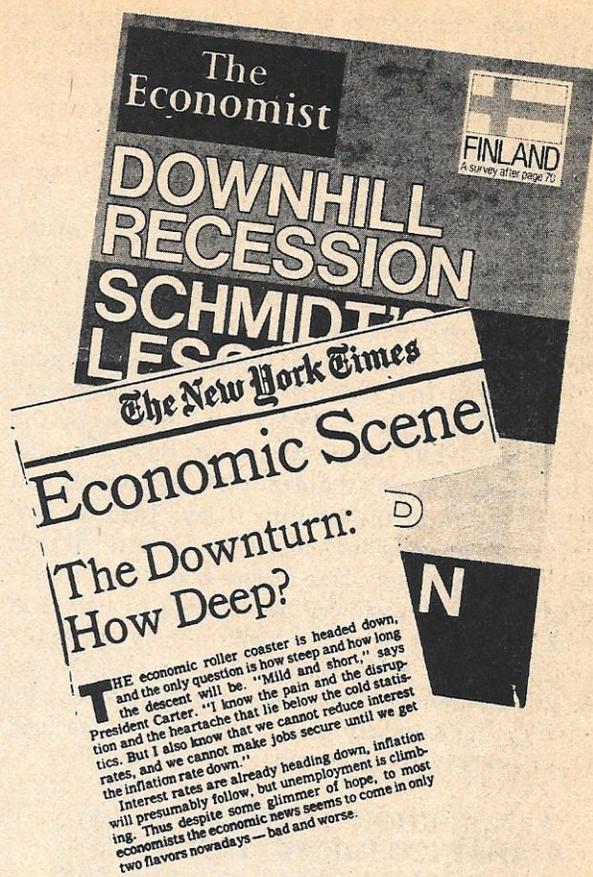
In the era of imperialism, it has taken ever-deepening crises and more massive destruction of the productive forces to correct the imbalance. For instance, in the last great crisis before the U.S. developed into a full blown imperialist power—the crisis of 1893—the production of coal dropped 6.4% from the high point of production before the crisis to its lowest point during the crisis. In 1907, it dropped 13.4% and 27.5% in 1920. In the Great Depression coal production had to drop to 40.9% before production picked back up. The same trend of deepening crises of overproduction can be seen in steel, iron, cotton, oil and the auto industry. For the last, while production in the early years of the century actually picked up (in 1907 it picked up 47.7%), it was caught in the same trend of increasingly deeper crisis, falling 28.3% in 1920 and a devastating 74.4% in 1929. (*The Economic History of the Great Capitalist Countries*, Beijing, 1975)

With the memory of the Depression haunting them, however, the bourgeoisie resorted to Keynesian tricks. During and after World War II the massive militarization of the economy, through state monopoly capitalism has led to temporary pumping up of the scale of the economy leading to a false prosperity. But the cost has been catastrophic. On the one hand, it has led to increasing fixed capital investment even during crises which has thrown the imbalance between production and consumption to a qualitatively higher level, leading to a greatly heightened stagnation and setting up the whole economy for the possibility of a crisis dwarfing the Depression.

On the other hand, the militarization of the economy has led the bourgeoisie to resort to greatly heightened deficit spending. This has led to rampant inflation we see today, and along with bloodthirsty taxation, the increasingly runaway impoverishment of the proletariat. And this inflation has in turn worsened the stagnation of the economy as it depresses investment in the productive industries.

Moreover, because of artificial stimulation and the position of hegemony over the non-socialist world after World War II, the stagnation has been hidden from view. With over 30% of U.S. steel going to exports, literally forced on the second and third world countries through military and political blackmail, even though the steel industry has been stagnating for a hundred years, the rot could not be seen.

With the greatly changed balance of forces in the world today, however, the chickens are coming home to roost. No longer can the U.S. export its crisis and inflation through the hegemony of the dollar or



The bourgeoisie are in a state of advanced freak-out over the economic crisis, as articles in their authoritative *Economist* and *New York Times* show.

hide its stagnation through political and military power. With the rising struggle of the third and second worlds, with the heightened contention with the Soviet Union, the U.S. is now a declining imperialist power. Unable to shift it outside, the U.S. monopoly capitalists are shifting the full brunt of the crisis right onto the backs of the U.S. workers and the poor.

The stagnation at home has led to social consequences which make the Depression of the thirties pale in comparison. While there was 25% unemployment in the thirties, there was no great strata of permanently unemployed that we see today—those who are permanently on welfare and who will never again work productively under capitalism. The creation of the welfare system, which on the one hand fed parasitism in the economy by giving the finance capitalists more coupons to clip by paying for it through bond issues, was an attempt to hide the ever-deepening stagnation. Today, along with food stamps, these are all being cut mercilessly as the bourgeoisie find themselves having to fight rampant inflation along with the deepening stagnation. Thus, *even without a crisis* like the Depression, there will be starvation as a normal part of life under capitalism.

Moreover, today inflation is built into the system

as the need to militarize is forced onto the bourgeoisie by its preparation for a new war of redivision of the world—a world war—with the Soviet superpower. Reaching 20, 30, 40, 50%, it will cause unprecedented suffering to the people of the U.S. And it will lead to a snowballing resistance that will make the 1930s look like a picnic.

The consequences socially and politically of the crisis today, while economically more extensive and fundamentally deeper than the Depression, are not just additive, but exponential. The disorientation and polarization of the masses, as the rapid shifts in public opinion on Iran and the competing issue of the economy show, has reached a level unseen in the Depression. While there was great misery in the 1930s, there was not the depth of degradation and decadence seen in the country today. There was no growth of the religious cults and the anti-religious cults—the occult and black magic—that we see today. There was no Jonestown, no roasting of babies in ovens, no Son of Sams, no bank robbery epidemics like that in New York recently. As we said, today we live in a different world—a much more fundamentally rotten capitalist society than even could be imagined in the depths of the Depression of the 1930s.

STAGNATION OF THE ECONOMY, BUILT INTO IMPERIALIST SYSTEM, IS FUNDAMENTALLY DEEPER AND MORE EXTENSIVE TODAY THAN IN DEPRESSION

Under imperialism, monopoly capitalism, the economy starts to decay and this decay mainly comes out in the serious blockage of the development of the productive forces by monopolies. Artificially blocking technical progress it ushers in a stagnating tendency into the development of production and technology.

Their monopoly position, brings these capitalists monopoly profits. Under monopoly rule, the capitalist is afraid that advanced technology may weaken his monopoly position. Thus he obstructs any new technology that could threaten his position.

Many new inventions and techniques which could thus serve to increase the development of production never see the light of day. The monopolies buy them up and pigeonhole them as they have synthetic fuels, the long-life lightbulb and a host of others.

The result of this monopoly stranglehold is a decline in the rate of expansion of the economy—of capitalist expanded reproduction. In the U.S., before imperialism, industrial production increased about 3.9 times between 1871 and 1900. But between 1901 and 1929, it increased only 2.7 times, and from 1930 to 1959 the average annual rate of increase in industrial production fell to only 4.4%. Today, that rate has dropped even further. This reflects the fundamentally deeper and more widespread stagnation in

the economy today even when compared to the Depression of the 1930s.

The stagnation of the U.S. economy has become clearer in sector after sector of production. Take the steel industry for example.

STAGNATION IN U.S. STEEL INDUSTRY AND UNEVEN DEVELOPMENT OF IMPERIALISM

The U.S. emerged as top dog after World War II, with Japan, Germany and Italy in defeat and the British and French in decline. Then, the U.S. steel industry produced 39.4% of the total steel in the capitalist world, clearly dominating the world market. But this virtual hammerlock on the world market by the U.S. steel monopolies inevitably created a tendency towards stagnation and decay. Guaranteed a virtual stranglehold over the world market, U.S. steel monopolies neglected modernization and technology, to the point that workers in this country work in dangerous, outdated 100-year old steel mills with obsolete technology. For example, more than 82% of U.S. steel is produced by the older basic-oxygen process; compared with only 61% in Japan. Like the way Lenin put it, **“Since monopoly prices are established, temporarily, the motive cause of technical and, consequently, of all progress disappears to a certain extent, and further, the economic possibility arises of deliberately retarding technical progress.** (*Imperialism, the Highest Stage of Capitalism*, p.119)

The militarization of the economy through state monopoly capitalism also played its part in the stagnation of the steel industry. According to Richard Barnet, the steel industry as a major supplier of the Department of Defense, cannot compete in civilian markets in part because for years the managements of the great steel companies felt no compulsion to innovate. The reason was laid out by Charles B. Baker, administrative vice-president of U.S. Steel, reporting to the National Foreign Trade Convention:

“... it is largely due to the operation of our foreign aid program that the steel industry has managed to escape the full effects of the forces at work in the world market place. We estimate that AID procurement in the U.S. of steel mill products currently accounts for some 30 per cent of the value of our steel exports, and for an even higher per cent of the tonnage shipped—perhaps as much as 40 per cent.”

Barnet continues that the two major technological advances in the industry of the last generation, the L-D process oxygen furnace and the pelletizing process, have yet to be adopted widely in U.S. plants, despite the fact that they are used routinely in Japan and other countries. (*The Roots of War*, pp.174-75)

Over the years, the European and Japanese steel monopolies were able to catch up with the U.S. which today only produces 18.6% of the total steel in the Western capitalist world. This lag in U.S. steel



Reaction of husband who found out that his wife, influenced by an occultist, burned their baby in the oven. The social effect of today's crisis has reached a depth of degradation and decadence unseen in the 1930s.

is due to the *uneven development of capitalism* within the Western capitalist nations, particularly since World War II. A manifestation of the law of uneven development under imperialism, different capitalist countries took advantage of advances in technology in order to leap ahead of the top monopoly capitalist country.

Because of all these factors, monopoly capitalists avoid making long-term investments in the steel industry especially when they can, as we shall see,

make quick fat profits on the securities and currency market. As a consequence, industries like steel and especially the railroads will become increasingly non-competitive (unless the federal government subsidizes or nationalizes the industry). These nationalizations explain, in part, the general tendency of imperialism towards state monopoly capitalism (as in England).

PARASITIC FINANCE CAPITALISM AND HOW IT AFFECTS THE U.S. STEEL INDUSTRY

More fundamentally, a key reason for the lag in U.S. steel technology and modernization is the overall parasitic character of U.S. finance capitalism itself, which will avoid making risky, long-term investments in certain industries in favor of quick money, fast returns, and feverish speculation. We point out three features which have direct impact on the lag in U.S. steel.

(1) Finance capitalism avoids long-term industrial investments with slow returns.

First, finance capitalism, parasitic and moribund, avoids long-term investments in steel and the railroads which yield low returns and pose risks. The recent bankruptcy of Penn Central, for example, was partly due to the lack of monopoly capitalists willing to shore up the decaying railroad industry with low returns requiring hundreds of millions of dollars of investment tied up for up to 20 years. With the vulnerability of the economy to collapse more severe than in the 1930s (as we shall show later), with increasing uncertainty in the future of U.S. imperialism, the big banks are not willing to back the crucial 20-year financing required to save the railroads and modernize the aging steel industry.

(2) Parasitism: relative independence of finance capitalism—it feeds on itself.

While the present level of investment in steel is even lower than it was in the sixth economic crisis of 1974-75, the finance capitalists are investing huge chunks of capital in get-rich-quick schemes for a fast buck, like gold, silver, real estate, Treasury bills and frantic speculation on the currency exchange. While steel workers risk injury and death working in crumbling blast furnaces and get laid off in a decaying industry which is no longer competitive, their bosses

are investing the surplus value squeezed from steel workers into the money market, which guarantee fast returns, low risk, and high profits.

(3) Export of capital and certain, short-term, high yield investments.

When capital isn't being invested to make huge paper profits for the finance capitalists, it is invested domestically in small, newer industries which involve quick returns and room for speculation: the fast food industry, lodging, oil services, etc. And internationally it means investing overseas in third world countries, where U.S.-backed fascist regimes guarantee low wages and cheap raw materials. Citicorp (part of the Rockefeller empire for example, ripped off more than 13% of its \$405 million total earnings last year from Brazil alone. And the Zenith plant in Chicago, following the lead of scores of other run-away plants in

electronics, textiles, automobiles, etc. closed and will reopen in Taiwan, where the Chiang-clique outlaws strikes. As Lenin said,

As long as capitalism remains what it is, surplus capital will be utilized not for the purpose of raising the standard of living of the masses in a given country, for this would mean a decline in the profit for the capitalists, but for the purpose of increasing profits by exporting capital abroad to the backward countries. In these backward countries profits are usually high, for capital is scarce, the price of land relatively low, wages are low, raw materials are cheap. (*Imperialism*, p.83).

The sickness of the steel industry in this country is again only the tip of the iceberg. Today, not only does the steel industry suffer from stagnation and the uneven development among the capitalist countries since World War II, but a host of others, including one of the three major pillars of the economy—auto (besides steel, the other is construction). Today because of technological lag among other factors, one out of five cars brought new in the U.S. is foreign-made. A recent *Business Week* article claimed that it would take 85 billion in capital to bring Detroit up to the point where it could compete with foreign automakers, particularly Japan and Germany.

Moreover, a host of other industries have stagnated after World War II. Seymour Melman has listed some of the lagging sectors due to the militarization of the economy: According to him, by 1968, U.S. industry operated the world's oldest stock of metal working machinery, with 64% being ten years old and over. Railroads have stagnated tremendously and no U.S. railroad has anything in motion that compares with the Japanese and French fast trains. The U.S. merchant fleet ranks 23rd in age of vessels and in 1966 the world average-age of vessels was 17 years, United States 21 and Japan 9. Even in the machine tools industry, in 1967, for the first time, the U.S. imported more machine tools than it exported. (*Our Depleted Society*, as quoted in Barnet.)

Even the high-technology industries, like computers and commercial aircraft are facing difficulties. In aircraft in particular, the U.S. once unchallenged hegemony in the commercial aircraft market after World War II and particularly in jet aircraft is now facing tough competition with the development of Airbus Industries, a consortium of French, German, British and Spanish aircraft manufacturers. With the U.S. aerospace industry heavily propped up by military orders, and with its traditional grip on the world market seemingly safe, the U.S. aircraft monopolists have paid scant attention to commercial aircraft development. The DC-10 is a case in point. Technologically obsolete when it was first produced, because McDonnell-Douglas along with Boeing had cornered the materials, subcontractors and manpower necessary for aircraft production, it could promise earlier delivery on the DC-10 while the technological-

ly superior Lockheed L-1011 lost orders because of lack of the necessary production factors. Even after the horrendous safety record of the DC-10, reflecting basic flaws in its design, McDonnell-Douglas can afford to shrug it off since most of its orders are military.

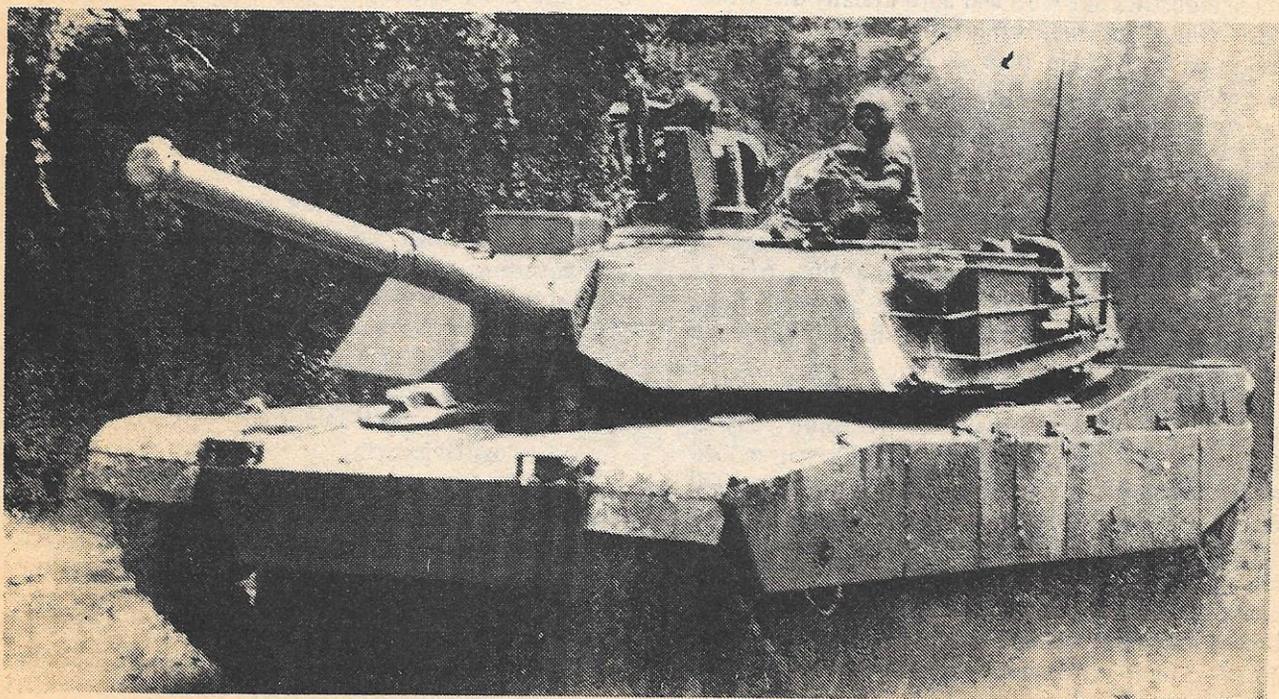
So today the technologically excellent and fuel-efficient Airbus A310 is sweeping up orders, while the U.S. monopolies lagged in planning competing models. According to the *Wall Street Journal* (March 19, 1980) "So successful has Airbus been that it has already overtaken Lockheed Corporation and is fast closing in on McDonnell-Douglas Corporation in winning orders for wide-body jets around the world. 'Within a few years,' predicts Wolfgang Demishch, an aerospace analyst at Smith Barney, Harris Upham and Company, 'Airbus will be second only to Boeing in wide-body sales. . . . Implications of the European success are substantial. . . analysts now think that the consortium can sell 700 or more planes in the next ten years. In terms of dollars, that achievement would give Airbus about 15% of a total market projected at \$130 billion—some \$20 billion of business.' " Should this happen it would certainly affect the availability of capital for the domestic aircraft manufacturers as their market shrinks. And lack of capital would in turn hurt their competitive edge in the world market,

furthering the stagnation of the industry. Thus, even aerospace—one of the last strongholds of U.S. technological and domination in the world market—could end up like the steel industry today.

The U.S. armaments industry is also facing a declining market. While the U.S. had hegemony over the world after World War II, its armaments industry export market grew to tremendous proportions, basically jamming its arms down NATO's and other countries throats. Today the situation is rapidly changing. Struggling for their own share of the armament market, and against U.S. blackmail the Western European countries are starting to fight the U.S. stranglehold in such areas as advanced fighter aircraft and the new NATO standard tank. This is but another example of how, by the bourgeoisie of the second world countries struggling for their national independence for their own interest, and not for the larger interest of the imperialist system, they undermine their own rule by fighting their own ally, the U.S. And objectively, this undermines the U.S. bourgeoisie and thus serves as an indirect reserve for the U.S. proletariat.

The stagnation and decaying tendency in the development of production and technology in the imperialist countries however does not mean that production and technological development comes to

Chrysler's XM-1 tank. The militarization of the economy has produced waste and even greater stagnation of the civilian industries. Moreover, paid for by Keynesian deficit financing, militarization is a foremost cause of rampant inflation. Now, even the armaments export industry is facing stagnation as the second world countries grab for the declining U.S. markets.



a halt. Thus while overall there is a stagnation tendency, this by no means precludes the possibility of more rapid development in the production technology of in a particular period, individual or country sector.

A good example is the computer industry in the U.S. Although the older industries like steel, railroads and now auto are clearly stagnating, the U.S. lead in computer technology is far advanced of any in the world. Computer giants like IBM, Honeywell and Control Data Corporation have the lion's share of the world market. Because of the investment crisis, however, even this lead in computers is threatened. One reason is that the slumping economy and high inflation is forcing more and more corporations faced with higher costs and less revenue to go to leasing computers instead of buying them outright. IBM, for instance, thus instead of having cash from sales gets only payments or at least reduced revenue from its minicomputer line from leading, cutting down its cash available for reinvestment to develop the next generation of computers. With the bond market in collapse and long-term financing increasingly more difficult to arrange, this means that big investments needed to develop those next generation computers will be hard to put together. And this means that the lead the U.S. now has is threatened by the developing computer industries in the second world.

MASSIVE CAPITAL INVESTMENT NEEDED TO COUNTERACT DEEPENING STAGNATION

It is clear that without a massive infusion of capital into the stagnating industries, their competitive position will deteriorate even faster, and the crisis intensifies as the proletariat faces even more rapid impoverishment from plant closings and layoffs as whole industries like steel and auto literally die. When these pillars go, they bring down other industries associated with them such as machine tools, glass, rubber, etc. as well as killing off whole towns—as the state of Youngstown, Ohio shows after practically all the steel mills were shut forever. Thus the increasing stagnation of one industry tends to pull other parts of the economy down with it.

Thus unless investment capital is pumped in massive proportions into these dying industries to retool them with the latest machines and technology and to develop new technologies, they will drag the whole economy down.

Recently the U.S. has lagged tremendously in making the necessary investment, due principally to the blockage caused by the monopolies described earlier. According to *Fortune*, the U.S. between 1970 and 1977 was last among the five biggest trading nations in the amount of capital investment as percentage of total output of the economy. The U.S. rate was 14.5%, behind even the deeply stagnated United Kingdom's 17.6% and far, far behind Japan's 26.7% capital investment rate. *Fortune* sums it up

saying "That record goes a long way toward explaining our productivity problems and our lagging competitiveness in world trade." ("Favorable Omens for World Trade," *Fortune*, May 5, 1980, p.196).

Today, however, the bourgeoisie are abandoning like the plague the massive and necessarily long-term investment necessary to counteract the stagnation which has undermined the economy as never before.

THE SILENT CRASH OF THE BOND MARKET

The recent collapse of the bond market has put the ability of the bourgeoisie to carry out long-term investment in the productive industries in even greater, fundamentally greater, danger.

The day after Carter's inflation speech Wall Street went into its second biggest dive since 1929. The Dow Jones industrial index plummeted 23 points in a single day, making it the biggest since the panic in October 1979. The reason was clear—investors had no faith in Carter's ability to stem the ravaging 20% inflation rate—the highest since right after World War II.

But the bloodletting on the Stock Exchange was but a pinprick compared to the slaughter of the bond market in the last few months. A silent slaughter to be sure, as few people know about or watch the bond market as closely as the stock market. In the long run, however, the bond market's crash is of far greater significance for the bourgeoisie's chances to get out of the crisis. As we shall show, it demonstrates clearly why today socialism is the only way for the U.S. to reindustrialize and emerge from its permanent economic crisis.

BOND MARKET—THE MAJOR SOURCE OF LONG-TERM CAPITAL

The bond market is the marketplace for long-term investment capital by the government, and corporations. Usually sold as notes of \$10,000 or more, bonds give a fixed rate of interest for periods of 20 years or more. For the bourgeoisie, they represented a relatively safe and stable income on an investment as compared, say, to the stock market—that is, when inflation was not rampant.

Bonds represent long-term investment capital for the government and corporations and is particularly important for corporations in long-term plans for expanding production. Thus for instance, giant monopolies like AT&T as well as utilities use it for building new plants and replacing obsolete equipment. Bonds play the most important part in financing future industrial growth.

Bonds also are important for financing new construction on housing, as mortgages usually end up as bonds. And state and local governments finance welfare, schools, and capital spending through floating bonds.

Late last year, the total amount of long-term bonds held by individuals and financial institutions

was about \$2.5 trillion—that is \$2,500 billion. Of that, around \$1 trillion was in the form of mortgages, and about \$475 billion in corporate bonds. Government bonds represented about \$885 billion more, with \$360 billion in U.S. Treasury debt, another \$225 billion or so in federal agency bonds and about \$300 billion in state and local bonds.

The crash of the bond market has been stupendous. As *Fortune* says, "Since October, perhaps *half a trillion* of those have been wiped out... [T]he dollar losses may be thought of as comparable to what would have happened if the Dow Jones industrials had gone from 900 to, say, 500 in the space of a few months." ("The Revolt of the Lenders" by Daniel Seligman, March 24, 1980, p.57). Thus the stock market crash of 1929 has been repeated in the bond market in 1980.

With the worsening stagnation and rampant inflation in the economy, the bond market is actually more important than ever for the bourgeoisie. For even top of the line corporations like IBM, which never had to borrow before to finance new operations, have had to turn to the bond market to get new capital. One reason is that the slumping economy and high inflation are forcing more and more corporations faced with higher costs and less revenue to go to leasing computers instead of buying them outright. Thus IBM instead of having cash in hand from outright sales, gets only monthly payments from leasing, cutting down its cash holding. Yet it has to finance the costly production of the next generation of computers. Thus it turns to the bond market for financing future growth.

Last fall, IBM did that with a 1 billion dollar bond offering. While IBM got its capital, those who bought its bonds took a whipping they won't soon forget. By February, the paper certificates that IBM issued which got it \$988 million after fees paid to the investment bankers handling it, was worth only \$790



million—a loss of nearly \$200 million in less than half a year.

The question is: if, because of lessons like this, money is going to pull out of the bond market, who will put up the money for the long-term investment in the already stagnant and inflation ridden U.S. capitalist economy? And if this happens, can the U.S. pull out of the worst economic crisis it has ever faced?

THE LATEST VICTIM OF INFLATION

The very stability of interest of bonds has

WORLD'S HIGHEST STANDARD OF LIVING



With the government's rapacious taxation skyrocketing 16 times between 1940 and 1970 alone (upper left), the American Dream is dead as the impoverishment of the workers and petty bourgeoisie plunges to unseen depths.



Levittown rebellion of 1979. White youth set the gas station ablaze when gas became scarce and prices went up to \$1.25 a gallon. This demonstrates the inflammable political situation of the 1980s, a scene sure to be repeated a thousand times on a broad scale in the decade.

become their undoing. With inflation constantly shooting up, a bond bought today yielding 12% interest will be halved in value when inflation soars past the 30% mark in the future as the price of the bond ready happened with long-term bonds bought in the relative to its face value drops. In fact, this has already happened with long-term bonds bought in the 1960s and 1970s when inflation was relatively low. And with other forms of short-term investment, like money market funds and certificates of deposit giving high yields in periods of a day or 6 months, tying up your money in long-term fixed-interest bonds seems to be outright stupidity.

As we said, the collapse of the bond market has strategic implications for the bourgeoisie, for it depresses long-term productive industrial investment. And because of the nature of the capitalist crisis of both stagnation and rampant inflation, this means the road to recovery for the capitalists is crumbling rapidly to the point of no return.

VULNERABILITY OF THE ECONOMY IN THE 80s MORE EXTENSIVE AND DEEPER THAN THE 30s

The collapse of the bond market is an indication of how fearful the bourgeoisie is of the long-term viability of the economy. And there is good reason for them to avoid long-term investment like the plague. Today more than ever before the monopoly capitalist class is sitting on top of a thoroughly rotten economy

increasingly threatening, literally day by day, to collapse. In a rapid chain reaction, any single collapse of a corporation or a major bank today could set off a chain reaction that would draw down all others into an abyss from which none could escape. Inflammable, volatile, fragile as never before—the U.S. economy is right now permanently on the edge of collapse.

The reason is that today the financial state of the economy—the corporations, banks and consumers—is in a crisis that dwarfs anything seen before during or after the great crash of 1929. And rampant speculation on the commodities market—like silver and—on a scale never before seen in this country has pushed the vulnerability to collapse to an even higher level than the 1930s.

The recent collapse of the silver market and the role of billionaire speculators like the Hunt brothers is a case in point. Through massive purchases of silver futures contracts on the commodities markets (futures are contracts to purchase at a set price in the future), the Hunts' purchases and events like Iran and Afghanistan pushed the price of silver up and up as others rushed in to get in on the rising prices. At one point, when silver hit \$50 an ounce, the Hunt holdings were worth a staggering \$7.5 billion—in silver alone. For a number of reasons—the limiting of the amount of silver contracts by the government's Commodities Futures Trading Commission, the "cooling off" of the Iran and Afghanistan issues, rising interest rates making Treasury bills and money market funds more attractive to investors, among

others—the price of silver began to fall.

Then the trouble began. As the price fell, the brokers started to send out margin calls—demands for more cash against the unpaid portion of contracts. As silver dropped further, more margin calls were put out. Then one of the Hunts' major brokers—Bache Halsey Stuart Shields—called for an additional \$100 million from the Hunts, due immediately. The Hunts couldn't come up with the cash. Within two days, margin calls on the Hunts snowballed into \$300 million from such pillars of Wall Street like Merrill Lynch, Paine Webber, E.F. Hutton and Dean Witter Reynolds.

Panic struck the financial world the morning after. The Dow Jones industrials plummeted to a five year low and stock exchange officials halted trading on Bache stock and another major brokerage house—Shearson Loeb Rhodes. If they hadn't these companies would have been driven under by the loss on their own stock alone, setting off a string of collapses behind them.

But the crisis was far from over. The effects on the drop in silver prices and particularly from the inability of the Hunts to pay their margin calls still threatened to start a collapse of the major brokerage houses and banks that lent money based on silver. As silver prices fell, more and more margin calls would have been put out and more defaults occurring, leading to a chain reaction of collapses of brokerage houses and banks, dragging the rest of the economy with it. Thus, reacting to this crisis, Federal Reserve Chairman Volcker helped arrange a loan of up to \$800 million to the Hunts by a group of the nation's largest banks, precisely to prevent this kind of collapse.

What does this show? Unlike the collapse of the thirties which came from stock market speculation, today speculation in *other* markets has reached unseen proportions. In comparison, the speculation of the twenties was relatively narrow compared to today. Today the threat of collapse through speculation comes from not one source, but many.

BANKS IN GREATER DANGER TODAY THAN IN ANY TIME BEFORE

Another factor driving the economy to the edge of collapse is the dangerous position of the banks today, in fact, the most dangerous of any time in its history.

In the crash of 1929, banks collapsed as the stock market crashed since large amounts of money were lent out to speculate on the stock market. As stock values dived, many of those loans went into default causing massive losses to the banks, driving them under.

This cause of bank failures because of speculative activity started to show up again in the crisis of 1974-75.

THE WALL STREET JOURNAL,

Over the Brink

Inflation Can Threaten Your Mental Health, Many Therapists Say

High Price Level Is Linked To Drink, Marital Strife And Aggressive Behavior

The Feeling of Helplessness

By THOMAS PETZINGER JR.

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Sometimes when Roger gets home from work and looks through the bills, he flies into a rage so uncontrolled that his wife, Alice, fears for both their lives.

"He gets so frustrated he just starts screaming," Alice says. Sometimes he throws things at me. He's big enough that he could tear a limb off me or choke me to death. I'm afraid he's going to have a heart attack, or put a bullet through his head."

In Roger's view, inflation is the cause of much of his mental turmoil. While he earned \$15,000 last year, his wage increases didn't nearly keep pace with his living costs, and the pressure of trying to juggle necessities to make ends meet "is just tearing me

While most corporations suffered big drops in profits in the recession year of 1975, certain industries showed heavy net losses—\$52 million in airlines and \$240 million in real estate companies. At the same time, the airlines owed banks a total of \$14 billion in outstanding loans, and Real Estate Investment Trusts—special subsidiaries created by major banks to aggressively pursue real estate lending—owed \$11 billion.

The inability of airlines and REITs and some other types of firms to pay their debts to banks sent shock waves through the rest of the economy. The largest bank failures in U.S. history took place in 1973 and 1974—the Franklin National Bank in New York and the San Diego National Bank. 300 other banks would fail in that crisis, and even Chase Manhattan and Citibank—the second and third largest banks then—were on the bank regulator's problem list.

And as the Hunt silver fiasco shows, speculative activity has increased and as the banks get deeper and deeper into it, the chances of them being brought to collapse and setting off a chain reaction of collapses increases along with it.

Today, however, the danger of the banks collapsing goes a lot deeper. Look at the recent threatened collapse of the First Pennsylvania Bank. The reason it was threatened was not caused by a massive loss on speculation, not because a stock market crashed, not because one of its major corporate clients went under. There was no "outside" cause of its threatened collapse. No, its threatened collapse was based on the normal operation of this, the 23rd largest bank in the U.S. And that shows how dangerous the situation is for even stable banks in the 80s.

The reason that First Pennsylvania (and a number of other banks, including some of the biggest in the country are in the same state) almost went under is because they were caught with large amounts of long-term low interest loans outstanding and portfolios full of low yielding bonds at a time when the inflation rate was skyrocketing and the government was hiking up interest rates to 16% on the money it lent to Federal Reserve member banks. Thus First Pennsylvania Bank borrowing high interest short-term loans to finance the securities it bought between 1976 and 1979 saw losses amounting to \$6.4 million in the first three months of 1980 alone.

Facing the situation where the collapse of First Pennsylvania could set off a chain reaction down the line, with other corporations and other banks being pulled down with it, the Federal government intervened. The Federal Deposit Insurance Corporation got 26 other banks together to bail out First Pennsylvania with \$1.5 billion in loans.

OTHER BANKS OUT ON A LIMB ALREADY TO BE CUT OFF

Today, the biggest banks are in deep trouble. In the mid-1940s, the commercial banks loaned out around 20% of the funds available to them from depositors, with the balance held in liquid assets. Today, over 75% of depositors' funds have been loaned out with some banks loaning out as much as 90%. It is no mere coincidence that this is the same level they reached before the 1929 crash. Moreover, according to *Business Week* (April 21, 1980) today bank equity is supporting a higher level of assets than even five years ago. Indeed, by the end of 1980 that ratio is expected to fall below 4%—each \$1 of equity now supporting \$25 of loans and investments. And for every \$1 of stable core deposits, the banks are carry-

ing more than \$2 of purchased money that can be withdrawn at short notice. In other words, the banks today—including the biggest banks—are sitting on top of a foundation of sand which at any moment could shift right out from under them.

On top on this, corporate borrowing from the banks—even with the massive increase in interest rates—has been skyrocketing as businesses scramble for loans at any price to beat future inflated rates and government controls on borrowing. Since last year, unused commitments at large banks rose from \$200 billion to \$248 billion, a massive 25% increase. As *Business Week* says, "If such commitments are utilized, the \$160 billion in business loans outstanding will more than double, raising fears about the health of an already strained banking system. Such fears were underscored as long ago as last October, when Comptroller Heimann stunned the financial markets by warning that an undisclosed number of institutions could fail and destroy confidence in the entire system. The Comptroller's office indicted that problem banks numbered about 250. The grim truth is that the banking system is far less able to withstand a recession than it was in 1974..." In 1974, the largest bank bust in U.S. history took place—the Franklin National Bank of New York.

The grim truth today is that the financial structure relative independence from the process of production has taken off to the point, where credit expansion is no longer based on real production but on securities and "prospects". Thus the material basis for finance has no or little bearing on the growth of cheap credit. Debt is built on debt pyramiding higher and higher and clearly now making the amount of loans outstanding before the crash of 1929 look insignificant. And the potential for crashing, like the amount of debt, has in its turn outstripped the vulnerability to collapse before the Great Depression.

CORPORATION, MASSES IN WORST DEBT EVER, LEADING TO WIDESPREAD VULNERABILITY TO COLLAPSE

Corporate liquidity today is at a 25-year low and personal and corporate bankruptcies are starting to snowball, increasing 81% since February of last year. As the Chrysler Corporation shows, more and more formerly blue-chip corporations are facing bankruptcy as the economy is unable to recover from the previous crises.

But Chrysler is far from alone. Fueled by relatively low interest rates because of the government's infla-

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Year	Company	Loss in millions
1954	Kaiser Motors	\$35.5
1955	Studebaker-Packard	\$29.7
1956	Studebaker-Packard	\$103.3
1957	American Motors	\$11.8
1958	Chrysler	\$33.8
1959	Douglas Aircraft	\$30.2
1960	Lockheed Aircraft	\$42.3
1961	General Dynamics	\$143.2
1962	Fairbanks Whitney	\$27.3
1963	Studebaker	\$30.9
1964	Curtis Publishing	\$13.3
1965	Brunswick	\$78.9
1966	Douglas Aircraft	\$27.6
1967	American Motors	\$75.9
1968	Celanese	\$77.1
1969	Ling-Temco-Vought	\$35.2
1970	Northwest Industries	\$27.4
1971	Anaconda	\$356.4
1972	Boise Cascade	\$170.8
1973	Genesco	\$52.9
1974	Chrysler	\$52.1
1975	Singer	\$451.9
1976	Rohr Industries	\$52.1
1977	Bethlehem Steel	\$443.2
1978	Chrysler	\$204.6
1979	Chrysler	\$1,007.3

tionary policies, corporations got heavier and heavier into debt after World War II. In 1974, the debt of U.S. corporations was \$1.1 trillion, fully ten times higher than at the close of World War II. In the same period, after-tax corporate profits grew by only five times. ("Corporate Debt — Obstacle to Recovery," *Dollars & Sense*, May-June 1977, reprinted in *U.S. Capitalism in Crisis*)

By the 1970s, debt repayment had become a major annual cost no longer covered by rising revenues. In 1950, the cost of interest payments by non-financial corporations amounted to a half billion compared to after-tax profits of around \$20 billion. By 1975, after-tax corporate profits had risen only three times to \$60.4 billion, but the cost of interest payments had jumped to \$15.5 billion. And corporations were holding more of their assets in fixed capital and less and less in cash or securities.

In this situation, recessions make the likelihood of corporations going under more likely. Thus in 1970, Lockheed Corporation was threatened with bankruptcy, bailed out only with what now looks like a small loan from the government — \$300 million. And in 1974, the Penn Central went bankrupt, unable to pay its debts.

Moreover, consumer debt is at a record level — \$300 billion — at a time when layoffs are skyrocketing, with over 200,000 laid off in auto alone. Massive default even of consumer loans will drag corporations as well as banks down, and with their already shaky cash positions, throw them in to the ranks of Chrysler. As more and more of them go, the rest will be dragged down into the same bottomless abyss of a general collapse.

CAN THE GOVERNMENT SAVE ECONOMY FROM COLLAPSE FOREVER?

No, it can't. It is trying, however. As former Federal Reserve Chairman Arthur Burns has said, he doubts that the government would allow the string of bank failures that made the Depression so deep in the 1930s. The fact is, however, that every bail-out of a major bank or corporation has relied on consortiums of banks to put the necessary money together. As more and more monopolies are faced with bankruptcy, as is the case today, there will be less and less private capital to bail them out. If the government doesn't carry on the bailouts alone, at some point in the not-so-distant future this will mean the collapse starts to carry out its devastating work.

The government, on the other hand, will have only one alternative. That is to print money and go even deeper in deficit financing, sending ravaging inflation up like a missile, and that will eventually itself lead to an economic collapse. Like the inflation explosion in Weimar Germany, it will lead to a political crisis like this country has never seen. Food riots, massive strikes breaking out in armed clashes, massive repression by the government, the wiping out of the petty

bourgeoisie, the breakdown of the currency system and resorting to primitive barter, and foremost of all, the polarization of the masses at a high level between communism and fascism — all will follow in the wake of it.

Thus at this point, looking for souplines like the 1930s as a sign of the depths of the crisis is to naively belittle the crisis that we face. Today, the crisis is more extensive and fundamentally deeper than anything we have ever seen, particularly the Great Depression. Today, from a number of perspectives, any crisis of a company or a bank could snowball into a general collapse of the entire economy — only this time on a scale and intensity dwarfing the Depression of the 1930s.

ESCAPIST SPECULATION FEVER BREAKS OUT AMONG THE BOURGEOISIE

The bourgeoisie has gone on a speculation binge. With inflation running in the double-digits and the economy more vulnerable than ever, traditional investments like long-term bonds and even blue-chip stocks look ridiculous.

Thus money has flowed out of the capital markets and into the speculative markets like real estate, gold, silver, foreign currency markets and even stamps, antiques and artwork — raising prices and giving these markets apparent life and future. According to a study by Saloman Bros., the New York investment banking firm, stocks have only risen at a compounded annual rate of 3.1% since 1968 while the consumer price index has grown by 6.5%. Gold, meanwhile, has jumped by more than 20%, diamonds by about 12% and single-family housing by about 10%. (*Business Week*, December 31, 1979, p.58)

The larger international picture and the U.S.' relative decline *vis-a-vis* the third and second world and the Soviet Union have especially expanded the speculation in gold. With the crisis of confidence in the U.S. political leadership and the recent events in Iran, Nicaragua and Afghanistan, gold and silver commodity prices shot through the roof, reaching an all-time high of over \$800 per ounce.

Real estate has also enjoyed a boom amidst the speculation fever. Today less and less investment is going into new construction and the housing industry is in crisis. Yet the so-called fractional real estate market is booming. Unable to afford a new home, and with gas prices making moving to the suburbs unappealing, many petty bourgeoisie are getting sucked into speculation and turning to rehabilitating older housing in the inner cities, like certain brownstone neighborhoods in New York.

In this way, a few better situated workers and the petty bourgeoisie hope to protect what small investments they are able to make by buying a house in a usually poor and working class neighborhood which is turning petty bourgeois. Buying up old housing, the increasing price of the house is dependent in fact on the

neighborhood turning into a petty bourgeois one. Thus one of the first of this kind in New York, the Park Slope section of Brooklyn was originally a poor black neighborhood in the 1960s until the brownstone movement drove them out block by block. Of course, the banks are more than willing and in fact push this as a way to generate new mortgages and fat profits.

By definition, this kind of speculation in housing in the cities is restricted, as the speculative advantage comes from the neighborhood being sharply delineated from the surrounding workers' and poor neighborhoods. Thus one implication of this kind of housing speculation is increasingly sharply drawn class lines among neighborhoods in the inner cities in the future.



Trade union struggles in the 1980s will be spreading armed clashes between workers and the state. On strike since November 1979, workers in Washington, Indiana overturn a busload of scabs. They retaliated against the town mayor, who organized the scabbing, by bombing his house.

This market has a Paris fashion air about it. While there are brownstones in New York area, towns like Jersey City, New Jersey are overwhelmingly working class and poor, so the housing stock is abandoned and deteriorates. In nearby Hoboken, however, because of a few petty bourgeois who moved in, a whole wave of them has defined a section of the town as "in" for the brownstoners.

The brownstone movement in places like New York and other cities, however, can't delay the massive destruction of housing stock in the U.S. In New York

alone, thousands of units of housing, mainly low and middle rental apartments are lost each year because of the lack of new building in the city and the lack of upkeep by landlords — themselves caught in the inflation — who end up abandoning their buildings. And only massive capital spending for new construction can even start to reverse this trend.

What does all this speculation in gold, silver, real estate, diamonds, stamps, coins, antiques and art have to do with the economy? Let the capitalists speak for themselves. According to *Business Week's* article "Last Chance for Investment vs. Speculation" (December 31, 1979): "For the nation's investment markets, 1980 promises to be the most critical year in

at least a decade — maybe the most critical year for the markets in a half-century. How well the markets fare in 1980 will tell much about how they — and the whole U.S. economy — will fare in the 1980s and beyond."

Thus on the one hand, the stagnation of the economy and the rampant inflation create the conditions for the bourgeoisie to resist investment, thus undermining the basis for the economy to pull out of the ever-deepening crisis. On the other hand, the proletariat is today being impoverished at even a faster rate, facing the full brunt of the crisis. With the level of economic crisis bearing

down with a vengeance, the proletariat is jarred awake from its half-sleep of the last temporary stabilization of capitalism, now ended, and now the capitalists face the prospects of a direct threat to their rule.

And the options that the capitalists have to get out of the crisis are shrinking daily. Further militarization of the economy would inevitably create an inflation rate that would make today's look insignificant. On the other hand, with the greater vulnerability of the economy to crisis, *individual* bourgeoisie have no interest in putting their money into dying basic industries.

Yet it is only massive investment into those dying industries like auto and steel for civilian purposes (since used for the military it would only compound inflation) that could temporarily stem the tide of ever-quickenening impoverishment among the proletariat. Because of their strategic location in the chain of economic activity, forming a major basis for numerous other industries (auto, for instance, connects to machine-building, rubber, glass, plastics, steel, aluminum, etc.) and because of their significance to the stemming of inflation since only through the growth of these sectors can non-inflationary growth take place, and because of their role in providing relatively high-paying jobs and thus being important

bourgeoisie is that they are ripped apart by antagonistic contradictions. Because they are out to protect their individual interests, they can't agree to which industry will get a boost first. And because of the advanced stagnation of so much of U.S. industry, it's clear that only a few can be bailed out if at all. For the government to pump money into some of the industries will mean the other industries will automatically be iced out.

As Rohatyn puts it, the bourgeoisie needs "an integrated, rational economic strategy to face the future. At present, the various aspects of such a strategy are approached piecemeal or are ignored. They are ground to dust between an Administration unwilling to convince and a Congress unwilling to act." What he's talking about is the half-steps forced on Carter by the vicious infighting going on among the bourgeoisie over the energy program, a watered-down version of the proposal by Nelson Rockefeller when he was vice-president. The program asks for over \$200 billion in money for energy research, the fruits of which would go straight to Exxon, controlled by the Rockefeller financial group. Other oil monopolists, knowing that either they get a piece of the action or else get swallowed, blocked the bill in Congress.

Thus the main problem the bourgeoisie faces in

“A New FDR or a New Hitler

sources of purchasing power for the workers, these industries are key to stemming the rapid impoverishment of the proletariat and its revolutionary consequences.

A NEW FDR OR A NEW HITLER TO SAVE THE BOURGEOISIE?

In this context, Rohatyn has become a leading spokesman for the call to "reindustrialize America." The bourgeoisie has to get the productive sectors of industry going to even temporarily stem the increasingly rapid impoverishment of the proletariat and its revolutionary resistance. But because the bourgeoisie won't put their investment into them, the bourgeoisie has to find another way out. The only way for them to pull this off, according to Rohatyn is to "do what FDR did" — gave a massive infusion of capital through *state monopoly capitalism*.

State monopoly capitalism is monopoly capitalism based on private ownership and merged with state political power. Only if the federal government guarantees profits through government subsidies, tax breaks, government contracts, government facilities, machinery and research would private investors have the guts to put money into basic industries.

But the catch in this seemingly easy way out for the

implementing this plan is *political*, not economic. Following Rohatyn's plan means they have to pull a workable coalition of the bourgeoisie and its agents together. Only an agreement on a state monopoly capitalist plan to start the ball rolling in the major industries would get private monopoly capital to invest and get varied other sectors of the economy going.

Rohatyn has in fact put out a political plan for the bourgeoisie to form a "bipartisan commission" made up of "representatives of business and labor, government and academia" modeled on the Temporary National Economic Commission of Roosevelt's New Deal. Rohatyn's version of the TNEC would have a year to maneuver, make deals and paste together a recommendation "to the President and the Congress on national economic strategy for the next 20 years." "A complete program," Rohatyn continues, "recommended by a prestigious bipartisan group including business and labor could then be put to the Congress with the political support that such a coalition would produce."

The fact is, however, that Rohatyn is swimming up a waterfall. While Roosevelt is best remembered by the monopoly capitalists for pulling together such a coalition to get them through the Depression, it took him four years to start and the momentum wasn't gathered

until the war; and that was with the support of the sell-out "Communist" Party, U.S.A. Today, things are a whole lot worse.

For one thing, the contradictions among the monopoly capitalists today make the contradictions in Roosevelt's time pale by comparison. Historically, free competition leads to monopoly, but monopoly cannot eliminate competition. On the contrary, it intensifies competition because competition is a product of capitalist private ownership. Monopoly has not changed the nature of capitalist private ownership and thus cannot eliminate competition. This is especially true because means of production are increasingly concentrated in the hands of a few oligopolists. To eliminate their opponents, the monopoly organizations resort to any conceivable means to discourage their competitors. Competition becomes more acute and cruel.

In contrast to the pre-World War II period, today with the growth in the role of state monopoly capitalism, the struggle between the bourgeoisie goes far beyond the purely economic, penetrating to the core of the political sphere. For whoever controls the reins of government can pretty much decide where the bulk of the contracts, loans, etc. goes and which monopoly capitalists will benefit most — and who will be

U.S. auto industry may itself be eaten up by another monopoly.

Amounting to essentially the same thing, the other side of the deregulation coin is the cut-throat game of price control. This is by no means a measure to benefit the American people, but a life and death fight among the monopolies to control the pricing mechanism to eliminate competition and gain monopoly at a higher level.

Besides these, Rohatyn's plan is facing the new situation of deepening stagnation along with rampant inflation, which Roosevelt did not have to face. The economic crisis today is many times deeper and more acute than even the Depression, which took place before all the Keynesian tricks were available and exhausted. Today, the tricks like militarization of the economy, unlimited expansion of credit, deficit financing and printing up money are exhausted and in fact have compounded the problems the bourgeoisie faces. Thus their options are limited.

And today, as we have said, there is no possibility of exporting the crisis, with the rise of the third and second worlds' struggle against both superpowers. U.S. imperialism as compared to the Soviet social-imperialists is a declining imperialist power. This has

To Save the Bourgeoisie?"

wiped out. Thus the struggle politically is very intense, especially for the control over the key positions of the executive branch, particularly for the presidency and the key cabinet posts. It's no accident that the biggest example of this inter-monopoly contradiction in recent memory is Watergate. And as Gordon Liddy's recent book *Will* has revealed, the bag job at the Watergate Apartments was just the tip of the iceberg. In the works was the assassination of Jack Anderson, the columnist and later Stewart Magruder, a co-conspirator. And Agnew's recent book showed that he too feared the assassin's bullet.

The acuteness of the struggle is also heightened because the stakes are a lot higher. With the greatest vulnerability the economy and individual companies have ever seen, huge losses and huge gains can take place within a matter of days. Major Fortune 500 corporations are increasingly the target of corporate takeovers as the monopolies attempt to gobble each other up. Perhaps the best example is the recent major mergers in the airline industry after "deregulation" which led to the gobbling up of National Airlines by Pan Am, the merger of Allegheny and Lake Central to become U.S. Air and the planned merger of Western and Continental Airlines. And even with the government not allowing Chrysler to fail, this pillar of the

added an entirely new dimension to the problems of the U.S. imperialists which haunts them day and night. In Roosevelt's time there was no third or second world, no Iran, Nicaragua, or European Common Market. If any analogy applies at all, U.S. imperialism today is comparable to the position Germany was in after World War I and prior to World War II.

Moreover, politically the situation is more fragile, volatile and inflammable today after the Southeast Asian War, Watergate and the permanent crisis — a situation unseen by Roosevelt. As the bourgeois sociologist Seymour Martin Lipset has stated in comparing the U.S. and Germany after 1929, "The Germans . . . suffered from the fact that their political system had weak legitimacy and collapsed. People didn't accept the Weimar Republic, and when an enormous crisis came, they deserted to the right and the left. We, on the other hand, entered the 1930s with a very legitimate system which had worked. People believed in it, so the system was resilient, even though it had been hit a body blow. The German system was brittle.

"Now I'd say we've got a much more brittle system today. There's less belief in the idea that, come what may, it's the greatest system in the world. If a 1930s-scale depression were to hit us, which I don't believe

will happen, I think it would create more of a protest movement, radicalism and organized discontent today, probably, than occurred in the 1930s.

“What I’m suggesting is this: today, the American system is less legitimate in the eyes of the people than it was, certainly, at the end of the 1950s. Hence, there’s more need for it to work, to keep going than there was in the 1930s.” (*U.S. News and World Report*, January 7, 1980)

Thus, the bourgeoisie cannot implement Rohatyn’s plan, that is, under present conditions of bourgeois democracy. If the bourgeoisie can’t implement this plan through a coalition embracing the great majority of them, they will be forced to try another way out.

That other way out is fascism and world war. The naked fist of repression wielded by the most reactionary, chauvinist and terroristic of the monopoly capitalists will be directed not only against the masses but also against the opposition they face among their own class. Using the power of the state, this clique of monopoly capitalists will forcibly seize the capital of the other and direct it to the reindustrialization in a way that favors their own interests. And inevitably, part and parcel of surviving through the crisis and reviving the possibility of gaining another temporary stabilization of Western capitalism is coming out the winner in another redivision of the world — the Third World War.

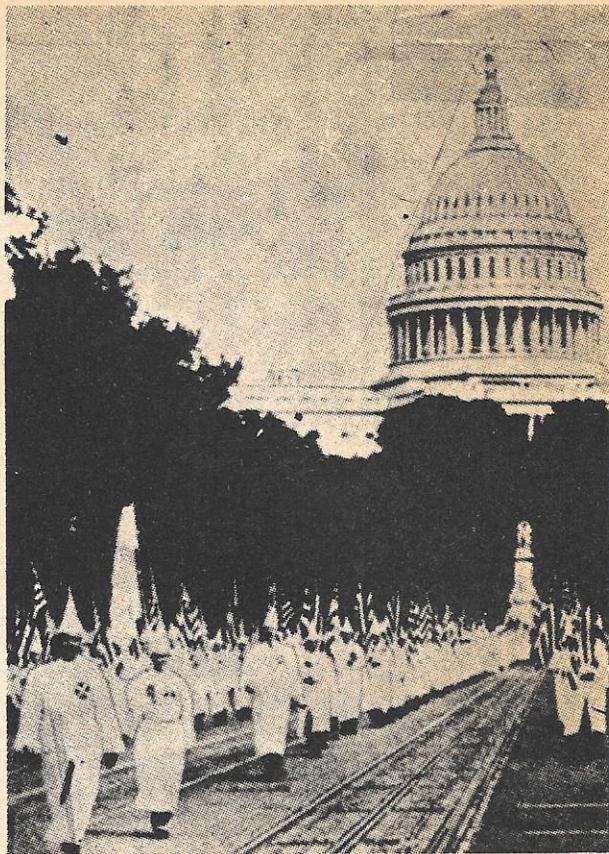
ONLY WAY OUT OF CRISIS IS WAR

As we said in the editorial “U.S. People Must Prepare Against World War III and Fascism” (*Workers Viewpoint*, January 21, 1980): Beseiged by crisis, the bourgeoisie is forced, consciously or unconsciously, independent of their will, bit by bit into a world war to redivide the world in order to conquer new markets and new sources of natural resources.

But the fact is that the U.S. people will not tolerate a world war right now, nor are the U.S. imperialists ready militarily to enter an all-out war with the Soviet Union. That’s why all Carter could do in this superpower power struggle is stall with half-step grain embargoes.

In a recent issue (December 31, 1979) *Business Week* addresses the problem in getting private investors to stop speculating on Treasury notes, city bonds, gold and so on and start investing in productive industries like steel and railroads. Two roadblocks to this they say would be: 1) “war in the Middle East,” and 2) “a massive flight from the dollar that would force the Organization of Petroleum Exporting Countries to shift from the dollar to other currencies in pricing oil.”

What’s the implication of the *Business Week* analysis? If the U.S. sent troops to Iran, for example, the Soviet Union would certainly retaliate by cutting off the shipping lanes in the Straits of Hormuz and the Persian Gulf (through which most of the world’s oil supply travels). This would slash the oil lifeline of



The KKK/Nazis are increasingly used as military surrogates and spearhead the scapegoating politics of the bourgeoisie as they attack the U.S. people and prepare for World War III — their only way out of the crisis.

Europe and Japan and these countries would crumble and go under Soviet bosses’ rule. The U.S. dollar wouldn’t be worth the paper it’s printed on, with confidence in the dollar already at an all-time low. Facing a situation like this, there’s no way investors would pump money into long-term, productive industries and speculation would run rampant, dooming all hope for pulling out of the present capitalist destabilization and awakening of the U.S. people.

This is why the U.S. can’t invade Iran and confront Soviet aggression in Afghanistan now. If, because of internal factors, the U.S. can’t afford to fight a war in Iran, it certainly can’t fight a world war with the Soviet Union now.

TO GO TO WORLD WAR III, BOURGEOISIE NEEDS FASCISM AT HOME

This is the tight bind the bourgeoisie is caught in — driven toward war by the economic crisis at home, yet unable to go to war because of the opposition at home and collapsing state of the U.S. industrial base. For the bourgeoisie, there’s only one logical answer to this riddle — *fascism at home*. At present, the danger of fascism is visibly growing. Why?

Unable to contend with the Soviet social-



Phil Thompson, spokesperson and Central Committee member of the CWP. In the 1980s with the lever of economic crisis bearing down as never before, tens and hundreds of millions of the masses are open to communist propaganda and leadership.

imperialists, the U.S. can give up its superpower ambition and resign itself to being a second-rate imperialist. This would mean that the U.S. bourgeoisie has to give up the hope for another round of temporary stabilization of capitalism in the west and face the immediate prospect of proletarian revolution home, in Europe and in Japan. But the U.S. must act instinctively, along its imperialist nature, to fight for world hegemony, thus maintaining its rule abroad and at home.

Like a wounded beast, U.S. imperialists are desperate. They are forced now by severely limited alternatives to implement one of two things or both: 1) lull the Soviet Union into a genocidal attack against China and thus drag the Soviet Union down and weaken it sufficiently so that once again U.S. imperialism, like in both World War I and World War II, will emerge as the number one power. This, they hope, will be the biggest Munich ever. (The Munich treaty was signed by the Western imperialists and fascist Germany and Italy on the eve of World War II. It symbolized the West's, including the U.S.', policy of

appeasing Germany — trying to lure her away from Europe to attack socialist Russia.

The U.S. imperialists' hegemony will mean the delay of the prospect for U.S. proletarian revolution and the prolonged suffering of the U.S. proletariat. But this still means a world war, even though U.S. imperialism will again be the late comer into the world war. Furthermore, this eastern Munich will cause millions and even hundreds of millions of innocent Chinese and Soviet people's lives.

The U.S. wants a weak China. A militarily strong China helps delay World War III and gives the world's people time to prepare. 2) They have to take stalling actions like the grain embargo, meanwhile actively stepping up preparation for war, both whipping up chauvinism among the U.S. people and squeezing American people more for armaments and to build up its military base to a point strong enough to fight the Soviet social-imperialists. This is what the U.S. imperialists are doing now. But all these steps will have devastating effects on an already sick U.S. economy.

Meanwhile, militarization will bring undreamed-of inflation — 20, 30, 40, 50%. Interest rates double and triple. Joblessness will spread like the plague. Confronted with these attacks, the U.S. people's resistance will be unprecedented and make the 1930s and 1960s seem like picnics. Thousands of Levittowns (where white youths burned gas stations protesting ripoff gas prices) will explode, a hundred times more militant. Strikes will ignite into many armed skirmishes. This inflammable situation would threaten the bourgeoisie's rule as never before. Bourgeois democracy, capitalism's best shell, would crumble and the bourgeoisie, in desperation, would have to impose fascism to maintain rule. We must be prepared.

SITUATION QUALITATIVELY DIFFERENT FROM 1930s AND 1940s

The situation facing the monopoly capitalists today is qualitatively different from the one they faced in the 1930s and 1940s before World War II. Then the U.S. was able to go to war, resort to Keynesian economics, without resorting to fascism at home — the extreme naked rule of the monopoly capitalists stripped of all bourgeois democratic dressing. The bourgeoisie will not be able to preserve bourgeois democracy this time around. Just as the German, Italian and Japanese imperialists prior to World War II who had to have fascism to launch a war, the bourgeoisie has only one option. But there is another important difference between the 1930s and 1950s and today, and here lies the great hope of the American people and the people of the world. Today, after Vietnam, Watergate and the phony oil shortage, the U.S. people are more politically conscious than ever before. Shaken by the historic lever of economic crisis, the U.S. working class is waking up. And most decisive, today there is a

party to lead the American people to fight for a bright socialist future — the Communist Workers Party.

Fascism means the most direct and vicious attack on the masses ever and will take all the bourgeoisie's strength. If we can beat this back, and we are determined to, we can certainly move on to smash the bourgeois state. The murders of the CWP 5, the scapegoat tactics used against Iranians and the national red-baiting campaign against CWP members and friends are preludes to this approaching test of strength. This is the beginning of our countdown — people must get prepared.

ONLY A SOCIALIST U.S. UNDER THE DICTATORSHIP OF THE PROLETARIAT CAN REINDUSTRIALIZE THE COUNTRY

Thus caught in a whirlpool the permanent economic crisis deepens steadily pushing the U.S. toward fascism and world war. All the while the masses suffer attack after attack — ravaging inflation, unending layoffs, lethal working conditions, bloodsucking taxes — reflecting the sharply increasing exploitation and absolute impoverishment of the people, leading to ever-deepening crises of overproduction.

And as we have shown, the laws of capitalism are today preventing the reindustrialization of the U.S. and therefore destroying the productive capacity of the economy and dooming the workers and oppressed to untold suffering under the capitalist system. Today, short of fascism and a victorious world war, increasing the suffering and death of the masses millions of times, the only solution to this living hell is socialism — the dictatorship of the proletariat. Only under socialism can the country be reindustrialized and the permanent crisis ended forever. □