The Crash of '87

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March 1988

The crash

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The Great Crash of 1929 is the only event in living memory which compares in scale with 29 October 1987, and Marxism the only theory which warned it could happen again. We obviously owe our doctrine a small pat on the back.

Unfortunately this isn't enough. Why was the *particular* crisis of 1929 so sharp? And why was the depression which followed so long and so deep?

The rediscovery of long waves in capitalism offers part of the answer.[1] The Keynesian economist Kindleberger[2] offers another, not necessarily contradictory answer. He points to a *structural imbalance in international relations* in the inter-war period, marked by Britain's fall from world leadership and the USA's rise to the status of hegemonic leader of world imperialism.

As a theory of what caused the crash, abstracted from the contradictions of a system based on private investment for profit – as analysed by classical Marxism – this does not stand up. What caused all the other recessions? But if seen, not as the cause of the crisis but as its highest expression – and the key to its solution – it is consistent both with classical Marxism and with its extension to include long waves.

The central idea of Lenin's *Imperialism* is that under monopoly capital, competition at the highest level is between *blocs of capital for the division of the world's markets*, combined with the *struggle for the division and redivision of the world's territory*.

Trotsky held that the resolution of global crisis demands a violent reorganisation of relations between national states, serving as instruments for defending national blocs of capital in international competition.

These accounts are relevant today. What was World War II if not a convulsive redivision of the world's markets and territories arising from a violent reorganisation of relations between states? What provoked it if not the radical imbalance between the world distribution of productive forces and the world relations between national blocs of capital provoked by Britain's decline and the USA's rise? More chillingly, what do we see now if not a new radical imbalance provoked by the long-term decline in the productive capacities of the USA?

This suggests that focussing on relations between the great imperialist powers could shed great light on the 1987 crash.

Economic paralysis, political convulsion

1929 was not a 'normal' cyclic crisis. By 1932, industrial production in the

USA was barely half its 1929 level. The US share index fell from a peak of 216 to a trough of 34 – nearly 85% over three years. Trade declined for five successive years and did not regain 1929 lèvels until after the war. It took five years for the first major country – Britain – to reach its 1929 levels of production.[3] The US saw no less than seven years of net negative investment.[4]

But the political consequences were even more shattering. By the end of the recession Hitler was in power, the Roosevelt administration was in office, the British Labour Party had collapsed into coalition, and France had seen four governments in as many years. Spain was in the throes of civil war. There were an estimated fifty revolutions in Latin America; Italy had conquered Abyssinia, the Japanese Manchuria, and Germany was well advanced in the conquest of its Eastern neighbours.

A chastening point for the view that the economic collapse of capitalism will burst open the door to socialism; during this entire period, in not one country was capitalism overthrown.

The character of British world domination

These convulsive changes revolved around a central pivot: the erosion of British hegemony. The notion of hegemonic leadership is not a simple one, and does not reduce to being the biggest or most powerful. Britain until 1913, like the US from 1945 until around 1971, combined a number of distinct functions.

It was first of all the world's banker. It issued a reserve currency with unlimited convertibility into gold which was the almost universal instrument for world trade and payment. As such it was the guarantor of the credit system on a world scale. On this depended not just world trade but imperialist accumulation, which required the large sums of loan capital which only the credit system could mobilise.

Britain in effect operated a world counter-cyclical policy. Arthur Henderson, in his proposal to the 1932 Lausanne conference, recalled that Britain used to maintain solvency everywhere in difficult times by shipping gold to centres of financial crisis and by drawing gold from centres not affected. 'It is of the essence of the present world difficulties that London has failed in the discharge of that vital function, and that no other centre has been willing and able to discharge it', he concluded.[5]

But Britain rose to world banker as its greatest producer, trader and shipper, and bestrode it as a *capital exporter*. At its zenith in 1913 fully 82 per cent of all capital issues in the UK were for foreign investment.[6] Magdoff[7] cites the following estimates:

Percent of total foreign investment

	1913	*1930*	*1960*
UK	50.3	43.8	24.5
Germany	17.3	2.6	1.1
US	6.3	35.3	59.1

Capital export has proved the longest surviving component of Britain's imperial role, and the entire 20th century is virtually a history of Britain's obstinate refusal to abandon it. On a superficial comparison the USA overtook the UK as a capital exporter in 1918. Between 1924 and 1929 US loans abroad totalled $6,429 and those of the UK $3,301.[8] Gross loans, however, probably do not clearly indicate the size of the disposable surplus for investment abroad mobilised by each country, since part of the loan activity of any country is to recycle funds it has attracted as a borrower. The *Economist* of 2 June 1928 tried to establish the net export of capital from each country, with the following results:

Import (−) or export (+) of capital from US and UK

	US	*UK*
1922	263	681
1923	−112	669
1924	306	390
1925	493	261
1926	163	− 34
1927	671	466
	1,784	*2,463*

It concluded that:

'The great fact of recent years is not that American capital, unable to find a use at home, is inundating foreign countries, but that the outflow . . . equals and even appreciably exceeds the inflow of capital from foreign countries which was stopped by the war but has now revived in very considerable volume. The fact is that America's trade balance shows no sign of producing a very large export surplus the proceeds of which she can lend abroad. She can only swell her foreign issues by lending money that is lent to her or by shipping gold.'

In a nutshell this explains the third requirement of a hegemonic leadership role. The key to capital export is capital to export. And once a world market in capital goods emerges, world surplus value can be mobilised only through *trade*.

New York in the early 1920s became the great magnet for investment funds because of the tremendous expansion of its domestic markets. It thus became a great financial centre and combined functions of investing those funds in the US and channelling them elsewhere. But it had not unleashed its full productive might on world markets as the table shows.

It could not mobilise and centralise the new value thrown onto world markets as Britain did in the mid-19th century. Britain attained its role as world banker first and foremost as the world's quartermaster. By 1918 it had lost this position; but no-one else had yet attained it.

This is why the crash of 1929 affected the USA worse, and for longer, than anyone else, and yet the recovery found it still forging ahead of its rivals. In the aftermath of a great credit crash it could neither mobilise idle loan capital for expansion, nor supply an export market created by the expansion of others. But the malaise lay not in its productive forces which, as Hoover never ceased explaining, were 'fundamentally healthy', but in its market situation in a world already carved up by the ancient European powers.

Control of markets: the keystone of the arch

This brings us to the fourth critical element of imperialist hegemony: the control of markets. Britain's unparalleled access to world markets was *the* crucial conquered asset with which it marched into the 20th century. It was

36 Share of exports of manufactured goods

	1899	*1913*	*1929*	*1937*	*1950*	*1967*
US	11.7	13.0	20.4	19.2	26.6	20.6
UK	33.2	30.2	22.4	20.9	24.6	11.9
Germany	22.4	26.6	20.5	21.8	7.0*	19.7*

the cement which bound together its role as producer, exporter and investor.

In the heyday of empire there was no contradiction between domestic and foreign expansion. Britain organised the great centres of raw material and food production in the dominions with its railway and mining capital. Its ships carried the booty home where as monopsony purchaser it could dictate a purchase price well below world values, shoring up its exporters against foreign competition long after their time had come. And when challenged, the great Tyneside and Glasgow ships decked out their Woolwich guns and donned their Sheffield armour and steamed off to show the world the value of civilisation.

When English gold met German steel and American power plants in the cities of Latin America, this unity began dissolving. As Britain lost its competitive edge in manufactured and capital goods, monopoly control of trade and finance became its decisive weapon in the battle for superprofit. One word expressed this monopoly – empire. Two possessions embodied it – territory and ships. Britain dominated trade because it physically controlled both the means of world transport and the places it traded with.

Its territorial role is well-known.[9] Readers may be less familiar with its control over trading routes, critical to its economic competition with the USA in the inter-war years.

From 1870 to 1910 the UK successfully defended a share in world shipping tonnage never less than 34%, massively bolstered when in 1918 it confiscated the entire merchant marine of Germany, its chief rival. In 1928 its gross tonnage was 20 million in a world total of 66 million, of which 16 million was owned by the USA. (Of this 3 million tonnes plied the Great Lakes and by 1930 a further 3 million lay idle.) In 1928 the UK produced 53% of the world's new gross tonnage.[10]

On the critical trade routes Britain exercised a virtual total monopoly, including not only the transport of its own goods (and of course, of its colonies) but the international trade of its chief rivals. Again in 1928, the USA carried only 34% of its own trade with its two nearest neighbours, Mexico and Canada![11]

The significance of these monopolies for the UK as a world power are isolated with stark simplicity by the balance of payment figures for 1928. In this year a credit balance of $745m in 1928 was produced from a debit of $1,795m on visible trade by two figures: $650m of 'net shipping income' and $1,425m of income from overseas investments. In blunt terms, Britain's trading advantage from superior technology had been supplanted by its monopoly privileges arising directly from its control of markets and territories.

In this lies the root of Britain's displacement as hegemonic power and the key to understanding what a hegemonic power must consist of.

The driving force of capitalist expansion is the search for superprofit; an above average profit which will permit a capital to outgrow and eventually absorb its rivals. With the imperialist epoch two great sources of superprofit became the monopoly of a handful of great powers: monopoly rent arising from control of markets and credit; and technological superprofit arising from a monopoly control of an entire area of technology.

The decisive requirement of a hegemonic power is that it can guarantee the conditions for the general ascendancy of the imperialist powers, providing them with a permanently elevated share of the surplus value produced in the rest of the world. It must also, however, guarantee the distribution of this superprofit among the imperialist states such that all of them enjoy a relative benefit from it, compared to the bourgeoisies of the dependent economies.[12] But to do this it must command both main sources of superprofit. Simple domination of superior forces of production is not sufficient, as the USA found in the 1920s and both Japan and Germany know today. Neither is simple domination of markets sufficient, although Britain still does not seem to understand this and probably never will.

From the great crisis of 1873 until the present day Britain has sacrificed its technological lead for its monopoly privileges. US capital was absolutely incapable of translating this productive advantage into a stable realised surplus until it could supplant Britain as the principal organiser of the sources of monopoly rent – in short until it had become the world's foremost financial power and above all its foremost military power.

The great areas of US investment penetration provide a panoramic photograph of the advancing new technologies of the first half of the 20th century, under the control and domination of the USA. In terms of the great capital commodities the battle between the US and the UK saw the triumph of air over sea, road over rail, electricity over steam and oil over coal.[13] But a superior technology in and of itself was absolutely insufficient.

From 1929 the entire pattern of world trade shifted. In the absence of any stable trading medium the major imperialist countries retreated from triangular or multilateral trade and embarked on a series of bilateral or reciprocal arrangements. The decisive point about these is that they depend as much on the political relation of forces between the states concerned as on market relations between the countries.

Britain not only ensured that an empire population of over 700 million traded with it to the exclusion of its rivals, but maintained a steady improvement of the terms of trade in its own favour. As it retreated into the laager of empire, its monopoly position became ever more an obstacle which the US could not surmount. At the lowest point of the depression, when US production stood at 53 relative to 1929, British production had fallen to a mere 84. After Japan its recovery was the earliest, and its depression the shallowest, of the capitalist world.

The following table shows how decisive Britain's military and political domination proved in the battle for markets.

This is in sharp contrast with the situation of the US, which not only saw its access to world markets severely curtailed but also had to swallow the cancellation of most of the war debt.

This determined the USA's foreign policy course: to break up the ancient empires under the banners of Free Trade and Liberal Values. The opening shots of this policy were announced by Woodrow Wilson with the famous 'eight points' around which the League of Nations was constituted. The cornerstone of Wilson's policy was the right of self-determination of all nations. To some this appeared an unnecessary concession to Bolshevism but in fact it corresponded directly to the interests of US capital, which owned hardly any colonies and stood to gain everything from detaching everyone else's.

Wilson, before his time, fell at the altar of isolationism. It was left to Roosevelt, together with Stalin and Churchill, to redivide the world in 1944 in a manner which exactly corresponded to the relation of productive, military and financial forces. To the USSR, a buffer zone. To Britain, a junior partnership in US Limited, sanctified by a place in the sun and a share in atomic technology. To Germany and Japan, US management. To France, whatever it could get.

The arrangement precisely satisfies the conditions for hegemony which we established for Britain before WWI. The dollar replaced the pound as principal reserve currency and as the world's gold token, and the USA replaced Britain as the principal banker and policeman. The point which is often missed it that *all* imperialist powers could share in the exploitation of the newly redivided colonial world because of the mechanisms for redistributing this surplus in the multilateral trade of the metropolis. This includes powers such as Japan and Germany who were totally shorn of their empires. The USA's pent-up capital surplus poured into Europe and South East Asia to combine with the burgeoning productive forces of the vanquished nations. 'Freed' of imperial obligations and expenditures, they acquired the specialised role of advanced producers, securing technological superprofit where monopoly rent was denied them.

Percentage of UK trade with the empire[14]

	Imports		*Exports*	
	Total (m)	*% from Empire*	*Total (m)*	*% to Empire*
1913	769	25.0	209	32.9
1924	1,277	26.4	305	32.4
1931	861	24.4	148	32.6
1933	675	34.2	150	35.9
1935	756	35.2	190	39.5
1937	1,028	37.4	238	39.9

1987 revisited

It is now necessary to review the crash of 1987, and indeed economic developments since the break-up of Bretton Woods in 1971, in the light of this analysis.

Initially the USA very rapidly expanded to become the world's leading military and territorial power. By 1960 it had troops in 66 countries in the world.[15] But in 1945 the basis of its position was without question its decisive superiority in productive techniques. It had 21.9% of all world exports of manufactures – but 56.7% of all value was added in the US.[16] Since value added necessarily measures not just fresh labour but profit and surplus profit, this is a staggering ascendancy. In 1950 each US factory worker produced 3½ times as much as her or his German counterpart and each miner four times as much.[17]

Nevertheless the two central facts which emerge from any long-term study of trends in the post-war years are the exhaustion of the post-war wave of investment-led expansion and the *decisive relative decline of the USA as producer and exporter from the early 1960s onwards.*

The roots of this relative decline lay in the very role acquired by Japan and Germany as the leading appropriators of technological rents. The USA steadily lost its productive advantage.

Armstrong, Glyn and Harrison estimate that between 1955 and 1970 capital stock per head grew by 38% in the US, 87% in Europe and 203% in Japan. Productivity in that period grew 6-7% faster in Japan than in the US and in Europe 4-5% faster. In the 1980s so far productivity has grown 4.2% per year in Europe, 5.6% in Japan and 1.6% in the US.

This decline had to manifest itself in trade, and under Reagan it began to do so explosively. The gigantic US trade deficit is not the consequence of bad economic management, Reaganomics or any such superficial factors. It is the product of an inexorable, long-term and – if the inter-war years offer a basis for comparison – irreversible historical process, of the utmost importance to Marxists and socialists and, indeed, all humanity.

This has expressed itself in virtually all sectors and all goods and was doing so long before the present crisis. To take just three representative sectors:

Agriculture: In 1981, US farm exports at $44bn were 19% of all its exports. 30% of its farm produce was exported. The US agricultural surplus was so huge it used it as a major instrument of political blackmail. In May, June and July of 1986 the US imported more agricultural goods than it exported. Its 1986 output at $26.5bn has fallen 40% in five years and its share of the world market from 59% to 41%.

Capital Goods: By 1986 no less than half the USA's spending on capital equipment was imported.[18] A surplus of $45bn on capital equipment has vanished in five years. Imports of machine tools rose from 25% of the US market to 43%.[19] Between 1980 and 1985 a quarter of all US machine-tool companies went out of business.

Electronics: The 'hi-tech' trade gap with Japan reached $2bn in 1986 and has been the principal object of US restrictive trade legislation. An estimated 70% of every computer shipped even by IBM is now manufactured in South East Asia.

The consequences of this are, in a nutshell, *precisely the same imbalance between the distribution of the forces of* *production and the distribution of control over markets which dominated the inter-war and depression years and led directly to World War II.*

There is, however, a major difference. In 1929 a clear alternative to British leadership existed. Now there is no such alternative.

This impasse lies deep at the root of the 1987 crash, which arrived 7 years after the last slump with impeccable timing but was exacerbated by a combination of two intractable circumstances: first, the rise of the US trade debt to the point where it could only be financed by completely reversing the post-war direction of capital flow so that the US began financing its deficit at the expense of its rivals; second, when it became clear that this apparently limitless process amounted to a straight robbery of its financiers, who have now seen their dollar holdings fall to around half the value they held a year ago, and the said financiers denied they had had enough.

The US has moved to exactly the same position that Britain occupied in 1918. It no longer guarantees the general conditions for imperialist accumulation but on the contrary destabilises them. It uses its accumulated financial and military weight to rob its rivals of the plunder of 'honest' trade.

Is there a resolution to this process? The answer, of course, is that there is always a resolution under capitalism – but at what price? A capitalist resolution, one can now insist not just with the benefit of theory but of terrible experience, necessarily involves a convulsive, violent and destructive reorganisation of the world's territories and markets. The imperialist world is becoming increasingly riven by its division into rival trade blocs, with no power in position to unseat the USA, but all deriving increasing benefit from its leadership. It is only a question of time before Japan and Europe begin to seek, with increasing aggression and audacity, the military and territorial clout needed to stabilise their industrial weight. Already, Franco-German military collaboration and the growing nuclear arsenal of the European powers – untouched by the Gorbachev-Reagan accords – bear witness to the imperatives driving Western capital.

If socialists owe themselves a pat on the back for predicting another 1929, they owe the entire world deliverance from another 1939. Santyana[21] said that those who do not learn from history are doomed to repeat it. This time round, his last three words are probably superfluous.

Notes

1. See E Mandel, *Late Capitalism*, London, 1975, for the most authoritative Marxist account.
2. Kindleberger, C.P. (1986) *The World in Depression*. London.
3. Kindleberger, p. 240.
4. Lewis, W.A. (1970) *Economic Survey*. London. p. 54.
5. Kindleberger, p. 210.
6. *Commerce Reports*, US Department of Commerce, 18 February 1929, p. 394.
7. Madgoff, H. (1969) *The Age of Imperialism*. New York. p. 55.
8. Kindleberger, p. 41.
9. See, for example, Barratt Brown, M. (1974) The Economics of Imperialism. London.
10. Denny, L. (1930) *America Conquers Britain*. London and New York. p. 352.
11. Denny, p. 355.
12. This is one of our principal differences with Kindleberger, who presents the idea of hegemonic power simply as the organiser of benefits for all capitalists of the world.

Neither the US nor the UK brought much joy to the bourgeoisies of the colonial and semi-colonial world. They enjoyed supremacy as *organisers of the conditions for imperialist superexploitation* and any unity of interest between them and their rivals arose out of that function and vanished the instant they ceased to play that role.

13. Public utilities – read 'electrical power installation' – were to US capital abroad what the railways were to the UK of 1850s. Of $4,500m in US foreign securities issued between 1914 and 1928, $1,000bn were in public utilities. By 1927 the largest electrical power goods monopoly, the Electric Bond and Share Company, held through its subsidiary American and Foreign Power a controlling interest in the public utilities of 29 US states and 11 foreign countries with strong interest in another 6. Its sphere of influence clearly indicates the regional character of US market penetration with major interests in Cuba, Argentina, Mexico, Brazil, Chile, Colombia, Venezuela, Ecuador, Panama, Costa Rica, Guatemala and China. Electrical power was the spearhead of the US advance into Europe. American GE by 1930 had acquired a third interest in German AEG, a major interest in Italian Super-Power, helped create the largest French combine and even established a $26m contract with the Russian government. The directors of GE Britain created a furore when in 1928 they decided to disenfranchise all non-British stockholders specifically to ward off American GE. This was denounced as 'financial Bolshevism'.

14. Jones, G.P. & Pool, A.G. (1959) *A Hundred Years of Economic Development in Great Britain*. London. p. 322.

15. Magdoff, H. (1969) *The Age of Imperialism*. New York.

16. *Times*, 26 September 1984.

17. Armonstrong, P., Glyn, A. & Harrison, J. (1984) *Capitalism Since World War II*. Fontana.

18. *International Business Week*, 8 April 1985.

19. *International Business Week*, 9 June 1986.