World Depression: Regional Wars and the Decline of the US Empire

Part I

By Prof. James Petras
Global Research, March 30, 2009
30 March 2009

Region: USA
Theme: Global Economy, Poverty & Social Inequality

Introduction

All the idols of capitalism over the past three decades crashed. The assumptions and presumptions, paradigm and prognosis of indefinite progress under liberal free market capitalism have been tested and have failed. We are living the end of an entire epoch: Experts everywhere witness the collapse of the US and world financial system, the absence of credit for trade and the lack of financing for investment. A world depression, in which upward of a quarter of the world's labor force will be unemployed, is looming. The biggest decline in trade in recent world history – down 40% year to year – defines the future. The immanent bankruptcies of the biggest manufacturing companies in the capitalist world haunt Western political leaders. The 'market' as a mechanism for allocating resources and the government of the US as the 'leader' of the global economy have been discredited. (Financial Times, March 9, 2009) All the assumptions about 'self-stabilizing markets' are demonstrably false and outmoded. The rejection of public intervention in the market and the advocacy of supply-side economics have been discredited even in the eyes of their practitioners. Even official circles recognize that 'inequality of income' contributed to the onset of the economic crash and should be corrected. Planning, public ownership, nationalization are on the agenda while socialist alternatives have become almost respectable.

With the onset of the depression, all the shibboleths of the past decade are discarded: As export-oriented growth strategies fail, import substitution policies emerge. As the world economy 'de-globalizes' and capital is 'repatriated' to save near bankrupt head offices – national ownership is proposed. As trillions of dollars/Euros/yen in assets are destroyed and devalued, massive layoffs extend unemployment everywhere. Fear, anxiety and uncertainty stalk the offices of state, financial directorships, the office suites the factories, and the streets…

We enter a time of upheaval, when the foundations of the world political and economic order are deeply fractured, to the point that no one can imagine any restoration of the political-economic order of the recent past. The future promises economic chaos, political upheavals and mass impoverishment. Once again, the specter of socialism hovers over the ruins of the former giants of finance. As free market capital collapses, its ideological advocates jump ship, abandon their line and verse of the virtues of the market and sing a new chorus: the State as Savior of the System – a dubious proposition, whose only outcome will be to prolong the pillage of the public treasury and postpone the death agony of capitalism as we have known it.

Theory of Capital Crisis: The Demise of the Economic Expert

The failed economic policies of political and economic leaders are rooted in the operation of markets – capitalism. To avoid a critique of the capitalist system, writers are blaming the leaders and financial experts for their incompetence, 'greed' and individual defects.

Psychobabble has replaced reasoned analysis of structures, material forces and objective reality, which drive, motivate and provide incentives to investors, policy makers and bankers. When capitalist economies collapse, the gods drive the politicians and editorial columnists crazy, depriving them of any capacity to reason about objective processes and sending them into the wilderness of subjective speculation.

Instead of examining the opportunity structures created by enormous surplus capital and the real existing profit margins, which in drive capitalists into financial activity, we are told it was 'the failure of leadership'. Instead of examining the power and influence of the capitalist class over the state, in particular the selection of economic policy-makers and regulators who would maximize their profits, we are told there was a 'lack of understanding' or 'willful ignorance of what markets need'. Instead of looking at the real social classes and class relations – specifically the historically existing capitalist classes operating in real existing markets – the psycho-babblers posit an abstract 'market' populated by imaginary ('rational') capitalists. Instead of examining how rising profits, expanding markets, cheap credit, docile labor, and control over state policies and budgets, create 'investor confidence', and, in their absence, destroy 'confidence', the psychobabblers claim that the 'loss of confidence' is a cause for the economic debacle. The objective problem of loss of specific conditions, which produce profits, as leading to the crisis, is turned into a 'perception' of this loss.

Confidence, faith, hope, trust in capitalist economies derive from economic relations and structures which produce profits. These psychological states are derivative from successful outcomes: Economic transactions, investments and market shares that raise value, multiply present and future gains. When investments go sour, firms lose money, enterprises go bankrupt, and those prejudiced 'lose confidence' in the owners and brokers. When entire economic sectors severely prejudice the entire class of investors, depositors and borrowers, there is a loss of 'systemic confidence.'

Psychobabble is the last resort of capitalist ideologues, academics, experts and financial page editorialists. Unwilling to face the breakdown of real existing capitalist markets, they write and resort to vague utopias such as 'proper markets' distorted by 'certain mindsets'. In other words, to save their failed ideology based on capitalist markets, they invent a moral ideal the 'proper capitalist mind and market', divorced from real behavior, economic imperatives and contradictions embedded in class warfare.

The inadequate and shoddy economic arguments, which pervade the writing of capitalist ideologues parallels the bankruptcy of the social system in which they are embedded. The intellectual and moral failures of the capitalist class and their political followers are not personal defects; they reflect the economic failure of the capitalist market.

The crash of the US financial system is symptomatic of a deeper and more profound collapse of the capitalist system that has its roots in the dynamic development of capitalism in the previous three decades. In its broadest terms, the current world depression results from the classic formulation outlined by Karl Marx over 150 years ago: the contradiction between the development of the forces and relations of production.

Contrary to the theorists who argue that 'finance' and 'post-industrial' capitalism have 'destroyed' or de-industrialized the world economy and put in its place a kind of "casino" or speculative capital, in fact, we have witnessed the most spectacular long-term growth of industrial capital employing more industrial and salaried workers than ever in history. Driven by rising rates of profit, large scale and long-term investments have been the motor force for the penetration by industrial and related capital of the most remote underdeveloped regions of the world. New and old capitalist countries spawned enormous economic empires, breaking down political and cultural barriers to incorporating and exploiting billions of new and old workers in a relentless process. As competition from the newly industrialized countries intensified, and as the rising mass of profits exceeded the capacity to reinvest them most profitably in the older capitalist centers, masses of capital migrated to Asia, Latin America, Eastern Europe, and to a lesser degree, into the Middle East, Southern Africa.

Huge surplus profits spilled over into services, including finance, real estate, insurance, large-scale real estate and urban lands.

The dynamic growth of capitalism's technological innovations found expression in greater social and political power – dwarfing the organization of labor, limiting its bargaining power and multiplying its profits. With the growth of world markets, workers were seen merely as 'costs of production' not as final consumers. Wages stagnated; social benefits were limited, curtailed or shifted onto workers. Under conditions of dynamic capitalist growth, the state and state policy became their absolute instrument: restrictions, controls, regulation were weakened. What was dubbed "neo-liberalism" opened new areas for investment of surplus profits: public enterprises, land, resources and banks were privatized.

As competition intensified, as new industrial powers emerged in Asia, US capital increasingly invested in financial activity. Within the financial circuits it elaborated a whole series of financial instruments, which drew on the growing wealth and profits from the productive sectors.

US capital did not 'de-industrialize' – it relocated to China, Korea and other centers of growth, not because of "falling profits" but because of surplus profits and greater profits overseas.

Capital's opening in China provided hundreds of millions of workers with jobs subject to the most brutal exploitation at subsistence wages, no social benefits, little or no organized social power. A new class of Asian capitalist collaborators, nurtured and facilitated by Asian state capitalism, increased the enormous volume of profits. Rates of investments reached dizzying proportions, given the vast inequalities between income/property owning class and wageworkers. Huge surpluses accrued but internal demand was sharply constrained. Exports, export growth and overseas consumers became the driving force of the Asian economies. US and European manufacturers invested in Asia to export back to their home markets – shifting the structure of internal capital toward commerce and finance. Diminished wages paid to the workers led to a vast expansion in credit. Financial activity grew in proportion to the entrance of commodities from the dynamic, newly industrialized countries. Industrial profits were re-invested in financial services. Profits and liquidity grew in proportion to the relative decline in real value generated by the shift from industrial to financial/commercial capital.

Super profits from world production, trade, finances and the recycling of overseas earnings back to the US through both state and private financial circuits created enormous liquidity. It was far beyond the historical capacity of the US and European economies to absorb such profits in productive sectors.

The dynamic and voracious exploitation of the huge surplus labor forces in China, India, and elsewhere and the absolute pillage and transfer of hundreds of billions from ex-communist Russia and 'neo-liberalized' Latin America filled the coffers of new and old financial institutions.

Over-exploitation of labor in Asia, and the over-accumulation of financial liquidity in the US led to the magnification of the paper economy and what liberal economist later called "global disequilibrium" between savers/industrial investors/ exporters (in Asia) and consumers/financiers/importers(in the US). Huge trade surpluses in the East were papered over by the purchase of US T-notes. The US economy was precariously backed by an increasingly inflated paper economy.

The expansion of the financial sector resulted from the high rates of return, taking advantage of the 'liberalized' economy imposed by the power of diversified investment capital in previous decades. The internationalization of capital, its dynamic growth and the enormous growth of trade outran the stagnant wages, declining social payments, the huge surplus labor force. Temporarily, capital sought to bolster its profits via inflated real estate based on expanded credit, highly leveraged debt and outright massive fraudulent 'financial instruments' (invisible assets without value). The collapse of the paper economy exposed the overdeveloped financial system and forced its demise. The loss of finance, credit and markets, reverberated to all the export-oriented industrial manufacturing powers. The lack of social consumption, the weakness of the internal market and the huge inequalities denied the industrial countries any compensatory markets to stabilize or limit their fall into recession and depression. The dynamic growth of the productive forces based on the over-exploitation of labor, led to the overdevelopment of the financial circuits, which set in motion the process of 'feeding off' industry and subordinating and undermining the accumulation process to highly speculative capital.

Cheap labor, the source of profits, investment, trade and export growth on a world scale, could no longer sustain both the pillage by finance capital and provide a market for the dynamic industrial sector. What was erroneously dubbed a financial crisis or even more narrowly a "mortgage" or housing crisis, was merely the "trigger" for the collapse of the overdeveloped financial sector. The financial sector, which grew out of the dynamic expansion of 'productive' capitalism, later 'rebounded' against it. The historic links and global ties between industry and financial capital led inevitably to a systemic capitalist crisis, embedded in the contradiction between impoverished labor and concentrated capital. The current world depression is a product of the 'over-accumulation' process of the capitalist system in which the crash of the financial system was the 'detonator' but not the structural determinant. This is demonstrated by the fact that industrial Japan and Germany experienced a bigger fall in exports, investments and growth than 'financial' US and England.

The capitalist system in crisis destroys capital in order to 'purge itself' of the least efficient, least competitive and most indebted enterprises and sectors, in order to re-concentrate capital and reconstruct the powers of accumulation – political conditions permitting. The re-composition of capital grows out of the pillage of state resources – so-called bailouts and other massive transfers from the public treasury (read 'taxpayers'), which results from the savage reduction of social transfers (read 'public services') and the cheapening of labor through firings, massive unemployment, wage, pension and health reductions and the general reduction of living standards in order to increase the rate of profit.

The World Depression: Class Analysis

The aggregate economic indicators of the rise and fall of the world capitalist system are of limited value in understanding the causes, trajectory and impact of the world depression. At best, they describe the economic carnage; at worst, they obfuscate the leading (ruling) social classes, with their complex networks and transformations, which directed the expansion and economic collapse and the wage and salaried (working) classes, which produced the wealth to fuel the expansive phase and now pay the cost of the economic collapse.

It is a well-known truism that those who caused the crisis are also the greatest beneficiaries of government largesse. The crude and simple everyday observations that the ruling class 'made' the crisis and the working class 'pays' the cost, at a minimum, is a recognition of the utility of class analyses in deciphering the social reality behind the aggregate economic data. Following the recession of the early 1970s, the Western industrial capitalist class secured financing to launch a period of extensive and deep growth covering the entire globe. German, Japanese and Southeast Asian capitalists flourished, competed and collaborated with their US counterpart. Throughout this period the social power, organization and political influence of the working class witnessed a relative and absolute decline in their share of material income. Technological innovations, including the re-organization of work, compensated for wage increases by reducing the 'mass of workers' and in, particular, their capacity to pressure the prerogatives of management. The capitalist strategic position in production was strengthened: they were able to exercise near absolute control over the location and movements of capital.

The established capitalist powers – especially in England and the US — with large accumulations of capital and facing increasing competition from the fully recovered German and Japanese capitalists, sought to expand their rates of return by moving capital investments into finance and services. At first, this move was linked and directed towards promoting the sale of their manufactured products by providing credit and financing toward the purchases of automobiles or 'white goods'. Less dynamic industrial capitalists relocated their assembly plants to low-wage regions and countries. The results were that industrial capitalists took on more the appearance of 'financiers' in the US even as they retained their industrial character in the operation of their overseas manufacturing subsidiaries and satellite suppliers. Both overseas manufacturing and local financial returns swelled the aggregate profits of the capitalist class. While capital accumulation expanded in the 'home country', domestic wages and social costs were under pressure as capitalists imposed the costs of competition on the backs of wage earners via the collaboration of the trade unions in the US and social democratic political parties in Europe. Wage constraints, tying wages to productivity in an asymmetrical way and labor-capital pacts increased profits. US workers were 'compensated' by the cheap consumer imports produced by the low-wage labor force in the newly industrializing countries and access to easy credit at home.

The Western pillage of the former-USSR, with the collaboration of gangster-oligarchs, led to the massive flow of looted capital into Western banks throughout the 1990s. The Chinese transition to capitalism in the 1980s, which accelerated in the 1990s, expanded the accumulation of industrial profits via the intensive exploitation of tens of millions of wageworkers employed at subsistence levels. While the trillion-dollar pillage of Russia and the entire former Soviet Union bloated the West European and US financial sector, the massive growth of billions of dollars in illegal transfers and money laundering toward US and UK banks added to the overdevelopment of the financial sector. The rise in oil prices and 'rents' among 'rentier' capitalists added a vast new source of financial profits and liquidity. Pillage, rents, and contraband capital provided a vast accumulation of financial wealth disconnected from industrial production. On the other hand, the rapid industrialization of China and other Asian countries provided a vast market for German and Japanese high-end manufacturers: they supplied the high quality machines and technology to the Chinese and Vietnamese factories.

US capitalists did not 'de-industrialize' – the country did. By relocating production overseas and importing finished products and focusing on credit and financing, the US capitalist class and its members became diversified and multi-sectoral. They multiplied their profits and intensified the accumulation of capital.

On the other hand, workers were subject to multiple forms of exploitation: wages stagnated, creditors squeezed interest, and the conversion from high wage/high skill manufacturing jobs to lower-paid service jobs steadily reduced living standards.

The basic process leading up to the breakdown was clearly present: the dynamic growth of western capitalist wealth was based, in part, on the brutal pillage of the USSR and Latin America, which profoundly lowered living standards throughout the 1990s. The intensified and savage exploitation of hundreds of millions of low-paid Chinese, Mexican, Indonesian and Indochinese workers, and the forced exodus of former peasants as migrant laborers to manufacturing centers led to high rates of accumulation. The relative decline of wages in the US and Western Europe also added to the accumulation of capital. The German, Chinese, Japanese, Latin American and Eastern European emphasis on export-driven growth added to the mounting 'imbalance' or contradiction between concentrated capitalist wealth and ownership and the growing mass of low-paid workers. Inequalities on a world scale grew geometrically. The dynamic accumulation process exceeded the capacity of the highly polarized capitalist system to absorb capital in productive activity at existing high rates of profit. This led to the large scale and multiform growth of speculator capital inflating prices and investing in real estate, commodities, hedge funds, securities, debt-financing, mergers and acquisitions — all divorced from real value-producing activity. The industrial boom and the class constraints imposed on workers wages undermined domestic demand and intensified competition in world markets. Speculator-financial activity with massive liquidity offered a 'short-term solution': profits based on debt financing. Competition among lenders fueled the availability of cheap credit. Real estate speculation was extended into the working class, as wage and salaried workers, without personal savings or assets, took advantage of their access to easy loans to join the speculator-induced frenzy – based on an ideology of irreversible rising home values. The inevitable collapse reverberated throughout the system – detonated at the bottom of the speculative chain. From the latest entrants to the real estate sub-prime mortgage holders, the crisis moved up the ladder affecting the biggest banks and corporations, who engaged in leveraged buyouts and acquisitions. All 'sectors', which had 'diversified' from manufacturing to finance, trade and commodities speculation, were downgraded. The entire panoply of capitalists faced bankruptcy. German, Japanese and Chinese industrial exporters who exploited labor witnessed the collapse of their export markets.

The ‘bursting’ financial bubble was the product of the ‘over-accumulation’ of industrial capital and the pillage of wealth on a world scale. Over-accumulation is rooted in the most fundamental capitalist relation: the contradictions between private ownership and social production, the simultaneous concentration of capital and sharp decline of living standards.

Obama and the Capitalist Crisis: A Class Analysis

Indicators of the deepening depression in 2009 are found everywhere:

Bankruptcies rose by 14% in 2008 and are set to rise another 20% in 2009 (Financial Times, Feb. 25, 2009; p27).

The write-down of the Western big banks is running at 1 Trillion dollars and growing (according to the Institute for International Financing, the banking groups Washington lobby). (Financial Times , March 10, 2009 p.9).

And according to the Financial Times (ibid) the losses arising from banks having to mark their investments down to market prices stand at 3 Trillion dollars – equivalent to a year’s worth of British economic production. In the same report, the Asian Development Bank is quoted as having estimated that financial assets worldwide have fallen by more than $50 trillion – a figure of the same order as annual global output. For 2009, the US will run a budget deficit of 12.3% of gross domestic product…giant fiscal deficits…that will ultimately ruin public finances.

The world markets have been in a vertical fall:

The TOPIX has fallen from 1800 in mid-2007 to 700 in early 2009;

Standard and Poor from 1380 in early 2008 to below 700 in 2009;

FTSE 100 from 6600 to 3600 in early 2009;

Hang Seng from 32,000 in early 2008 to 13,000 at the start of 2009 (Financial Times, Feb 25, 2009; p27).

In the fourth quarter of 2008, GDP shrank at annualized rate of 20.8% in South Korea, 12.7% in Japan, 8.2% in Germany, 2.9% in the UK and 3.8% in the US (FT, Feb.25, 2009; p9).

The Dow Jones Industrial Average has declined from 14,164 in October 2007 to 6500 in March 2009.

Year on year declines in industrial output were 21% in Japan, 19% in South Korea, 12% in Germany, 10% in the US, and 9% in the UK (Financial Times, Feb.25, 2009; p.9.)

Net private capital flows to less developed capitalist countries from the imperial countries were predicted to shrink by 82% and credit flows by $30 billion USD (Financial Times, Feb. 25, 2009; p9).

> The US economy declined by 6.2% in the last three months of 2008 and fell further in the first quarter of 2009 as a result of a sharp decline in exports (23.6%) and consumer spending (4.3%) in the final quarter of 2008 (British Broadcasting Corporation, Feb. 27, 2009).

With over 600,000 workers losing their jobs monthly in the first three months of 2009, and many more on short hours and scheduled for axing throughout 2009, real and disguised unemployment may reach 25% by the end of the year. All of the signs point to a deep and prolonged depression:

> Automobile sales of General Motors, Chrysler and Ford were down nearly 50% year to year (2007-2008). The first quarter of 2009 saw a further decline of 50%.
>
> Foreign markets are drying up as the depression spreads overseas.
>
> In the US domestic market, durable goods sales are declining by 22% (BBC, Feb. 27, 2009).
>
> Residential investments fell by 23.6% and business investment was down 19.1%, led by a 27.8% drop in equipment and software.

The rising tide of depression is driven by private business led disinvestment. Rising business inventories, declining investment, bankruptcies, foreclosures, insolvent banks, massive accumulative losses, restricted access to credit, falling asset values and a 20% reduction in household wealth (over 3 trillion dollars) are cause and consequence of the depression. As a result of collapse of the industrial, mining, real estate and trade sectors, there are at least $2.2 trillion USD of "toxic" (defaulting) bank debt worldwide, far beyond the bailout funds allocated by the White House in October 2008 and February and March 2009.

The depression is diminishing the worldwide economic presence of imperial countries and undermining the foreign capital-financed export strategies of Latin American, Eastern European, Asian and African regions.

Among almost all conventional economists, pundits, investment advisors and various and sundry experts and economic historians, there is a common faith that "in the long-run", the stock market will recover, the recession will end and the government will withdraw from the economy. Fixed on notions of past cyclical patterns, historical 'trends', these analysts lose sight of the present realities which have no precedent: the world nature of the economic depression, the unprecedented speed of the fall, and the levels of debt incurred by governments to sustain insolvent banks and industries and the unprecedented public deficits, which will drain resources for many generations to come.

The academic prophets of 'long-term developments" arbitrarily select trend markers from the past, which were established on the basis of a political-economic context radically different from today. The idle chatter of 'post crisis' economists overlooks the open-ended and constantly shifting parameters therefore missing the true 'trend markers' of the current depression. As one analyst noted, "any starting conditions we select in the historical data cannot replicate the starting conditions at any other moment because the preceding events in the two cases are never identical" (Financial Times, Feb. 26, 2009; p24). The current US depression takes place in the context of a de-industrialized economy, an insolvent financial system, record fiscal deficits, record trade deficits, unprecedented public debt, multi-trillion dollar foreign debt and well over $800 billion dollars committed in military expenditures for several ongoing wars and occupations. All of these variables defy the contexts in which previous depressions occurred. Nothing in previous contexts leading up to a crisis of capitalism resembles the present situation. The present configuration of economic, political and social structures of capitalism include astronomical levels of state pillage of the public treasury in order to prop up insolvent banks and factories, involving unprecedented transfers of income from wage and salaried taxpayers to non-productive 'rent earners' and to failed industrial capitalists, dividend collectors and creditors. The rate and levels of appropriation and reduction of savings, pensions and health plans, all without any compensation, has led to the most rapid and widespread reduction of living standards and mass impoverishment in recent US history.

Never in the history of capitalism has a deep economic crisis occurred without any alternative socialist movement, party or state present to pose an alternative. Never have states and regimes been under such absolute control by the capitalist class — especially in the allocation of public resources. Never in the history of an economic depression has so much of government expenditures been so one-sidedly directed towards compensating a failed capitalist class with so little going to wage and salaried workers.

The Obama regime's economic appointments and policies clearly reflect the total control by the capitalist class over state expenditures and economic planning.

Obama and the Capitalist Crisis: A Class Analysis

The programs put forth by the US and West Europeans and other capitalist regions do not even begin to recognize the structural bases of the depression.

First, Obama is allocating $1 trillion dollars to buy worthless bank assets and over 40% of his $787 billion stimulus package to insolvent banks and tax breaks, rather than to the productive sector, in order to save stock and bond holders, while over 600,000 workers lose their jobs monthly.

Secondly, the Obama regime is channeling over $800 billion dollars to fund the wars in Iraq and Afghanistan to sustain military-driven empire building. This constitutes a massive transfer of public funds from the civilian economy to the military sector forcing tens of thousands of unemployed young people to enlist in the military (Boston Globe, March 1, 2009).

Thirdly, Obama's commission to oversee the "restructuring" of the US auto industry has backed their plans to close scores of factories, eliminate company-financed health plans for retirees and force tens of thousands of workers to accept brutal reductions in employee health care and pensions. The entire burden for returning the privately owned auto industry to profits is placed on the shoulders of the wage, salaried and retired workers, and the US taxpayers.

The entire economic strategy of the Obama regime is to save the bondholders by pouring endless trillions of dollars into insolvent corporations and buying the worthless debts and failed assets of financial enterprises. At the same time his regime avoids any direct state investments in publicly owned productive enterprises, which would provide employment for the 10 million unemployed workers. While Obama's budget allocates over 40% to military expenditures and debt payments, 1 out of every 10 Americans have been evicted from their homes, the number of Americans without jobs is rising to double digits, and the number of Americans on 'food stamps' to provide basic food needs is rising by the millions throughout 2009.

Obama's 'job creation' scheme channels billions toward the privately owned telecommunication, construction, environmental and energy corporations, where the bulk of the government funds go to senior management and staff and provide profits to stock holders, while a lesser part will go to wage workers. Moreover, the bulk of the unemployed workers in the manufacturing and service areas are not remotely employable in the 'recipient' sectors. Only a fraction of the 'stimulus package' will be allocated in 2009. Its purpose and impact will be to sustain the income of the financial and industrial ruling class and to postpone their long-overdue demise. Its effect will be to heighten the socioeconomic inequalities between the ruling class and the wage and salaried workers. The tax increases on the rich are incremental, while the massive debts resulting from the fiscal deficits are imposed on present and future wage and salaried taxpayers.

Obama's wholehearted embrace and promotion of military-driven empire building even in the midst of record-breaking budget deficits, huge trade deficits and an advancing depression defines a militarist without peer in modern history. Despite promises to the contrary, the military budget for 2009-2010 exceeds the Bush Administration by at least 4%. The numbers of US military forces will increase by several hundred thousands. The number of US troops in Iraq will remain close to its peak and increase by tens of thousands in Afghanistan, at least through 2009 (despite promises to the contrary). US-based miliary air and ground attacks in Pakistan have multiplied geometrically. Obama's top foreign policy appointees in the State Department, Pentagon, Treasury and the National Security Council, especially in any capacity involving the Middle East, are predominantly militarist Zionists with a long history of advocacy of war against Iran and with close ties with the Israeli high command.

In summary, the highest priorities of the Obama regime are evidenced by his allocation of financial and material resources, his appointments of top economic and foreign policy-makers and in terms of which classes benefit and which lose under his administration. Obama's policies demonstrate that his regime is totally committed to saving the capitalist class and the US empire. To do so, he is willing to sacrifice the most basic immediate needs and future interests, as well as the living standards, of the vast majority of working and home-owning Americans who are most directly affected by the domestic economic depression. Obama has increased the scope of military-driven empire building and enhanced the power position of the pro-Israeli warmongers in his administration. Obama's 'economic recovery' and military escalation strategies are financially and fiscally incompatible; the cost of one undermines the impact of the other and leaves a tremendous hole in any efforts to counteract the collapse of social services, rising home foreclosures, business bankruptcies and massive layoffs.

The horizontal transfers of public wealth from the Obama governing elite to the economic ruling class does not "trickle down" into jobs, credit and social services. Attempting to turn insolvent banks into credit-lending, profitable enterprises is an oxymoron. The central dilemma for Obama is how to create conditions to restore profitability to the failed sectors of the existing US economy.

There are several fundamental problems with his strategy:

First, the US economic structure, which once generated employment, profits and growth, no longer exists. It has been dismantled in the course of diverting capital overseas and into financial instruments and other non-productive economic sectors.

Secondly, the Obama 'stimulus' policies reinforce the financial stranglehold over the economy by channeling great resources to that sector instead of 'rebalancing' the economy toward the productive sector. Even within the 'productive sector' state resources are directed toward subsiding capitalist elites who have demonstrated their incapacity to generate sustained employment, foster market competitiveness and innovate in line with consumer preferences and interests.

Thirdly, the Obama economic strategy of 'top-down' recovery squanders most of its impact in subsidizing failed capitalists instead of raising working class income by doubling the minimum wage and unemployment benefits, which is the only real basis for increasing demand and stimulating economic recovery. Given the declining living standards resulting from domestic decay and the expansion of military-driven empire, both embedded in the institutional foundation of the state, there are no chances for the kind of structural transformation that can reverse the 'top-down', empire-absorbing policies promoted by the Obama regime.

Recovery from the deepening depression does not reside in running a multi-trillion dollar printing operation, which only creates conditions for hyperinflation and the debasement of the dollar. The root cause is the over-accumulation of capital resulting from over-exploitation of labor, leading to rising rates of profit and the collapse of demand. The vast disparity between capital expansion and decline of worker consumption set the stage for the financial bubble.

The 'rebalancing' of the economy means creating demand (not from an utterly prostrate private productive sector or an insolvent financial system) via direct state ownership and long-term, large-scale investment in the production of goods and social services. The entire speculative 'superstructure', which grew to enormous proportions by feeding off of the value created by labor, multiplied itself in a myriad of 'paper instruments' divorced from any use value. The entire paper economy needs to be dismantled in order to free the productive forces from the shackles and constraints of unproductive capitalists and their entourage. A vast re-training program needs to be established to convert stockbrokers into engineers and productive workers. The reconstruction of the domestic market and the invention and the application of innovations to raise productivity require the massive dismantling of the worldwide empire. Costly and unproductive military bases, the essential elements for military-driven empire building, should be closed and replaced by overseas trade networks, markets, and economic transactions linked to producers operating out of their home markets. Reversing domestic decay requires the end of empire and the construction of a democratic socialist republic. Fundamental to the dismantling of empire is the end of political alliances with overseas militarist powers, in particular with the state of Israel and uprooting its entire domestic power configuration, which undermine efforts to create an open democratic society serving the interests of the American people.

Comment on Global Research Articles on our Facebook page

Become a Member of Global Research

Articles by: Prof. James Petras