

A SHIFTING WORLD ORDER

Marwan Younes

Chief Investment Officer

Series Introduction:

Two closely intertwined dynamics predominate the current investment climate, the global economic system, and indeed contemporary reality: the continued erosion of the American position in global affairs and a parallel rise in social tensions within the U.S.

The first tendency of development manifests itself most markedly in the long-term decline of the American share of global economic output (GDP), but emerges as well in several other indices, including protracted annual trade imbalances, staggering levels of government and corporate debt, the financialization of the economy that exposes it to increasingly powerful shocks and adjustments, and in the growth of rival trading blocs and currencies. The United States, irrespective of whether a Republican or Democrat has occupied the White House, has responded to its relative economic decline by relying ever more openly on the preponderance of its military power, as well as the dollar's inherited status as de facto world reserve currency. This symbiotic relationship between economic decline and projection of military power is most sharply expressed in Washington's escalating conflict with China, which is at once America's leading trading partner, a major sovereign creditor to the US, and--paradoxically, it would seem--also its primary military opponent.

The Covid-19 pandemic intersects with this already explosive historical moment. The pandemic, in other words, has laid bare a crisis that is not of a conjunctural, but of a deeply historical character, whose roots are deeply embedded in a century of economic, political, and social development.

This series analyzes the development of this crisis in four parts: (I) The rise and fall of American geopolitical hegemony and the parallel rise and fall of the "social contract" that moderated class relations in the U.S. for most of the last century; (II) The subsequent intensification of social tensions within the United States since the 1970s, culminating in a surge in strikes and other forms of social opposition in recent years; (III) The emergence and growth of capitalism and the industrial workforce in China over the past half-century, and particularly since the crackdown at Tiananmen Square in 1989; and (IV) The inevitability of the U.S.-China confrontation, and the outlook for war.

I. THE RISE AND FALL OF AMERICAN GEOPOLITICAL HEGEMONY AND THE AMERICAN SOCIAL CONTRACT

I. **The rise and fall of American geopolitical hegemony and the American social contract: WWI to Reagan**

1. A brief historical analysis of the last 100 years shows that American capitalism has long been encumbered – both domestically and internationally – by complications posed by foreign adversaries and domestic social tensions. However, there is a critical difference between the first and second half of this past century. The former, a period of international ascendancy lasting from World War I through the early 1970s, saw the United States combine its global ambitions with a domestic policy of class compromise. The latter however witnessed a faltering of American hegemony in the late 1960s, introducing a new and volatile element to class relations in the U.S. that came into relief over the course of the 1970s, culminating in the elevation of Paul Volker to the chairmanship of the Federal Reserve in 1979 and the election of Ronald Reagan as president in 1981.
2. Already by World War I the U.S. had emerged as the world's most powerful and dynamic economy owing to its massive domestic market and scientific-technical triumphs such as the assembly line (associated with Henry Ford) and scientific management of labor relations (associated with F.W. Taylor). While it had eclipsed its European rivals in many economic indices even prior to 1914, the Great War cemented the U.S. position by exhausting Great Britain and France, as well as Germany, which had emerged as America's most formidable economic opponent.

Woodrow Wilson's dreams of a new American Century to rival the Pax Britannica of the 19th century were thwarted, however, by the colonial obstinacy of its ostensible allies Britain, France, and Japan, and by the October Russian Revolution, which removed one-third of the world's land mass from Wilson's imagined new order and provided a powerful pole of opposition to his messianic liberalism. The Russian Revolution coincided with and reinforced the largest strike wave in U.S. history, which raged from 1916 until 1922 and involved over 1 million workers per year, and as many as 4.5 million in 1919.

3. Only at the end of the immense crisis that stretched from 1929 to 1945, was the U.S. able to execute, at least in part, Wilson's testament. Gore Vidal, in his fictional treatment of Washington D.C. grasped something of the geo-political reality confronting Franklin Roosevelt and his successor Harry Truman:

The ravaged old President, even as he was dying, continued to pursue the high business of reassembling the fragments of broken empires into a new pattern with himself at

I. THE RISE AND FALL OF AMERICAN GEOPOLITICAL HEGEMONY AND THE AMERICAN SOCIAL CONTRACT

center, proud creator of a new imperium. Now, though he was gone, the work remained. The United States was master of the earth. No England, no France, no Germany, no Japan left to dispute the Republic's will. Only the mysterious Soviet would survive to act as the other balance in the scale of power.

The devastation of the U.S.'s main capitalist opponents and the containment of tensions within the framework of the Cold War rivalry with the "mysterious Soviet" allowed for the restabilization of the post-World War II era. The global order was governed by a series of relatively well-defined structures. The United Nations would mediate between and prevent the outbreak of wars among major powers. Financial speculation, viewed by John Maynard Keynes and other economic architects of the new order to be one of the central causes of the Great Depression, would be hemmed in by the dollar-based Bretton Woods system. GATT would restrain nationalist autarky and tariff wars, also seen as central causes of the Depression and World War II. The U.S. provided funds to rebuild its rivals in Europe and Japan, and encouraged the move towards the formation of the Common Market to integrate the European economies.

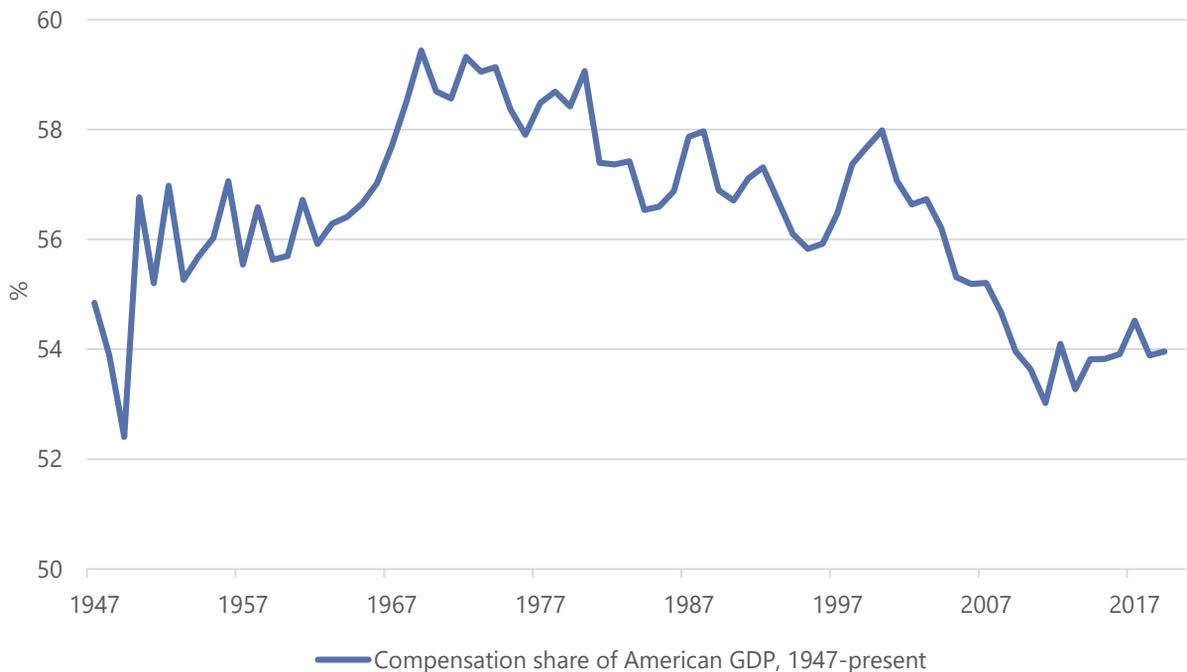
4. Of critical importance to the new order was the acceptance by American business interests of a limited social contract with its workforces. The major eruptions of the industrial conflict within the U.S. in the 1930s had taken on near-insurrectionary characteristics--the great citywide general strikes of 1934 (in Toledo, San Francisco, and Minneapolis) and the sit-down factory occupations of 1936 and 1937 that radiated outward from the General Motors plants in Flint, Michigan. Roosevelt responded to these strikes, and to the social problems of the Great Depression, with his "New Deal" spate of social reforms. Yet at the end of World War II, it appeared that tensions might return to the levels of the 1930s. In 1945-1946, some 10 million American workers walked off the job. A great share of these occurrences were "wildcat strikes" waged over the heads of the official unions.
5. The most important industrial union, the United Auto Workers (UAW), and the largest corporation, General Motors (GM) provided the model for the incipient social contract, the national auto contract of 1950 known as the Treaty of Detroit. In exchange for cost-of-living adjustments, the strengthening of health care and retirement obligations, and, crucially, the official recognition of the union, UAW head Walter Reuther conceded to GM key prerogatives of corporate management. The Treaty of Detroit is generally viewed as having tamed the violent vicissitudes of industrial relations in the 1930s and 1940s. "GM may have paid a billion for peace but it got a bargain," wrote Fortune magazine in 1950. "General Motors has regained control over ... crucial management functions."

I. THE RISE AND FALL OF AMERICAN GEOPOLITICAL HEGEMONY AND THE AMERICAN SOCIAL CONTRACT

The "Treaty of Detroit" model grew and expanded into other American industries over the ensuing 20 or so years, called "the long postwar boom" in American economic history. Relative to the other so called advanced industrial economies, it was certainly a modest system, designed only to attenuate industrial conflict. A virtually unique case among industrial powers, no national health care system was implemented in the U.S. Broad swathes of the American workforce were largely excluded – e.g., the semi-rural workers of the South and Appalachia; migrant farmworkers; and those who worked in industries in rapid decline, including coal. Even in the auto and steel industries, working life was typified by bouts of unemployment and regional concentrations of poverty. Furthermore, in an anticipation of globalization, factory production, as early as the 1950s and 1960s, began to shift out of cities such as Chicago, Detroit, Cleveland, and Pittsburgh, and into rural areas in the northern states and the Jim Crow South, where unions had never established a foothold and where wages and work rules were considerably more favorable to employers.

6. Nonetheless, in this late 1940s to early 1970s "long postwar boom," the U.S. witnessed a significant improvement in living standards, a reflection of the fact that a portion of GDP growth was consistently redistributed to section of the "middle" and working classes.

Compensation Share of American GDP

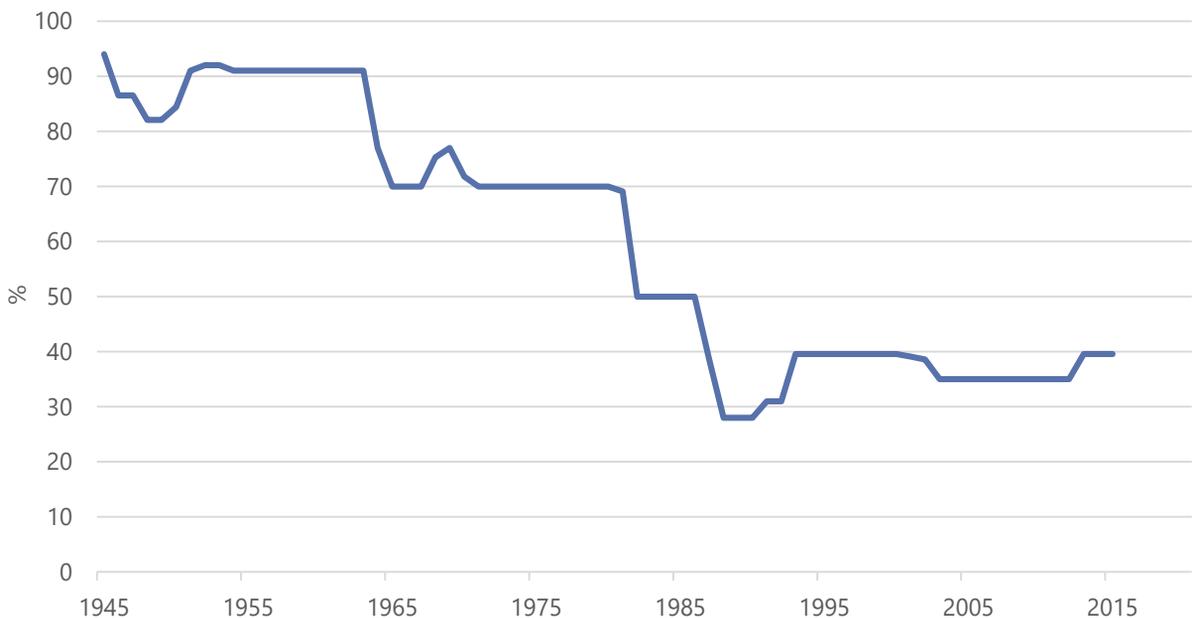


Source: US Bureau of Economic Analysis

I. THE RISE AND FALL OF AMERICAN GEOPOLITICAL HEGEMONY AND THE AMERICAN SOCIAL CONTRACT

Perhaps as important as the actual gains workers achieved, was the appearance of a class compromise. In the decades of postwar prosperity, trade union density was at its highest in American history, though the relationship between the unions and actual achievement in (or worker satisfaction with) wages, benefits, job stability, etc., is open to debate. These were decades in which a dramatic expansion of higher education took place, associated with the G.I. Bill, though the relationship between that development and “middle class” living standards could only be dialectical. These were years in which liberal reformism, limited though it was compared to Western Europe’s cradle-to-grave social democracy, was the dominant political outlook. This was reflected in the expansion of the social safety net through the reform rulings of the Warren Supreme Court, in the reforms enacted by the Eisenhower, Kennedy, and Johnson administrations in response to the Civil Rights movement, in the expansion of the social safety system toward Medicare and Medicaid in Johnson’s “Great Society” of the 1960s, in labor and regulatory rulings that upheld core labor rights, and in a tax regime that imposed high personal income tax rates on the wealthiest earners.

U.S. Individual Income Tax Rate: Highest Federal Tax Rate Bracket



Source: Internal Revenue Service

I. THE RISE AND FALL OF AMERICAN GEOPOLITICAL HEGEMONY AND THE AMERICAN SOCIAL CONTRACT

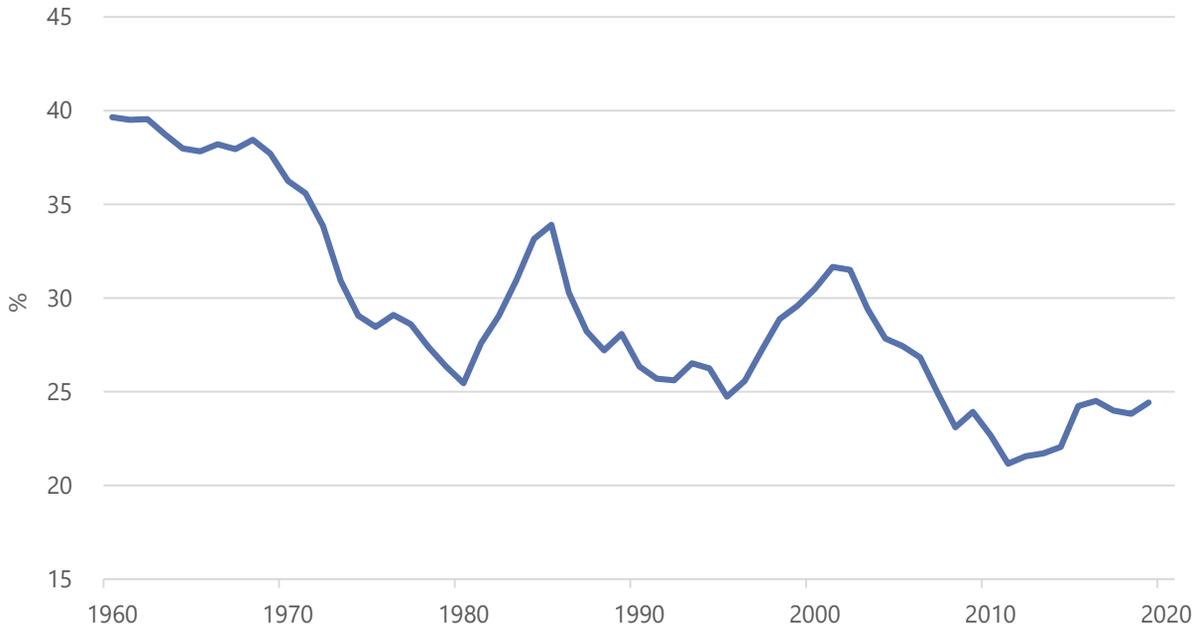
7. The American long postwar boom, however, was based on a historical conjuncture that could not last. In rebuilding its defeated rivals in Europe and Japan, the United States had created formidable trading competitors that gradually cut into its market share, which in turn eroded the Bretton Woods financial basis of fixed currencies pegged to the dollar, and behind it, to gold. The destruction of WWII had also created conditions in which Fordist production methods could be expanded globally. But diminishing corporate returns on efficiency already began to assert themselves in the recession of the late 1950s, provoking the mergers and acquisition movement of the 1960s and the first wave of massive Foreign Direct Investment. Finally, the global political and economic system was also militarily propped up by Washington, which from the standpoint of American foreign policy planners, necessitated enormous military outlays. The expensive wars in Korea and especially Vietnam accelerated economic distortions and the flow of dollars abroad.



Source: World Bank Group

I. THE RISE AND FALL OF AMERICAN GEOPOLITICAL HEGEMONY AND THE AMERICAN SOCIAL CONTRACT

U.S. Share of Global GDP



Source: World Bank Group

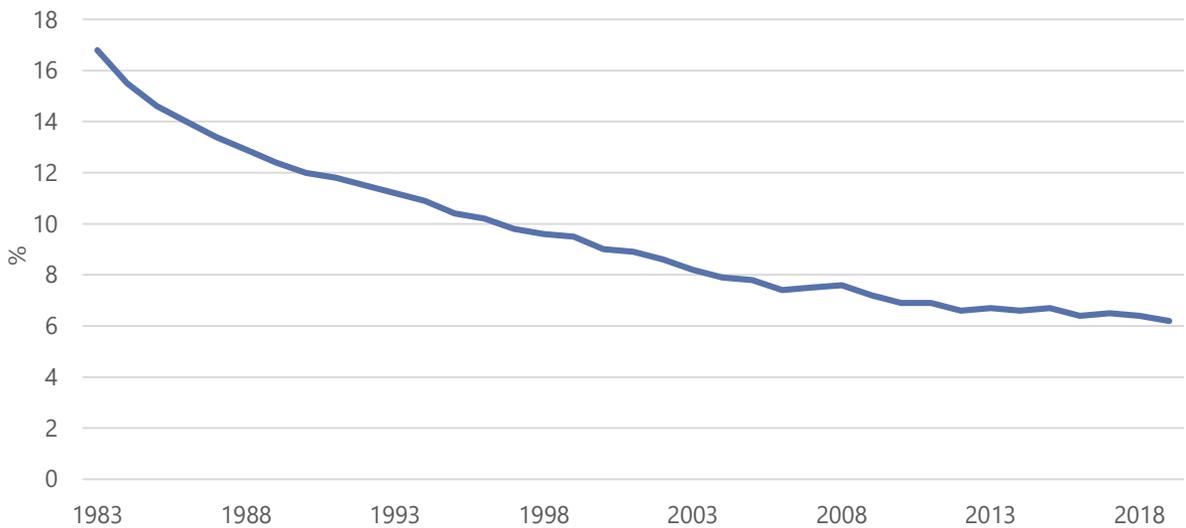
In the 1960s, a new wave of social conflict pushed the postwar order to the brink. In the U.S., the civil rights movement gave way to the urban “race riot” rebellions of the late 1960s and the anti-Vietnam War movement. The war weighed heavily on the respective presidential mandates of Johnson and Nixon, who, in 1971, unilaterally scrapped Bretton Woods and imposed price and wage controls. The United States experienced its last major strike wave from 1968 to 1979, with 1 million workers on average striking each year.

8. The late 1970s announced the end of the postwar social contract, which had insured an epoch of class compromise. A new chapter was spearheaded in the U.S. by Democratic President Jimmy Carter’s deregulation of several major industries—including trucking and the airlines – and his appointment of Paul Volcker to head up the Federal Reserve Board in 1979. Volcker’s interest rate “shock therapy” – raising the federal funds rate past 20 percent – precipitated a massive recession, with the worst unemployment levels since the Great Depression, causing the shutdown of vast sections of heavy industry, and accelerating the financialization of the economy. Volcker radically altered labor relations in the U.S., but he himself always gave pride of

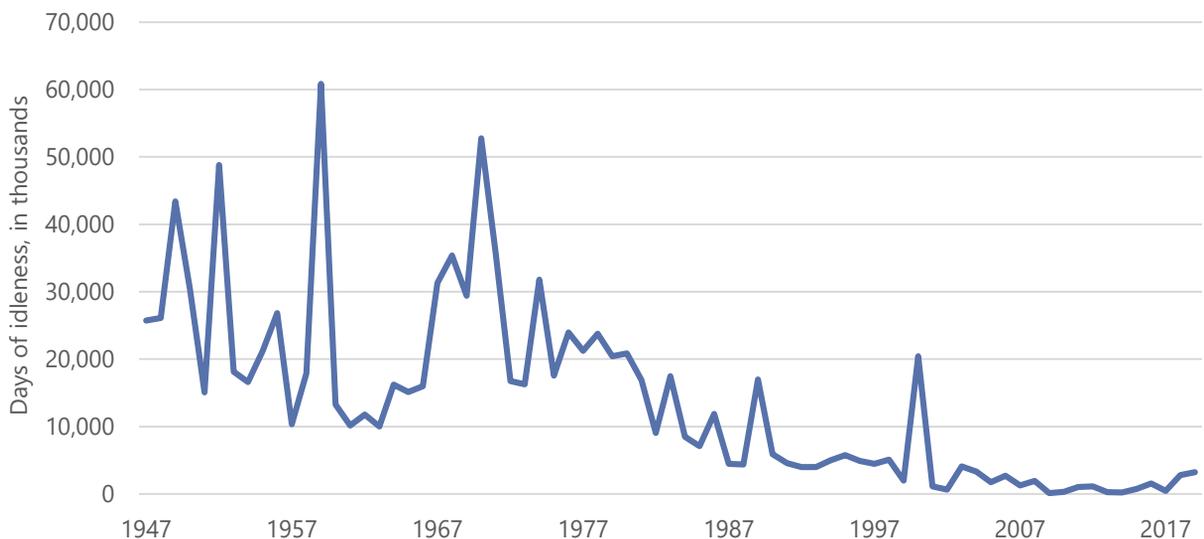
I. THE RISE AND FALL OF AMERICAN GEOPOLITICAL HEGEMONY AND THE AMERICAN SOCIAL CONTRACT

place in this effort to Ronald Reagan’s total victory over the PATCO strike of air traffic controllers in 1981. The trade unions’ impotence in the face of the outlawing of a members union set the stage for a whole series of labor defeats suffered in bitter strikes in the 1980s and early 1990s: Phelps-Dodge, Hormel, Greyhound, Caterpillar, etc. At the end of this period, union density had declined drastically, and strike activity by American workers reached unprecedented lows.

U.S. Private Sector Trade Union Density



Annual work stoppages involving 1,000 or more workers

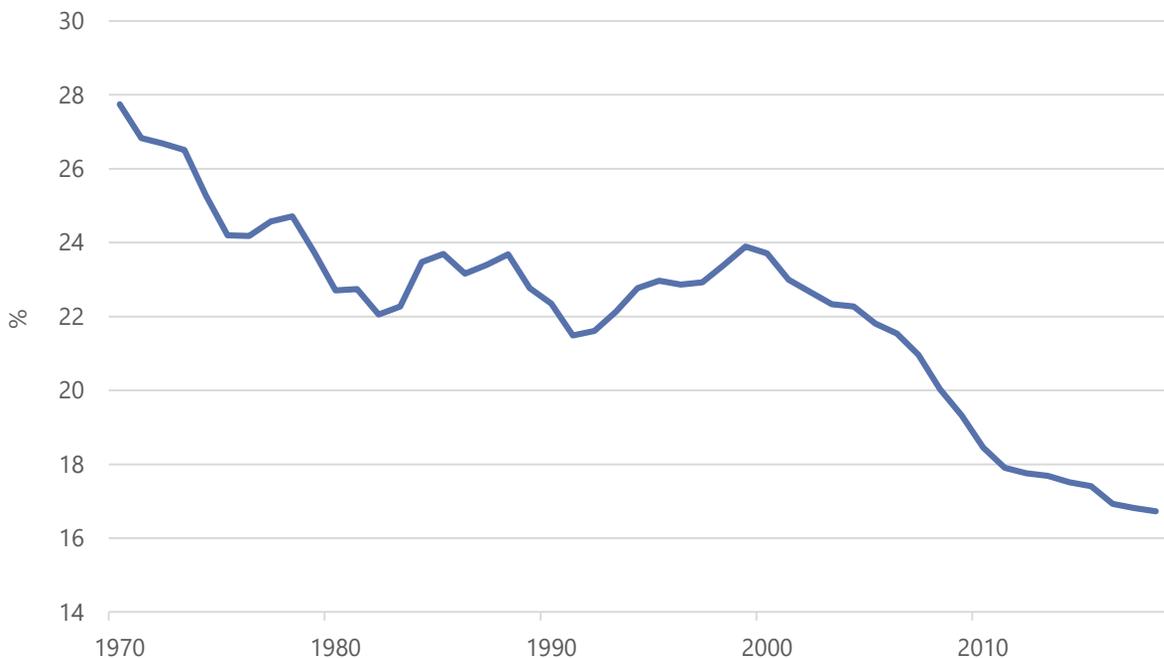


Source: Bureau of Labor Statistics

I. THE RISE AND FALL OF AMERICAN GEOPOLITICAL HEGEMONY AND THE AMERICAN SOCIAL CONTRACT

9. An abundance of statistical evidence testifies to the suppression of working class opposition over the next few decades, and highlights tendencies that can be traced back to the 1970s: the polarization of wealth and income; stagnating real wages; the lengthening of work time; the decline in unions and strike activity; the proliferation of anti-labor decisions by courts, labor boards, and regulatory agencies.

U.S. Share of Global Industrial Output



Source: UNCTADSTAT

Conclusion Part I:

All of the tendencies that emerged out of the collapse of the postwar order in the 1970s have continued and intensified in recent years. It is commonplace to assume that these phenomena are the outcomes of the market's blind workings. Globalization in its various facets has no doubt been decisive in creating the conditions for the growth of debt, financialization, social inequality, and trade union decline within the United States.

However, the various economic and technological processes involved in globalization only created the conditions for this vast change. Ultimately change had to be enacted within the United States at workplaces and through government tax and regulatory

I. THE RISE AND FALL OF AMERICAN GEOPOLITICAL HEGEMONY AND THE AMERICAN SOCIAL CONTRACT

policies. The implementation of these changes over the past several decades and their impact on American social relations, up to the present, is the subject of the next installment of this series. The cumulative impact of abandoning a class compromise policy in the American political economy remained submerged for some time. However, over the past several years it has emerged in both the increasingly unstable political life of the country—as is manifest, for example, in both the election of Donald Trump in 2016 and the attraction of many voters to the self-styled “socialist” Bernie Sanders—and in numerous indices of social opposition, including a recent surge in strikes and political demonstrations.

The transformation of American political economy over the past half-century has corresponded with, and contributed to, dramatic change in many other nations—first and most foremost, in the People’s Republic of China, the subject of the third installment of this series. The China-U.S. rapprochement of the 1970s, under Mao and Nixon, came just as the American president abandoned Bretton Woods and embraced a policy of austerity in the U.S. The rapprochement ultimately heralded the entry of China as a critical factor in the global capitalist system. This accelerated under Mao’s successor, Deng Xiaoping, throughout the 1980s, and especially in the wake of the Tiananmen Square massacre of 1989. Despite its claim to be a communist country, China developed as a cheap labor market bastion for globalized economic production. The dramatic growth of the Chinese industrial labor force entailed the rural exodus of hundreds of millions of peasants from countryside to city. Wages remain a small fraction of those in the West or Japan. Yet China is home to the second-largest number of dollar billionaires on the planet, after the U.S. One result is that in China, as in the U.S., explosive social conditions now prevail, punctuated, also as in the U.S., by a growth in strike activity and other indices of social opposition.

Since the period of Deng’s rule, the Chinese Communist Party leadership has been intent on following a pattern of national-capital accumulation similar to those engaged in by Japan, Germany, and the United States in the 19th century. In key respects, it has succeeded. Astonishing levels of annual growth have been achieved, making the China the world’s second largest economy, and it is bound, barring a major disturbance, to overtake the United States. However, China’s very growth and its determination to move up the value-added chain, especially in its high-tech sectors, has put it in the crosshairs of Washington. China’s efforts to break out of the noose, it’s “Silk Road” and “String of Pearls” initiatives, for example, have only hardened American belligerence. This has shaped a growing geo-strategic and military rivalry, whose current trajectory leads to war. This is the subject of the fourth, and final installment of this series.

DISCLAIMER

Important Notes & Legal Considerations

The information contained herein is provided for informational purposes only and is not an offer to sell or a solicitation of an offer to buy.