

people learn more in a few days than in a lifetime. The working people of the United States are learning fast. And, as Victor Hugo once said: "No army is so powerful as an idea whose time has come."

London, September 26, 2008

Contents

Socialism For The Rich, Capitalism For The Poor	2
Capitalism Has Failed. Period	3
World Capitalism In Crisis	8
Global crisis	8
"A once-in-a-century event"	9
Socialism - for the rich	11
Pessimism of the bourgeoisie	14
The dictatorship of finance capital	16
Marx on fictitious capital	18
Bankruptcy of bourgeois economics	20
What we predicted	22
Can China save the world?	24
On spivs and speculators	25
Brown's stupidity	27
"Concentrated economics"	29
What is the solution?	30

Socialism For The Rich, Capitalism For The Poor

Michael Roberts

After a week of turmoil on financial markets, on Saturday 20 September President Bush said he was proposing to spend \$700bn of taxpayers' money to buy the rotten mortgage assets held by the banks on Wall Street. He said he was doing this to help the average American family with their homes and jobs.

At the same time Gordon Brown, at the annual Labour party conference in Blackpool, England, was telling delegates the same thing to explain why he intervened personally to ensure the Lloyds Bank bought the Britain's biggest mortgage lender HBOS last week.

Both were lying. They were not taking these actions to help working people. They did it to save finance capital from disaster.

The Bush-Paulson plan to buy the rotten mortgages, along with the nationalisation of the two biggest mortgage lenders only ten days ago, will mean that the US government will soon own the vast majority of Americans' mortgages. It will make the vast majority of American household debt held by the government. Overall, it is the biggest nationalisation in world history, equivalent to \$6trn, or 45% of annual US output.

But, of course, the devil is in the detail of the terms. This is not expropriating the banks. On the contrary it is saving them - with nearly full compensation, so they can resume their operations and restore their profitability.

In turn, US government debt will rise 40% of GDP to nearly 100%! And what will the taxpayer get for this huge bailout? Just a load of defaulted and non-paying mortgages, along with higher taxes, cuts in public spending on health, education and social security.

And behind those bad debts lie a trail of misery for millions of Americans who will lose their homes and eventually their jobs. Nothing much will be done for them. It won't stop the unfolding slump in world capitalism that we are entering with rising unemployment, falling real incomes and declining public services.

Instead most of the money will go to help the fat cats of Wall Street get out of their mess. You see, when it comes down to the impending collapse of capitalism, suddenly socialism is a good idea. It's just this is socialism for the rich, while the rest of us have to continue to live under capitalism.

The credit rating agencies, which were supposed to distinguish good credit from bad, rated securitised mortgage packages without looking at the weaknesses of underlying mortgages. Similarly, purchasers of American debt issued by Fannie Mae and Freddie Mac cheerfully assumed that the US government guaranteed it. The result is that the US taxpayer now stands behind more than \$5,000bn in mortgages and it is too soon to say what the final bill will be.

The conclusion is quite clear. Either we have a free market based on the pursuit of profit, or we have a nationalized planned economy. But "regulated capitalism" is a contradiction in terms. In another article, The Financial Times puts the question far more clearly:

"no matter what hare-brained ideas politicians come up with to curb controversial pay packets, bright minds in finance will find a way round them or exit the regulated part of the industry."

What is necessary is to abolish these grotesque casinos that decide the fates of millions altogether and replace capitalist anarchy with a rational society based on a planned economy. It is said that the measures taken by Bush and Brown represent nationalization. But these measures have nothing in common with the socialist idea of nationalization. They are not intended to remove economic power from the hands of the wealthy parasites who constitute a monstrous burden on society and an obstacle in the path of progress. On the contrary, they represent an attempt to protect the interest of these parasites by giving them vast subsidies, paid for out of the pockets of the working class and the middle class.

Socialists are radically opposed to these policies, which have nothing in common with genuine nationalization and are only a kind of state capitalism, intended to safeguard the capitalist system. They lead inevitably to an increase in monopolization, mass sackings, bank closures, higher mortgages and other anti-working class measures. The bankers are rewarded for their nefarious activities by the state, which buys up all their losses, then spends further vast amounts of the taxpayer's money to make them profitable, and when this has been done, to sell them back to the bankers, who from this will make a double killing at the expense of society. Then they can resume their speculating and thieving all over again.

What is necessary is to take the commanding heights of the economy out of private hands, by nationalizing the banks and insurance companies and big companies with minimum compensation on the basis of proven need only. Only when the productive forces are in the hands of society, will it be possible to establish a rational socialist plan of production, where decisions are taken in the interests of society, not of a handful of wealthy parasites and speculators.

That is the fundamental aim of socialism. It is an idea that will now be understood and welcomed by millions of people who previously regarded it as it as something strange and alien. The people demonstrating on the streets of New York against the Bush Plan were not socialists. Twelve months ago they would probably still have been defenders of the free market. They have never read Marx and doubtless see themselves as patriotic Americans. But life teaches and in situations like this

Monday, 22 September 2008

careerists looking for jobs and promotion. This in turn, led to a further lurch to the right, which further deepened the disillusionment of the workers. This was a vicious circle that fed upon itself and it has lasted until now. But now things are beginning to change rapidly.

Human consciousness in general is conservative. People normally fear change and cling to what is familiar. Habit, routine and tradition weigh heavily on the consciousness of the masses, which lags behind events. But at critical moments in history events are accelerated to the critical point at which consciousness catches up with a bang. We have now reached such a critical point.

What is true of the industrialized nations of the world is ten times truer of what is sometimes referred to as the "Third World". The number of those living in extreme poverty is rising rapidly in Asia, Africa and Latin America. A report published recently by the United Nations said that a quarter of all children in the developing world are underweight; more than 500,000 women die annually in childbirth or of complications from pregnancy; and a third of developing countries' growing urban population live in slums. A report of the Inter-American Bank this summer warned that increasing prices would push 26 million people in Latin America into conditions of absolute penury. This was the position after a long period of economic growth on a world scale. This was the best that capitalism had to offer. What will happen under conditions of crisis?

We are therefore faced with a worldwide phenomenon that is pregnant with revolutionary implications. Thus, globalisation manifests itself as a global crisis of capitalism.

What is the solution?

It is argued that the present crisis is the result of regulatory failure to guard against excessive risk-taking in the financial system, especially in the US. It is further argued that "we must ensure it does not happen again". This is ironic indeed! For the past three decades the bourgeois economists and politicians argued precisely the opposite: that all regulations were bad for business and should be abolished (this was particularly advocated for the financial sector).

The demagogic declarations about the need to curb excessive bonuses and regulate boardroom pay are just so much hot air. How are these miracles to be performed? By what mechanism? The bankers have a thousand ways of evading regulation. They keep off-the-books accounts that make it all but impossible for regulators to discover their fraudulent activities. Even the US government uses similar tricks to disguise the real dimensions of its budget deficit.

The argument in favour of regulating the stock markets is absurd, as was the decision to ban (temporarily) the practice of "selling short". In order that the markets can function, it is necessary for people to buy and sell shares, and they must do so on the basis of estimating whether the share price is going to rise or fall. The idea that it is permissible to buy shares only when they are rising is clearly an absurdity.

Capitalism Has Failed. Period

Rob Sewell

"I like thieves. Some of my best friends are thieves. Why, just last week we had the president of the bank over for dinner." W.C. Fields

The capitalist system is in the throes of the worst financial crisis since the Great Depression. This is the view not only of the billionaire George Soros, but also of the International Monetary Fund, the custodian of the capitalist system, and all the serious capitalist commentators.

The hurricane sweeping the credit markets, stock markets and banking system last week was a consequence of all the contradiction that had built up in the foundations of capitalism over the previous 20 years. This is no temporary economic blip, but the precursor of an impending world slump. The headline in the 'Financial Times' said it all: 'Capitalism in convulsion'. The storm is far from over, despite the announcement of an unprecedented bail-out by the American Treasury, the Federal Reserve and the Washington establishment.

As the popular children's rhyme goes:

*Humpty Dumpty sat on a wall
Humpty Dumpty had a great fall
All the King's horses and all the King's men
Could not put Humpty together again.*

The King's men at the Fed rushed to put the credit system together again, in the biggest bail-out in the history of world capitalism. But as with Humpty Dumpty, the fragmentation caused by the financial crisis will be difficult to put back together, and the crisis will reverberate throughout the world in the coming months and longer.

This is how the 'Financial Times' described the events of the past week:

"Financial market conditions have now descended to the lowest point since the banking shutdown of 1932. In one 96-hour period, we saw three nearly unimaginable events. Lehman Brothers, America's fourth-largest securities firm, filed for bank-



ruptcy. Merrill Lynch, the best-known firm, was forced overnight to sell itself to Bank of America. And market pressurised forced the Federal Reserve into a huge \$85bn takeover of AIG, our largest insurer, to avert its bankruptcy." Added to this is the nationalisation of Freddie Mac and Fannie Mae, the US giant mortgage companies. (FT, 18/9/08) The article concluded: "We will be climbing out of this financial hole for a long time to come."

The capitalist guru, Alan Greenspan, the former chairman of the Federal Reserve, came to London in 2002 to pick up his knighthood as 'The Man Who Saved the World'. His handling of the internet bubble was seen as miraculous, especially by his biggest fan, Gordon Brown, the then British Chancellor.

While he was here, Greenspan paid a visit to the Bank of England's monetary policy committee. In typical upbeat fashion, he told them that the US economy was resilient following the bursting of the internet bubble. Shares had halved in value and there had been bond defaults, but no big bank had collapsed. The reason? Well according to Greenspan risk had been cleverly spread through the use of complex derivative instruments.

Greenspan's "economic stability" was achieved by poisoning the capitalist system by the injection of billions of dollars of dodgy derivatives, described aptly by Warren Buffet as "financial weapons of mass destruction". These derivatives, which are fictitious capital to use Marx's words, are part and parcel of the modern market capitalist casino. As with all forms of credit, they can propel capitalism beyond its limits. However, in times of retrenchment, they provide a toxic mix. For every bank that announced huge profits on derivatives, there must eventually be losses elsewhere.

For instance, the collapse of AIG had come about by the insurance giant's ledger of \$60bn worth of derivatives written on other derivatives based upon bad mortgages.

Greenspan had not solved the crisis, but simply postponed it with an extra large dose of fictitious capital pumped into the system. The inevitable consequence would be a future crisis of much deeper proportions. This is what is happening today before our very eyes.

AIG, the collapsed insurance conglomerate, had been up to its neck in writing credit default swaps, which were a form of derivative allowing one financial institution to pass on the risk of a bond defaulting on to another. It sold them to banks wanting to protect themselves against defaults from sub-prime mortgages.

Few people outside or inside the financial industry ever understood how the new complex derivatives work. Teams of financial whiz-kids at AIG could not calculate how much their credit-default swaps were actually worth, with estimates varying between \$20bn to \$85bn!

The notional value of these derivatives in global markets rose to \$60,000bn at the end of last year from \$15,000bn in 2005. Such staggering figures are eye-watering. They inject colossal instability into the capitalist system, with dire consequences. Everything is fine as long as the merry-go-round keeps going. Like the children's

the bonuses they collected in the years of plenty."

But then, to rectify the balance, it adds:

"To their credit, Mr. Brown and Mr. Darling have focused not on high salaries but on pay schemes that reward gamblers."

The fact that those who buy and sell shares are all gamblers and that gambling on the stock market is their trade, is tactfully ignored.

The FT journalist continues (and somehow manages to keep a straight face):

"The next step now lies with the Financial Services Authority, the City regulator, but the problem is easier to spot than to solve. The challenge is to pay traders and investment managers for their true performance. If that were easy, shareholders would do so routinely. One imperfect approach is make some bonuses conditional on long-term performance, deferring payment until the dust has settled, or to insist that managers put some of their own wealth at risk. Yet hard-and-fast rules are hard to imagine.

"The most practical way forward is for the FSA to consider incentive schemes as part of its overall review of the stability of financial companies. It is optimistic to expect too much of such an effort, but legislation on City bonuses would be hopelessly counterproductive. Such laws are easily evaded by concealing risks or sending them overseas."

The policies of New Labour are clearly dictated by the latest editorials of the Financial Times.

"Concentrated economics"

Lenin once remarked that politics is concentrated economics. The economic crisis that is sweeping the world is having very serious effects on the psychology of all classes, beginning with the capitalists themselves. In a period when capitalism was going forward, the pressure of bourgeois ideas on the working class and its organizations was redoubled. In Britain there has not been a serious economic recession for more than two decades. Therefore, the arguments of the bourgeois politicians and economists (the two work hand in glove) about the miraculous qualities of the "free market" found an echo even in the working class, but particularly in its leadership.

This was the material basis for the total degeneration of the Social Democracy and the "Communist" Parties in Europe and of the trade union leaders everywhere. In Britain, which was in the vanguard of the capitalist counterrevolution for the past three decades, it was the soil on which New Labourism was spawned and flourished under the leadership of the Reverend Anthony Blair.

For the activists of the Labour movement, this period was a nightmare that appeared to have no ending. There seemed to be no limit to the degeneration of the leaders of the mass organizations, no depth to which they were not capable of sinking, no vile action they were incapable of performing to please the ruling class and, of course, the Market. The despondency of the activists led to apathy and the emptying out of the mass traditional organizations, which were filled up with middle class

to "draw whole populations out of poverty". That is a noble aspiration - and one that is entirely impossible to realize on this sinful earth.

Even more scathing was his colleague, Dr Sentamu, the Archbishop of York. Lloyds TSB, a major British bank, had announced the previous week that it had agreed a £12.2bn takeover of HBOS after shares in the latter plummeted. Since the takeover, many commentators have criticised traders who sold borrowed shares below their current price, betting that prices would fall further before they bought them back.

Dr Sentamu told the annual dinner of the Worshipful Company of International Bankers: "We find ourselves in a market system which seems to have taken its rules of trade from Alice in Wonderland." And he went on: "To a bystander like me, those who made £190m deliberately underselling the shares of HBOS, in spite of a very strong capital base, and drove it into the arms of Lloyds TSB, are clearly bank robbers and asset strippers."

Such strong language from a man of God was most unexpected and doubtless had an unfortunate effect on the digestion of the Worshipful Company. The assembled bankers were also not very happy to hear the Archbishop's comments on the plan of the US Treasury to set up a fund worth up to \$700bn (£382bn) to buy back much of the bad debt held by banks and other financial institutions.

The archbishop acknowledged the need for stable financial systems if poverty was to be eradicated, but added: "One of the ironies about this financial crisis is that it makes action on poverty look utterly achievable. It would cost \$5bn (£2.7bn) to save six million children's lives. World leaders could find 140 times that amount for the banking system in a week. How can they tell us that action for the poorest is too expensive?"

As I write this article, world leaders will be meeting in the US to mark progress in the Millennium Development Goals, a set of targets to reduce global poverty and improve living standards by 2015. We may place our trust in the Lord and hope that the Archbishop's stern admonishments have had the desired effect, but all our experience leads us to doubt that it will be the case.

Even The Financial Times noted:

"Even in the boom times, few people smile warmly as they contrast their modest incomes with the enormous bonuses of the fortunate few.

"Simple envy has now become justifiable anger, first at the damage the financial meltdown has inflicted on the innocent, and now at the series of blank cheques the taxpayer has had to write out under duress. The backlash is well under way. Yet it is worth distinguishing excessive bonuses from pay that encourages recklessness. Fat-cat pay deals are a matter only for the shareholders who fund them. But rewarding recklessness is a problem for us all.

"Too many investment managers have been paid well for performance that looked impressive but contained the seeds of catastrophe. The catastrophe has arrived, investors have been wiped out, the taxpayers are next in line, and yet managers keep

game, pass the parcel, everything is great – until the music stops!

Another type of derivatives is 'over-the-counter derivatives', which have the added attraction that they are not regulated. Their deregulation was forced through by Mr. Greenspan, a great champion of these pieces of paper, too complicated to even place a value on.

The capitalists are no longer interested in making money through production, the only real source of wealth, but through gambling and speculation. This shows how degenerate the capitalist class has become. It has become totally parasitic in its epoch of senile decay.

But they were not concerned with the consequences. They were making billions and billions. They were unconcerned with the contradictions they were piling up, with bubbles in property, credit, shares, derivatives and other assets. They were on a merry-go-round of ever-spiralling wealth. All they demanded was free markets and no regulation that would hinder their exploits. In this carnival of money-making, the banks lent vast sums of money as if there was no tomorrow. They were allowed to vastly over extend their loans to the tune of 30 to 1, especially in the property market. But boom turned inevitably to bust, threatening to bring down all in its wake.

Although this behaviour of the banks goes far beyond all such activities, it is not unique. In a book published in 1974, called 'The Bankers' by Martin Mayer, the author criticised the banks for over-extending themselves. "There are billions of dollars in potentially lost loans in the system; we are coming closer and closer to an explosion. The present banking structure can collapse. And the more the regulatory apparatus allows it to grow, the more catastrophic the collapse will be." What a familiar ring!

But inherent in any capitalist boom is endemic speculation. The banks, as with the rest of finance capital, were eager to seek out lucrative speculative investments, including in property. For them, house prices could never fall, so they engaged in reckless lending to people who had little hope of paying it back. The sub-prime mortgage crisis was maturing. They were all caught up in this speculative syndrome. House prices went up as people were buying them. People bought them as prices were going up. It was a typical bubble. Credit allowed the capitalist system to go beyond its limits. Today, credit plays a far more important role than in 1929.

Now, the sense of panic was very real in the echelons of world capitalism. "We are now, unquestionably, in the worst financial crisis since 1929. We do not know how many more banks and institutions will fail – Washington Mutual, the US counterpart of HBOS, is under severe pressure – but Bear Stearns, Fannie Mae and Freddie Mac, Lehman and AIG are plenty." (FT, 19/9/08)

Emma Jacobs in the 'Financial Times' interestingly noted how times had changed: "Just a few weeks ago everyone told me spiralling inflation, surging oil prices and strikes meant I was reliving the 1970s. Now it is the 1930s."

The FT editorial (19/9/08) was desperate for the central banks and government to intervene to save the capitalist system: "This is not a time for niceties... Today is about survival."

They were forced to realise that capitalism had failed. This was not a failure, as some apologists say, a failure of regulation, but of the system itself. The market economy could not restore the equilibrium needed. The banks and credit institutions were paralysed, like rabbits caught in headlights. Boom has turned to bust.

However, as these paper prices are written-off, there will be a knock-on effect to the rest of the economy. The example of Japan is a case in point. The Japanese banks bought huge swathes of property in the bubble of the 1980s. When the bubble collapsed, the banks were saddled with enormous bad debts. This resulted in a recession in the world's second largest economy that lasted more than a decade. The ruling class is terrified that that could be repeated in the United States and the rest of the world.

The present crisis is a damning indictment of capitalism. Those who preached the virtues of the free market had to swallow their words and were forced to turn to the state – namely tax-payers' money – to bail them out. All those apologists of capitalism who said profits were a reward for risk-taking were silent as the state stepped into rescue the system from collapse. They had no money for welfare or health, but when needed, they had plenty of money to bail-out Wall Street. "It [the US government] has begun a programme of economic interventionism more typical of socialist governments in moments of utopian zeal", commented an article in the FT. It is certainly the most extensive peacetime of government intervention in the economy since the Great Depression, which shows how dangerous the crisis has become for capitalism.

The western corporate institutions had written down \$500bn-odd of credit assets in the past year. They have been forced to right-off billions of paper wealth. They also raised between \$200bn and \$360bn new capital to plug their depreciating assets. But they are trapped in a vicious circle, as they are unable to estimate their real losses as more and more houses are repossessed and property prices continue to collapse.

The proposed bail-out by the US government is said to be around 700bn to begin with. They are talking about buying bad debt in order to remove them from the company's books. Something similar was done in the Savings and Loans crisis of two decades ago. However, this time, the sums are truly staggering, which will have to be picked up by the American tax payer. The plan is to create a 'bad bank' to take possession of all the toxic assets in the financial system. However, placing in effect bad debts in a deep freeze, will leave a massive burden over the US economy for years to come. In reality, the US government head by George Bush is promising to nationalise all the bad debts.

The failed policy of individual fire-fighting of failed companies has given way to "a comprehensive approach to relieving the stresses on our financial institutions and markets", to quote Paulson. But what happens if this fails too? The contradictions are immense. The chaos in the financial sector is spilling over into the other sectors of the economy. The Detroit-based car industry, for instance, has itself lobbied the government for \$25bn in loans and loan guarantees to allow it to function.

newspapers and on television, and since the politicians of every party were unanimous, they accepted as good coin the argument that "what was good for the 'wealth creators' (i.e. the bosses) is good for me."

Brown's stupidity

On this side of the Atlantic the processes we see in the USA are reproduced, but only in the form of a clumsy and pathetic caricature. At the Labour Party conference Gordon Brown moaned about the City's "irresponsibility" and said bonuses were, in some respects, "unacceptable". Alistair Darling, Chancellor of the Exchequer, echoed the prime minister's comments. But their "attacks" resembled a man hitting a rhinoceros with a feather duster. Compared with John McCain and Barack Obama's scathing comments about Wall Street they were as weak as dishwater.

The mealy-mouthed bowing and scraping of Brown and Darling at the Labour Party congress indicates that they have spent so much time grovelling before the City of London that they are no longer able to straighten their backs. In a situation where hundreds of thousands of workers are suddenly threatened with losing their jobs, their homes and their savings, even the most dim-witted reformist ought to be able to realize that a denunciation of the swindles and profiteering of the bankers would be immensely popular. It is a proof of the complete bankruptcy and stupidity of these so-called Labour leaders that they are not even capable of adopting the demagogic attacks on Big Business that have been made by Obama and McCain.

They are not even as radical as the Church of England, the two most senior figures of which have condemned the corrupt practices of the financial traders. In an article in The Spectator, Archbishop of Canterbury Dr. Rowan Williams attacked "paper transactions with no concrete outcome beyond profit for traders". When such trading went badly, it caused "real and crippling damage", he said.

Dr. Williams drew attention to the financial industry's trading of debts, which he said had "without accountability... been the motor of astronomical financial gain for many in recent years". He said the current financial crisis "exposes the element of basic unreality in the situation - the truth that almost unimaginable wealth has been generated by equally unimaginable levels of fiction, paper transactions with no concrete outcome beyond profit for traders". The archbishop continued: "Given that the risk to social stability overall in these processes has been shown to be so enormous, it is no use pretending that the financial world can maintain indefinitely the degree of exemption from scrutiny and regulation that it has got used to." (My emphasis, AW)

Here we have the essence of the matter. The representatives of capitalism (including the religious ones) can feel the ground trembling under their feet. They fear the social and political consequences of the crisis, which poses an enormous risk to social stability, and appeal to the government and the bosses to do something about it before it is too late. But what does Dr. Williams propose? He says only that "loosening up a financial regime" is sometimes needed to foster enterprise and create wealth

say, towards capitalism. Reacting to this mood, bourgeois politicians like Alec Salmond of the Scottish National Party tries to draw the anger of the public away from capitalism itself and towards a specific sector of the capitalist class - the "spivs and speculators" of high finance.

Suddenly it has become fashionable among politicians to condemn these mysterious individuals who have laid low venerable institutions such as The Bank of Scotland. This respectable old lady, we are informed, has been around for three hundred years and has survived the Napoleonic Wars, the Wall Street Crash and the First and Second World Wars, only to be destroyed by a gang of greedy sharks in designer suits and dark glasses. This kind of "explanation" explains nothing at all. How does it come about that a small number of greedy individuals possess such phenomenal power? Who are these people? What are their names? Where do they live? Nobody knows. But it is always useful in a crisis to have somebody to blame, and if this somebody happens to be perfectly anonymous and untraceable, so much the better.

Suddenly, these "spivs and speculators" begin to play the same role in economics that Al-Qaeda plays in international politics. In reality, all bankers and capitalists are spivs and speculators. They must be because the capitalist system is based on spivvry and speculation. It is also based upon greed. To deny greed is to deny the workings of the market economy, which is based on the profit motive, that is, greed. Greed for profit is what ultimately drives the capitalist system and has been driving it ever since it was born. Ah yes, but they have become too greedy and they are earning too much! This is what David Walker, the president and chief executive of the Peter G. Peterson Foundation and former Comptroller General of the United States has to say:

"Are there lessons from the sub-prime crisis? The answer is yes. The recent actions had to be taken because the government failed to establish an effective regulatory structure in connection with mortgages, derivatives and other securities. Greed was rampant. Fannie Mae and Freddie Mac strayed from their original mission, becoming too focused on profit and personal gain rather than their public purpose. Lax oversight was facilitated by powerful Wall Street lobbies and the lobbying of Fannie Mae and Freddie Mac." (The Financial Times, September 22, 2008)

This is perfectly true. Whereas workers are paid a bonus according to results, the bosses pay themselves obscene amounts whether they get results or not. When a company is doing well the workers may get a little more in wages or bonuses, but the bosses pay themselves millions in handouts. When the company is doing badly, the workers are paid nothing, but the bosses still pay themselves lavishly. And when the company reaches the point of bankruptcy, the workers are sacked with little or no compensation (often without even a pension), whereas the bosses who have ruined the company walk away with extravagant golden handshakes.

These facts are well known. For years the workers have been muttering under their breath about the injustice and inequality. But since the economy was going forward, and since the market appeared to be delivering results for everybody (albeit very unequal results), and since the public was subjected to a deafening chorus in the

The construction industry is already in a slump. In America and elsewhere unemployment has jumped. We are at the beginning of a new world recession which can be far deeper than anything we have witnessed in the post-war period. It is this that terrifies the strategists of capital. A new slump will mean drastic cuts in living standards and political turmoil worldwide.

As one senior Wall Street banker commented: "The crisis is far from over, the government action will buy banks some time but they will have to act decisively otherwise they will find themselves in an even worse situation in a few months' time." This is correct as throwing billions of dollars at the credit markets will not resolve the underlying problems. In fact, it was the excess credit that fuelled the artificial boom and all the excesses that have accompanied it – giving rise to the present crisis, the greatest credit bubble in history.

People are having to rethink their views about capitalism. There has been a shift in the public mood everywhere, a realisation that something big has gone wrong. There is anger with the bankers. There is a growing questioning. As one newspaper commented: "Social historians will record this week as one when unhappy shoppers began discussing the potential collapse of western capitalism in the same breath as butter prices."

In a Waitrose supermarket car park in Harborne, Birmingham, Kate Organ, 53, a freelance arts manager, described her mood as "wretched and disempowered". She expected here income, currently at £30,000 a year, to dwindle. She said: "When I was at University, the Workers' Revolutionary Party harangued me that capitalism would collapse. Now I know what they were on about."

Monday, 22 September 2008

World Capitalism In Crisis

By Alan Woods

Global crisis

We live in exceptional times. The financial panic in the USA is creating waves that are threatening to engulf the whole world. This is rapidly transforming the consciousness of millions. Yesterday a demonstration called by the New York Central Labor Council mobilized about a thousand workers, including a large number of construction workers - ironworkers, labourers, plumbers and steamfitters - as well as teachers, city workers and others. The aim of the demonstration, called at less than two days' notice, was to protest against the President's plan to bail out Wall Street with a massive donation of 700 billion dollars of public money. Here is the Reuters report of the protest:



"Hard hats, transit workers, machinists, teachers and other labor unionists railed against the U.S. government's proposed bailout of Wall Street on Thursday in a protest steps from the New York Stock Exchange. Several hundred protesters yelled their enthusiastic support as union leaders decried a proposed \$700 billion plan aimed at reinvigorating the credit markets by relieving financial institutions of distressed debt.

"The Bush administration wants us to pay the freight for a Wall Street bailout that does not even begin to address the roots of our crisis," said AFL-CIO National President John

Sweeney. We want our tax dollars used to provide a hand up for the millions of working people who live on Main Street and not a handout to a privileged band of overpaid executives."

"Signs read 'No Blank Checks For Wall Street' and 'Our Hard-Earned Pensions Are Not Up For Grabs.' Protesters cheered repeated calls for the government to spend money on education, health care and housing as freely and readily as it was proposing to do for Wall Street. 'We know that the economic situation has to be solved. But we want a responsible rescue, not an opportunistic bailout,' said United Federation of Teachers President Randi Weingarten. 'And that means, just like every single boss says to me, that there should be accountability for the teachers, then there should be accountability for Wall Street,' he said.

US, where retail sales fell in July and again in August. Guangdong's overall export growth to the US slowed to 6.3 per cent over the first seven months of this year. That cannot be a coincidence.

A strong euro and a 27 per cent increase in Guangdong's exports to Europe have compensated for a weak dollar and a shrinking US market. But there is growing evidence of a sharp contraction in Europe, which is also one of China's biggest markets. This will eventually start to impact on Chinese exports. "This could be the calm before the storm," says Stephen Green, an economist at Standard Chartered in Shanghai.

There are even bigger concerns about the property market, which has been one of the principal components of the investment boom driving the Chinese economy in recent years. Sales have declined and floor area under construction fell in August, while production of steel, cement and air conditioners was flat or down in the month - another sign of weak activity. Analysts say that mortgage approvals have also dropped sharply in recent months. "We believe the likelihood of a property sector meltdown in China is high," says Jerry Lou, an analyst at Morgan Stanley in Shanghai.

If the property market falls sharply over the next year, that will have serious consequences for the banking sector. If the growth in gross domestic product falls much below 8 per cent next year, that would cause an even sharper fall in house prices, accompanied by a collapse in private sector investment. The social and political consequences would be considerable.

There are warning signs in other parts of the economy. The crash in the stock market has had a negative effect on consumer confidence. The rate of increase in urban incomes has dropped sharply this year. Sales of cars have fallen in the past month by 6 per cent and airline travel has been sharply lower this summer. Gome, the country's biggest electronics retailer, said that sales per square metre in its shops fell by 3 per cent in the second quarter.

The government has cut the rate of interest, which indicates that it fears a crisis. However, its scope for manoeuvre in monetary policy is limited by the fear of reigniting inflation. That peaked at 8.7 per cent in February before falling to 4.9 per cent in August. Zhou Xiaochuan, head of the central bank, said this month: "Inflation has indeed slowed over the past several months, but we cannot relax because the rate may rebound."

A slump in China, or even a serious slowdown in growth would have a very serious effect on the world market, starting with the commodity producing countries in Africa, the Middle East and Latin America. Copper prices, for example, have fallen 23 per cent in the past two months, partly due to fears over Chinese consumption of the metal, which has fallen by more than half this year.

On spivs and speculators

There is a mood of growing anger and hostility towards "the market", that is to

the third volume of capital:

" 'Let us also disregard these sham transactions and speculations, which the credit system favours. Then, a crisis could only be explained as the result of a disproportion of production between the consumption of the capitalists and their accumulation. But as matters stand, the replacement of the capital invested in production depends largely upon the consuming power of the non-producing classes; while the consuming power of the workers is limited partly by the laws of wages, partly by the fact that they are used only as long as they can be profitably employed by the capitalist class. The ultimate reason for all real crises always have remained the poverty and restricted consumption of the masses as opposed to the drive of capitalist production to develop the productive forces as though only the absolute consuming power of society constituted their limit.' (Marx, Capital, vol. 3, p. 472.)

"The expansion of world trade and the opening up of new markets in Asia also provided a temporary boost, but only at the cost of provoking an even bigger collapse. This is the shape of things to come."

These lines were written almost a decade ago, when the overwhelming majority of bourgeois economists were still denying the possibility of a world slump. We are entitled to ask: who understood the processes of the world economy better, and who made the correct predictions - the bourgeois economists or the Marxists?

Can China save the world?

The old proverb says that a drowning man will clutch at a straw. The bourgeoisie and its apologists, alarmed at the depth of the crisis, are looking around for a straw to save them from going under. Until recently, their hopes were resting on Asia, and China in particular. But China's economy is now firmly embedded in the world market and will reflect all its volatility. A recent article by Geoff Dyer in the Financial Times carried the instructive title Beijing's burden: A slowing China bodes ill for the world economy.

Despite the US downturn, exports have continued to grow strongly, expanding 22 per cent in the first eight months of 2008. Part of the explanation is that Chinese companies have continued to find new markets for their products in other booming developing economies. But this is only delaying the inevitable. After the crisis on Wall Street and stagnation in Europe and Japan, investors are beginning to ask if China too might enter into crisis. After five years of rapid growth, the Chinese economy is clearly slowing even now. A growth rate of anything less than eight per cent would have big implications for China and the global economy. The economists are also worried about the banking sector in China.

There are already symptoms of problems in the export market. The garment industry in Guangdong is experiencing severe stress. According to provincial statistics, January-July exports of garments and accessories fell 31 per cent from the same period last year to \$13.3bn (£7.2bn, €9.1bn). Exports of plastic goods, toys and lamps are also stagnant or falling. This has coincided with weak demand from the

The mood of the demonstrators was angry. One line that drew a lot of positive reaction was a call for a general strike if the bailout only benefits the rich. This represents the beginning of a sea change in the consciousness of the working class, and not only in the USA.

"A once-in-a-century event"

What has happened to financial markets in recent months is without precedent in the history of recent times. The same bourgeois economists who previously denied the possibility of a slump are now talking about the most serious crisis for sixty years. Alan Greenspan, former chairman of the US Federal Reserve, has described the current financial crisis as "probably a once-in-a-century event".

World capitalism in crisis They actually mean 79 years, since there was no crisis at all in 1948. But economists are superstitious people and are afraid to mention 1929, just as the ancient Israelites were afraid to mention the name of their god, in case something unpleasant were to occur. They are all worried about confidence in the markets, since they all fervently believe that it is confidence (or the lack of it) that is the real cause of booms and slumps. In reality, however, booms and slumps are rooted in objective conditions. The rise and fall of confidence reflects actual conditions, although it can then itself become part of these conditions, helping to drive the market up - or, as in this case, down.

In the last few months AIG, Bear Stearns, Fannie Mae, Freddie Mac, Lehman Brothers and Merrill Lynch, companies that were thought to be too big to fail, have all either filed for bankruptcy, been "bailed out" by the government, or been nationalized. As the seriousness of the economic crisis begins to dawn on people, a mood is being prepared in society the like of which has not been seen for many years. This morning (September 26) came the news of the collapse yet another US bank, Washington Mutual, which was closed by the US government. This was by far the largest failure of an American bank, and its banking assets were sold to J. P. Morgan Chase for \$1.9bn (£1bn). This is the financial equivalent of a devastating Tsunami, and it is not yet over.

The estimates of the economists are constantly being revised downwards. Six months ago the International Monetary Fund estimated more than \$1,000bn (€91bn, £546bn) in financial sector losses and predicted a sharp slowdown in the global economy. Most economists criticized this for being too pessimistic. Now they are singing a different song. Dominique Strauss-Kahn writes in the FT:

"But with much of the losses yet to be realized, and with the financial crisis now acute, it has become clear that nothing short of a systemic solution - comprehensive in tackling the immediate fallout and comprehensive in addressing the root causes - will permit the broader economy, in the US and globally, to function with any semblance of normality." (Financial Times, September 22 2008)

Yes, indeed, the US economy no longer functions with any "semblance of normality". In fact, it is grinding to a halt, at least as far as Wall Street is concerned. As

I write these lines the financial markets in the USA are virtually paralysed as they wait for confirmation of a huge outlay of government money that the authorities hope will "restore confidence". The very fact that the "free market" must depend for its very survivals on huge donations from the US taxpayer is sufficient proof of its complete bankruptcy - in the most literal sense of the word. Here is the final answer to all the rhetoric about the "invisible hand of the market", the spirit of private enterprise and all the rest of it. In the moment of truth, the bold, brave entrepreneurs of Wall Street and the City of London must go like beggars, cap in hand, to the government and ask for social security. Only these beggars are billionaires and they demand money with menaces.

What remains of any "semblance of normality" when a Republican administration led by a fanatical free marketeer nationalizes major US investment banks? Or when the US Treasury hands over a gigantic subsidy of around \$1 trillion to the same? On Sunday, Morgan Stanley and Goldman Sachs gave up on attempts to remain as the only two independent investment banks and became "bank holding" companies to gain expanded access to bank deposits and permanent access to Federal Reserve liquidity support. The elimination of the two most prestigious institutions on Wall Street was an indication of the extreme seriousness of the crisis. The speed with which Morgan Stanley went to Asia in search of capital underlined how quickly the world's wealth was moving away from the US.

Congress dithers and US Treasury Secretary Henry Paulson (who, in the opinion of some commentators, is now the de facto President of the USA) rages. Meanwhile, the markets are continuing to fall and nobody can halt them. This is another argument one hears repeatedly in Congress: You are asking us to hand over all these billions with no checks or guarantees. Apart from the fact that this is rewarding the bankers for their gross mismanagement, who says that this will have any effect in halting the fall of the market?

This is an excellent question, to which neither Paulson nor Bush or anybody else has any answer. It is quite amusing to see the erstwhile advocates of the sanctity of the free market now braying for government intervention to save the market from itself. But they are condemned by their own logic, which is only the insane logic of the free market economy. The present financial crisis, which was predicted by the Marxists long ago, is the direct result of a long period of uncontrolled speculation, which produced the biggest bubble in history.

When on Friday the US government announced its \$700bn bailout plan for the financial sector, markets rejoiced. But then the mood changed into its opposite, when Congress delayed its approval of this massive handout. Until Monday, the US dollar had held up surprisingly well in the face of the turmoil on Wall Street. But it finally fell back in the face of concern over the cost of the bail-out and the fragile state of the US banking system, sending the price of commodities priced in the US currency soaring. The dollar lost 2 per cent against a basket of major currencies, with the euro rising 2.6 per cent to above \$1.48.

The price of oil has acquired a feverish character, with wild swings up and

"The fundamental barriers to the development of the productive forces in the modern epoch are private ownership of the means of production and the nation state. However, for a time, capitalism can partially get round these barriers by a series of means, such as the development of world trade and the expansion of credit. Marx long ago explained the role of credit in the capitalist system. It is a means whereby the market can be taken beyond its normal limits. In the same way, the expansion of world trade can provide a way out for a time, but only at the cost of preparing even more catastrophic crises in the future:

" 'Capitalist production is continually engaged in the attempt to overcome these immanent barriers, but it overcomes them only by means which again place the same barriers in its way in a more formidable size.

" 'The real barrier of capitalist production is capital itself'. (Marx, Capital, vol. 3, 15; 2-3.)

"The circuit of capitalist production depends, among other things, on credit. The solvency of one link in the chain depends upon the solvency of another. The chain can be broken at numerous points. Sooner or later, credit must be paid off in cash. This fact is all too frequently forgotten by those who become indebted during the process of capitalist upswing. In the first phase of capitalist expansion, credit acts as a spur to production: 'the development of the productive process extends the credit, and credit leads to an extension of industrial and commercial operations.' (Marx, Capital, vol. 3, p. 470.)

"This, however, is only one side of the coin. The rapid expansion of credit and debt pushes the market beyond its normal limits, but at a certain point this must turn into its opposite. During the boom, credit appears to be limitless, like the Horn of Plenty in ancient Greek mythology. But as soon as a crisis appears, the illusion is shattered. Returns are delayed, commodities are unsaleable in glutted markets, and prices fall. The development of the world market does not alter this fundamental process, but merely gives it a vastly greater scope in which to manifest itself. The accumulation of debt in the last analysis makes the crisis even deeper and more prolonged than what it would otherwise have been. The recent history of Japan is more than sufficient to confirm this. After a decade of boom characterised by rapidly increasing assets and share prices, the bubble was finally burst by a sharp increase in interest rates. The situation was very similar to that of the USA at the present time. On December 25th, 1989 the Bank of Japan raised interest rates, caused the sharp fall in the Stock Exchange, but since land prices still continued to rise, a new interest rate rise was necessary. Finally interest rates were raised to six per cent and by the end of the year share prices had fallen sharply by 40 per cent. Thereafter, the Bank of Japan kept interest rates high. At that time the Bank of Japan was praised by economists for its prudent handling of the economy. But the result was to prolong the recession for a decade.

"With globalisation, and the abolition of the restraints on credit and financial transactions, the scope for expansion has never been greater, but neither has the potential for a worldwide crash. However, it is not the case that crises are caused by fictitious capital, stock exchange swindles and excessive use of credit. Marx explains this in

the pain. That is to say, it is not a question of this country or that, of this bank or this individual speculator or that, but of the system itself. It is true that no downturn lasts forever. In the long run a new equilibrium is reached, prices stabilize, profitability is restored and a new cycle commences. But this is nowhere in sight as yet. The downturn has not ended. It has barely begun. Nobody knows how long it will last. And anyway, as Keynes once put it: "In the long run we are all dead."

It is easy to be wise after the event. The bourgeois economists are excellent at predicting things that have already occurred. In this respect they are similar to the authors of the Old Testament, who with unerring accuracy predicted historical events that had occurred several hundred years earlier. Gullible folk like the Jehovah's witnesses are greatly impressed by this, citing it as proof of Divine Inspiration of the Bible. Others, of a more sceptical and scientific persuasion, greet such "predictions" with loud guffaws. The same people who ridiculed the Marxists and assured us that there would be no crises are now wailing and wringing their hands. They inform us that we are in the deepest crisis since the Thirties, and hope that nobody will notice the glaring contradiction between this and what they were saying only yesterday.

The simple fact is this: that for the last twenty or thirty years the bourgeois economists have understood nothing, anticipated nothing and foreseen nothing. They have been unable to predict either booms or slumps. They have spent decades trying to persuade us that the economic cycle had been abolished, that mass unemployment was a thing of the past, that the monster of inflation had been tamed, and so on and so forth. All the reformist politicians naturally accepted this nonsense as good coin. In Britain, Gordon Brown boasted: "the cycle of boom-and-bust has been abolished." Now he is left rubbing his backside as the British economy slides into recession. All this shows that bourgeois economics is fit for nothing except to justify a degenerate and bankrupt system.

What we predicted

Let us compare the perspectives of the Marxists with those of the bourgeois. In contrast to the bourgeois economists who committed the grave error of believing their own propaganda, the Marxist tendency explained the reality of the situation. In the Document On a Knife's Edge: Perspectives for the world economy written in 1999 we wrote the following:

"In the past it was said that the role of the Fed was to take away the punch bowl just when the party was getting into its swing. But this is no longer the case. While publicly paying lip service to financial probity and austerity, Alan Greenspan has been prepared to tolerate the creation of the biggest orgy of financial speculation in history, although he must realise the dangers involved. He is like the emperor Nero fiddling while Rome burned. In fact, by raising interest rates by a paltry quarter of a percent, he has poured petrol on the flames. Thus the old motto is shown to be true: 'Whom the gods wish to destroy, they first make mad.'"

In the same document we read:

down. As the dollar fell, stocks tumbled and the price of oil jumped again after the previous steep fall. A 17 per cent increase on Monday, September 22, was the biggest daily price rise ever, and larger even than during the invasion of Iraq. By Tuesday the oil price had dropped again by \$3 to \$106 a barrel and there are good reasons to expect energy prices to continue falling. These violent swings undoubtedly reflect, on the one hand the movement of the dollar, on the other, the activity of those involved in commodity speculation. Until recently, the capitalists speculated in the housing market. When that collapsed, they looked for other fields to exploit, anything else that seemed likely to be profitable: oil, works of art, food. Despite all the complaints and demands for regulation, this speculation cannot be controlled. It is like a hydra: once you cut off one head, another dozen heads appear.

Socialism - for the rich

As a result of the economic and social convulsions, many people are beginning to question the nature of an economic system that could produce such abominations. When the capitalist state itself is compelled to nationalize financial institutions, the idea will gradually become generalized: why do we need private bankers and capitalists at all? For this reason, the politicians avoid the word nationalization as the devil avoids holy water. At all costs they seek to find ways in which the state can provide capital to banks in ways that do not imply nationalization. They struggle to invent forms of capital that leave ownership and control in private hands. But in the end, they are compelled against their will to take over the ailing banks to prevent them from collapsing. This is a damning indictment of private ownership of a key sector of the economy.

Although it would appear a paradox, it is no coincidence that the country where politicians are shouting most loudly against the sins of the market and the greed of the financiers is precisely the United States. The land of free enterprise, the country where the psychology of capitalism has sunk its deepest roots in the population, is the land where there is probably the sharpest reaction against Big Business. This fact is reflected in the speeches of the politicians, notably the candidates in the Presidential election. And the Republican candidate is even more vocal in his rhetoric than the Democrat. This is because he would like to win. McCain sees that there is



a backlash against the exorbitant pay in the boardrooms of big corporations and the scandalous speculation on Wall Street and he says what most people want to hear.

Is it not grotesque that bosses at defunct Bear Stearns were amassing fortunes while pursuing reckless business strategies that led to the collapse? And why should the American taxpayers, most of who are not well off, foot the bill for \$700 billion to bail out the big financial institutions? As of September 30, 2007 the federal government was in a \$53,000bn dollar fiscal hole, equal to \$455,000 per household and \$175,000 per person. This burden is rising every year by \$6,600-\$9,900 per American. Medicare represents \$34,000bn of this deficit and the related Medicare trust fund is set to run out of money within 10 years. The Social Security programme is projected to have negative cash flow within about 10 years. Whoever wins the presidential election and whoever controls Congress will have to preside over deep cuts in living standards. The same capitalists who have taken billions from the government and the Federal Reserve are demanding tough budget controls, cuts in federal spending, a comprehensive reform (read reduction) of entitlement to healthcare.

There is no money for Medicare, or for schools or pensions for the old. But there is plenty of money for the big banks and the fat cats. This glaring contradiction is burning itself into the consciousness of millions of ordinary Americans and will have enormous consequences in the future. The heavy burden of debt will have to be placed on the shoulder of the coming generations, who will have to pay a heavy price for it in falling living standards and cuts in social spending. This will inevitably lead to a profound change in consciousness.

The lesson is not lost on the US public. There is no money for schoolchildren or the sick or the old but when it comes to Big Business (and no business is bigger than banking) the state comes running with an open chequebook. For the plight of the poor the Bush administration has only contempt. In the land of the free, every citizen has the right to become rich. If people insist on being poor, that is their own fault! Let them show a bit of initiative or else crawl into a ditch and die. That is the stern message of the Republican Messiahs of the Free Market. But when it comes to the super-rich, George W Bush shows the tenderest concern. For verily it is written: "For whoever has, to him more shall be given, and he will have an abundance; but whoever does not have, even what he has shall be taken away from him."

As we know, President Bush is a firm believer in the Good Book. But one suspects that his motives for intervening in the financial crisis were not entirely connected with Christian charity. It had more to do with desperation. The ruling class in the USA saw an abyss opening up under their feet and was forced to take panic measures in a frantic effort to stave off a global slump. That is why a fanatical free market President was compelled to throw seven hundred billion dollars of taxpayer's money at the banks.

This remarkable initiative immediately received the plaudits of the Market, nationally and internationally. The Group of Seven industrialized nations said its members "strongly welcome the extraordinary actions taken by the US". However, other nations said they saw no immediate need to create their own funds to buy distressed



Hundreds rallied in front of the New York Stock Exchange to oppose the \$700 billion bail-out - Sept 25 08

the prognostications of the economists, it spread to Ireland, Spain, Britain, and the whole of Europe. Its repercussions will reach Latin America, Asia and Africa. One country after another will fall like dominoes. China will not escape, although for the moment it is still going forward.

In a crisis the capitalists are compelled to resort to extraordinary measures to corner a share of a decreased market. They resort to discount selling, dumping and other methods to undercut their competitors. By so doing, they aggravate the crisis by fomenting a deflationary downward spiral. People delay their purchases in the expectation of lower prices, and thus push prices lower still. We see this phenomenon most clearly in the housing market.

The contagion spreads like an uncontrollable epidemic from one country to another. It will become evident that every country has over-exported (that is, over-produced) and also over-imported (over-traded). (See Capital, Volume 3, p. 481) It will be evident that every one of them had stretched credit too far and stoked the fires of inflation and speculation, which now must be extinguished, no matter what

time, an enormous quantity of these bills of exchange represents plain swindle, which now reaches the light of day and collapses; furthermore, unsuccessful speculation with the capital of other people; finally, commodity-capital which has depreciated or is completely unsaleable, or returns that can never more be realized again. The entire artificial system of forced expansion of the reproduction process cannot, of course, be remedied by having some bank, like the Bank of England, give to all the swindlers the deficient capital by means of its paper and having it buy up all the depreciated commodities at their old nominal values. Incidentally, everything here appears distorted, since in this paper world, the real price and its real basis appear nowhere, but only bullion, metal coin, notes, bills of exchange, securities. Particularly in centres where the entire money business of the country is concentrated, like London, does this distortion become apparent; the entire process becomes incomprehensible; it is less so in centres of production." (Capital, Volume 3, Chapter 30, Money-Capital and Real Capital, I. pp. 478-9, my emphasis, AW)

The capitalists must now squeeze all this fictitious capital out of the system. Like a man whose body has been poisoned, or a drug addict who is struggling against the ill effects of his addiction, they must expel the poison from the organism or perish. But this is a painful process and creates new dangers to the organism. As the system shrinks and credit dries up, the capitalists call in their debts. Those who cannot pay will go bankrupt. Unemployment grows as a result, and this in turn reduces demand, causing new bankruptcies and new debts that cannot be paid. In this way, all the factors that pushed the economy upwards in the last period turn into their opposite.

Bankruptcy of bourgeois economics

The economists persistently clung to the old illusion that a worldwide slump was impossible, that they had learned the lessons of the past (as a drunken man learns his lesson after every hangover). They argued that the financial crisis would be confined to the USA, that the US economy would be somehow "decoupled" from the rest of the world (thus contradicting everything they had previously said about globalisation); that Europe and China would become the new motor forces of the world economy and so on.

How hollow these arguments sound today! Real estate prices are falling globally. The global economy is slowing. European economies are already slowing markedly and, with the inevitability of further bank failures and a shortage of available capital and credit, this process will continue. It is true that so far the so-called emerging-market countries have continued to grow, but it is unthinkable that they can remain aloof from the general crisis as capital flows dry up and commodity prices recede. Of course, this process will take place over time and will be uneven. Some countries will enter into crisis sooner, others later. But in the end, they will all be drawn in.

It is a matter of indifference in which country the crisis begins. The main thing is that under modern conditions it will inevitably pass from one country and continent to another. In this case it began in the USA, which is the country that had carried the mania of speculation to the furthest extreme. But soon after, and against all

assets. The capitalists of Europe and elsewhere were content to sit back and let the Americans take the strain. After all, were they not responsible for creating this mess in the first place? The same question is being asked in the United States, on every street corner - and on Capitol Hill.

The President immediately hit a problem in the form of the US Congress. It is not that the congressmen and congresswomen are any less dedicated to the survival of capitalism than the present incumbent of the White House. But they are even more dedicated to their own survival. They sense the gathering backlash against capitalism, the Market, bankers, Wall Street and all their works. The immensity of the donation (for that is what it is) is self-evident. It signifies that the equivalent of 9400 dollars will be taken from the pockets of every American taxpayer and deposited in the accounts of the very people who caused the financial crisis in the first place. This fact serves to concentrate the minds of Congress wonderfully, especially as elections are not far away.

The Democrats have been asking for a second round of measures to revive the US economy, centred around a boost to infrastructure spending, home heating assistance, and possibly more rebate cheques to consumers. But the administration and many Republicans are resisting. Money for the bankers? Of course! But money for the ordinary Americans? Sorry - the cupboard is bare! This was all too much for the gentle souls on Capitol Hill who spend all their time looking after the interests of the Nation.

As one might expect, Barack Obama, the Democratic presidential nominee, set out his concerns in a speech that called for a modernization of financial regulation based on institutions' activities rather than on their identification as banks or mortgage brokers. "We cannot give a blank cheque to Washington with no oversight and accountability when no oversight and accountability is what got us into this mess in the first place," he said.

More surprising perhaps was the reaction of the Republican candidate, who clearly did not want to be left behind by his rival (after all, words are cheap and it is election year): "This arrangement makes me deeply uncomfortable," said John McCain. "Never before in the history of our nation has so much power and money been concentrated in one person. When we're talking about a trillion dollars of taxpayer money, 'trust me' just isn't good enough." Mr. McCain even voiced support for Democratic calls for an annual pay cap of about \$400,000 for executives at companies bailed out with public funds. This is in complete contradiction to the position of the Bush administration, which insists that a pay cap would discourage banks from taking part.

Senior Democrats in the House and Senate circulated proposals involving tighter oversight, various proposals to allow or require the government to take stakes in companies taking part in the scheme, allow bankruptcy judges to write down mortgages and curb executive pay at banks selling assets to the government fund. Mr Paulson is resisting making pay or the transfer of equity to the government a precondition for selling assets to the fund, arguing this would ensure that only banks

on the brink of failure take part.

This conflict, and the demands by the Democrats for more control over the money handed over to the banks, produced deadlock and a delay that upset the markets once again. After all, when the Market requests, it is used to being obeyed. The elected representatives of the Nation are not supposed to ask any questions! President Bush called on Congress to "keep the rescue bill focused on solving the crisis in our financial markets".

But Congress is under the pressure of public opinion, which, as we have seen, is reaching boiling point. Congressmen are being bombarded with telephone calls and emails, in which their constituents vent their rage against this scandalous handout to the rich. They ignore this mood at their peril! Therefore, they have hesitated to sign the deal. Congress blames the Administration for getting them into this mess. The President blames the Congress for holding up a deal that is supposed to save the US economy from collapse (Bush used precisely those words in an unprecedented television message to the nation).

Tempers flare on the floor of the House: Congressmen shout at each other and nearly come to blows. When can anybody remember such scenes on Capitol Hill? But then, when did anybody see the USA in a state of economic meltdown? And when can anyone remember the American people in such a rebellious and angry state of mind? The reason for the conduct of the Congressmen is that they can feel a fire under their backsides.

Whatever they do now will be wrong. If they sign the deal, they will earn the hatred of millions of ordinary Americans. One woman, interviewed last night on British television, when asked what she thought of the proposed bail-out, answered bitterly: "I have just come off an eleven hour shift and I work 60 hours a week. Now they want to take \$2,300 off my pay to give to the bankers!" This must be typical of the attitude of millions of ordinary people in the USA. But if they refuse to sign, it will cause further sharp falls on the stock markets in the USA, posing the threat of a complete collapse on the lines of 1929. In other words, they are caught between a rock and a very hard place.

Pessimism of the bourgeoisie

The bourgeoisie suffers from periodic bouts of manic depression, passing rapidly from extreme optimism to the depths of despair. On both sides of the Atlantic, where previously there was "irrational exuberance", now there is gloom and doom. It was ever thus: the bourgeoisie always sways between the two extremes of manic depression. One minute the party is in full swing and vast fortunes are being made; the next, the whole thing is deflated and misery abounds. When the collapse finally arrives it is like the morning after a wild party. The night before, people were happily inebriated with not a care in the world. Now, in the cold light of morning it is a very different story. Men and women are painfully aware of the excesses of the night before. They solemnly swear that they will never touch strong drink again, and they

huge risk. That explains the panic on Wall Street and in the White House. They fear - correctly - that any severe shock can bring the whole unstable edifice of international finance crashing down, with unforeseen consequences.

Even in the 19th century, at the height of the boom, when credit was easy and confidence was growing, most transactions were done without any real money. There is an abundance of capital at the beginning of the cycle and the rate of interest is low. The low rate of interest boosts the profits of enterprises early on in the cycle and stimulates growth. Later on the rate of interest reaches its average level during the height of prosperity. There is an increased demand for credit and therefore interest rates ought to rise at the peak of the boom. But in the last boom this did not occur.

In recent years the Federal Reserve pursued a policy of deliberately keeping interest rates low (they were even negative in real terms at one stage, considering the level of inflation). This was irresponsible from an orthodox capitalist point of view. It created the housing bubble and thus laid the basis for the present crisis. But as long as vast profits were being made and investors were happy, nobody cared. They all merrily joined in this mad carnival of moneymaking. The most respectable bankers and the most learned economists joined hands and danced to the chorus of: "Eat, drink and be merry, for tomorrow we die!"

The reason why they now complain they have insufficient capital is that a large part of their assets are fictitious - the result of unprecedented swindling throughout the financial sector. As long as the boom continued, nobody minded. But now that boom has turned to bust, all these assets come under scrutiny. The bankers, who yesterday were prepared to buy large amounts of debt from each other, are no longer prepared to do so. Distrust and suspicion has become general. The old easy-going optimism has been replaced by a miserly attitude to borrowing and lending. The entire banking system, upon which the circulation of capital depends, is grinding to a halt.

Unless and until all the bad assets are removed, many institutions will still lack sufficient capital to extend fresh credit to the economy. Marx described this stage in the economic cycle long ago:

"It is clear that there is a shortage of means of payment during a period of crisis. The convertibility of bills of exchange replaces the metamorphosis of commodities themselves, and so much more so exactly at such times the more a portion of the firms operates on pure credit. Ignorant and mistaken bank legislation, such as that of 1844-45, can intensify this money crisis. But no kind of bank legislation can eliminate a crisis.

"In a system of production, where the entire continuity of the reproduction process rests upon credit, a crisis must obviously occur - a tremendous rush for means of payment - when credit suddenly ceases and only cash payments have validity. At first glance, therefore, the whole crisis seems to be merely a credit and money crisis. And in fact it is only a question of the convertibility of bills of exchange into money. But the majority of these bills represent actual sales and purchases, whose extension far beyond the needs of society is, after all, the basis of the whole crisis. At the same

Marx on fictitious capital

It is not a lack of money that causes a crisis, but on the contrary, it is the crisis that causes a lack of money. The bourgeois economists, with their banker's mentality, confuse cause with effect, appearance with essence. When the economy enters into crisis, credit dries up and people demand hard cash instead. This is the effect of the crisis, but in turn it becomes cause, pushing down demand and creating a downward spiral.



The bankers and their friends in government insist that the cause of the crisis is the fact that the financial system has too little capital. This is an astonishing statement to make. For the last two decades there was a vast moneymaking carnival in which the banks made huge profits. Now they claim they do not have enough capital! Actually, there was a huge amount of loan capital in circulation during the boom and this superabundance of capital itself showed the limitations of capitalist production. These were vast sums of capital available for speculation that could not find an outlet and the

bourgeois had to find other ways of using it.

Marx pointed out long ago that the ideal of the bourgeois was to make money out of money, without going through the painful process of production. In the last period they appeared to have achieved this idea (except in China where there has been a real development of the productive forces). In the USA, Britain, Spain, Ireland and many other countries, the banks invested trillions in speculation, especially in the housing sector. This was the basis upon which the sub prime mortgage scandal arose and flourished, generating unimaginable amounts of fictitious capital.

Already in Marx's day there were huge amounts of circulating capital; this is capital which forms the basis of fictitious capital. In those days there were credit swindles - the equivalent of derivatives today. However, when compared to the position today, all the speculation in the past pales into insignificance. The total amount of speculation on a global scale is staggering. Let us take just one example: the credit default swap industry. This market allows two parties to bet on the likelihood of a company defaulting on its debt. It has grown to about \$90 trillion in notional amounts insured. That is to say, probably more than double the total outstanding credit in the world. But contracts are registered nowhere but in the books of the partners. Nobody knows the real volume of trading, which therefore exposes the world economy to a

are quite sincere - until the next party.

The ignominious collapse of the latest speculative boom is no exception to the general rule. It is remarkable only in the depth of the gloom, which is only a reflection of the dizzying heights from which they are now plunging. This was simply the biggest speculative boom (or bubble) in history. It was far bigger than the boom that preceded the Wall Street collapse. Yet despite the obvious severity of the crisis the bourgeois economists still try to comfort themselves with the thought that things could have been much worse. The Financial Times recently commented:



In this Oct. 25, 1929 file photo, stock brokers are seen at the New York Stock Exchange as panic seeking continues from the previous

"The Great Depression began less than 80 years ago but, then again, we are in a different century. Whether or not this will be the worst such upheaval the world has to face between now and 2099, the fact that nothing as bad as the Depression occurred between the 1930s and now is in itself remarkable." This comment is interesting on two counts: the same people who for years have been denying that there was any possibility of a repeat of 1929 and the Great Depression now, without

blinking an eyelid, say that it is not only possible, but that it is remarkable that it has not happened - yet.

Dominique Strauss-Kahn writes: "[...] and for what has not happened, at least not yet, to the broader economy - the onset of a severe recession. Perhaps it was the absence of the latter that lulled too many into viewing the bursting of the housing bubble merely as a correction, the defaults in US subprime mortgages just as misfortune and the failure of important financial institutions as collateral damage." (Ibid.)

The fall in prices during a crisis merely balances out their earlier inflation. In that sense one can speak of a "correction". However, we pointed out long ago how the bourgeois economists have repeatedly changed the terminology describing an economic slump in order to make it appear less serious than it is. At one time they used the word panic, then slump, then depression, then recession, until now they have finally arrived at correction. After all, if we accept the miraculous healing powers of the market, which by art of magic regulates itself without any conscious human involvement, how can we object to the market "correcting" itself?

On this subject we wrote in World Perspectives 2008:

"An earthquake can also be presented as a necessary 'correction', which merely re-

adjusts the earth's crust. Eventually, it all settles down and life goes on as before. But this comforting analysis leaves out of account the terrible trail of damage caused by the earthquake: the villages wiped off the face of the earth, the trees uprooted, the crops destroyed, the thousands killed and injured. Moreover, normal life is not so easily restored after every earthquake. Some can be so devastating and leave such a trail of destruction that the effects can be felt for many years."

These lines accurately describe the consequences of this "correction".

The dictatorship of finance capital

Our epoch is the epoch of monopoly capitalism. One of the features of this is the complete domination of finance capital. This domination has gone further in the USA and Britain than in any other major country. Britain, the former workshop of the world, has become transformed into a parasitic rentier economy, which produces very little and is dominated by finance and services. Up until recently this was presented as something positive, which would protect Britain against the turbulence of the world economy. But the opposite is the case. By slavishly following the American model, Britain is being dragged towards recession following the USA and will most likely be the worst affected. Like a parasitic worm, growing fat at the expense of the rest of the host organism, the financial sector has grown too large relative to the economy, sapping its strength and threatening to undermine it entirely.

It is an elementary proposition that what goes up must come down. For years the USA economy appeared to be defying the laws of economic gravity. Now the price must be paid. The fall, now it has arrived, is all the steeper because of the dizzying heights reached by speculation in the housing sector in the period that preceded it. Already it is far steeper than the fall in house prices in the Great Depression, in the first quarter of 2008 house prices in the USA fell officially by 14.1 percent. By contrast, in 1932, at the low point of the Depression, house prices fell by 10.5 percent. Moreover, these figures do not convey the real seriousness of the position. Some economists put the figure of the fall in house prices during the first quarter at 16 percent in real terms. And the fall in house prices is far from over.

This means that the huge sums of money being thrown at the bankers will have no effect in detaining the fall, or at best the effect will only be a temporary respite before new and even steeper falls. This is the logic of the market, which obeys no laws but its own. The so-called stabilization plans are nothing of the kind. All talk of regulating the markets is just so much nonsense. The capitalist system is anarchic by its very nature. It can neither be planned nor regulated. The attempt to stabilize the financial sector by pumping in huge amounts of cash will only succeed in making the already super-rich richer still. But it will have no lasting effect on the market.

The insolence of the bankers is quite astonishing. They demand the government to buy their bad debts, while they hang onto their profitable assets. Nobody knows what the real value of these assets is. An old proverb tells us never to buy a pig in a poke (sack). This is sensible advice, but the government is just expected to hand over

vast quantities of money to the bourgeois without looking inside the sack. The crisis of the banking system is the result of a massive swindle that all the bankers merrily participated in for the last two decades. It made them fabulously rich but now has left a massive amount of debt and fictitious capital on the balance sheets of financial institutions. How to solve this little problem? Easy! Pass the bill to the taxpayer. Get the government to set up an agency to buy these assets and hold them until they "mature" and can be sold back to the private sector. This means nationalizing the losses and privatising the profits, or, to use the wonderful expression of Gore Vidal, socialism for the rich and free market economics for the poor.

The capitalists claim they are also making sacrifices, but what they mean is that they sacrifice a little of their bloated profits, whereas the workers sacrifice their livelihoods and houses. The bankers scream with pain and the governments come running with an open chequebook in their hands. The bankers demand a large transfusion of cash to heal their ailment. This is known as "liquidity provision". The problem is that the state does not possess any liquidity. It can only raise cash from taxes. But taxation reduces demand, which is already falling in the USA. This may temporarily alleviate the "suffering" of the super rich, but only at the cost of increasing the suffering of millions of ordinary Americans. That, in itself, would be nothing to worry about, of course, since it is the lot of all patriotic Americans to suffer in the greater cause of the Market. Unfortunately, this will have more serious effects on the economy.

A further cut in demand will increase unemployment. Firms will go bankrupt. More people will default on their mortgages and credit card debts. In other words, it will deepen the crisis and make it harder to resolve. Moreover, the USA in recent years has been transformed from the world's biggest creditor nation to the world's biggest debtor. The government's purchase of distressed assets and injections of capital into financial institutions will enormously increase this collective indebtedness. This must produce a further fall in the value of the dollar relative to other currencies. This will cause further convulsions in world money markets.

Central banks are supposed to prevent runs on banks and financial institutions by reassuring depositors that bank deposits are safe and by providing liquidity to financial institutions against good collateral. But there is a limit to the resources of central banks, and this is being rapidly reached. They have probably done by now most of what they could do. In the event of new banking crises, they will be powerless to act. Since nobody has the slightest idea of how much bad debt is still poisoning the world financial system, such crises are inevitable in the next period. Sooner or later they must end in the collapse of one or another of the major banks, which can send a fatal shock through the world economy, like the collapse of the largest Austrian bank, the Kredit-Anstalt in May 1931. This occurred two and a half years after the Wall Street Crash in the USA and marked the beginning of the financial collapse in Central Europe and further afield. It is entirely possible that we will see something similar in the next period.