

ECONOMY**From finance capital to****Money, money, money: but what to do with it?**

While economic growth is proving elusive, there are clear signs of stagnation and disintegration, argues *Critique* editor **Hillel Ticktin**

Following the late 1970s, with the era of Reagan and Thatcher, the bourgeoisie effectively decided to switch to finance capital. This meant deindustrialisation, exporting industry to places like China. They downgraded the relative importance of industry and promoted finance, which became dominant once again (I stress 'once again', because it had been so before World War II).

The result was that money was subtracted from the rest of the economy and found itself in banks or various kinds of finance houses, which involved - along with the official banking system - the so-called 'shadow banking system'. It meant that industry was subordinated to the ever more pressing demands of finance capital, which built up huge sums. And that was the problem. After a period of time, there was effectively too much money - particularly, of course, in the United States - and it became ever more difficult to find an area of profitable investment. This was the cause of the various bubbles - the south-east Asian bubble, the long-term capital management bubble and the dot-com bubble. This period lasted from the late 1970s to the year 2000.

In March 2000 the stock exchanges turned down. The subsequent period might well have been the beginning of the period of crisis we are now living in. After all, there was a downturn,

but this downturn was offset - partly because of 9/11, but much more because of the war on Iraq, which required sufficient investment to allow the economy to revive somewhat. Particularly in the US and Britain, by 2005-07 we saw an economy where there was a huge shift to phenomena such as credit default swaps, which quickly grew from something like \$1 trillion in value to something like \$63 trillion. The same thing applied to various other derivatives. By 2008, the total level of derivatives shot up to something like \$670 trillion. It was obvious that there would be a crash. After all, where was the money to go? If it was not going to go to industry, then where? As I said, there were a series of crashes.

Cannibalistic forms

One area in which it could invest was finance capital itself, which is effectively what happened. It became cannibalistic. Investment went into what Marxists call the unproductive sector - loans for housing, commercial real estate and simple derivatives themselves. While this may have appeared to be some kind of virtuous circle, it obviously could not last. It had to explode, because in the last analysis it was based on nothing. Once that happened, the whole system

began to topple.

That is where we are now - not much has changed. There is still a huge surplus of money, such as the \$27 trillion held under administration by one single bank, the New York Bank Mellon - a figure I have quoted on several occasions. Or the \$21 trillion or so apparently held offshore in various havens to evade tax. When we start to think of these huge sums, we have to actually ask what is going to happen to them. After all, if they are simply held in accounts where the owners have to actually pay for the privilege rather than receive any interest, then that money will be lost. So, of course, they want to find a way out of that.

However - and this is the crucial point - they do not want to invest. They do not want to go into industry. So what is going to happen? That is the issue and it is not at all clear what the answer is. All we can see is that there is a deadlock, because, after all, these vast amounts of money came about as a direct decision to move out of industry. The logic would be that, if the capitalist class wanted to preserve the money, then it would have to find a way of moving back into the productive sector - back into industry. But that does not appear to be on the cards, although the possibility still hangs in the air, as it were. We shall return to this question.

In the meantime, we see capital looking for somewhere to invest. It may go into hedge funds, simply a cannibalistic form, or it may simply be held in banks, or it may be used for speculation on the stock exchange. We can see that the stock exchange has been going up and down - commentators have made the precise point that what we now have is a huge wall of potential investment which is looking for an outlet but has been holding back. When it looked like there was an opportunity to invest and make money on the stock exchange, money poured into it. We may expect that to happen again and again. Equally we may also expect money to be withdrawn, which is precisely what has happened in the last two weeks: various indexes, such as the Dow Jones and the British FTSE, have gone up and back down, although not the whole way back until now. In the US, the Dow Jones index has actually remained at its highest level ever, although this is not actually true in light of inflation. Yet we do see a certain gyration on the stock market, reflecting the fact that there are huge amounts of money which need somewhere to go. In fact this money is not going anywhere.

In contrast, we see a world economy which is bumping along the bottom. At one point it was thought that the third-world economies would

grow at a rapid pace and help to pull the rest of the world out of the mire. Not only has this not occurred, but these economies themselves are also going down. One can now read article after article about how Brazil is in trouble, how its rate of growth is low (around 1%) and so forth. Russia, of course, is suffering from an outflow of capital, and in any case it is hard to imagine anything happening in Russia that could save the world economy, given that attempts to tackle the 'rust belt', which is the basis of the Russian economy, have got nowhere. Russia remains dependent on oil and the export of raw materials.

Chinese downturn

The one hope that the economists of London and New York had - ie, that China would turn up - has proved an illusion: China has turned down. It was surely obvious that this would be the case, even if much of the left seemed to be completely oblivious to this fact.

China has turned down for the obvious reason that its growth was effectively dependent on free labour - ie, labour that is free of an actual attachment to industry. In this sense I am using the term 'free labour' in a completely different way to which it is usually used: to denote non-attached or non-slave labour. I am using it in the sense that Chinese

austerity muddle

labour, which has come from the villages, and which has limited skills, is free of any attachments, although not of all controls, and is relatively low-skilled. Such a labour force can easily be directed from one point to another; industry can be developed by educating this labour force on the job and moving it from one town to another.

The Chinese regime has control over this surplus labour and can reinvest it fairly easily in parts of the economy, including areas of shortage, giving a very high rate of growth. Yet this period has been an extremely limited one, and is coming to an end. It is true that there are still millions - maybe half of China's population - working in agriculture, but the relative shortage of labour today has allowed rising real incomes and wages and, consequently, a lower surplus product. Now from the point of view of the majority in China, there is no question that this is a step forward: they are better off. Nonetheless, we have to say that the high growth rates will have to come down.

Another reason why growth will come down is that it was not necessarily clear, given the nature of the economy and given what I have just been describing, where the investments would go. In fact, as in the former Soviet Union, the Chinese invested substantially in infrastructure. Unfortunately, a considerable part of this was in roads, blocks of apartments and so on in areas where nobody went. A considerable part of that surplus product was therefore effectively wasted, although over time they will clearly be brought into use. There is, however, clearly a limit to this type of investment. One also has to ask whether such investment should actually be included in gross national product figures. In fact, economic figures from China are often questioned: the actual rates of growth were probably lower than they appeared. The Chinese themselves are saying that the rate of growth has gone down and will go down further.

So it is highly unlikely that China could pull the world out of downturn. This is even more obvious if we think about the role of Chinese exports. As we all know, China's high rate of growth was dependent on its exports - particularly to Europe and the United States. Since Europe is effectively in a considerable downturn and American growth is relatively stagnant, imports from China are well down. The result is that the Chinese rate of growth would have gone down, regardless of the factors that I have just mentioned.

Far from assisting world economic growth, China may actually be acting as a drag on it: we do not know enough as to how the Chinese bureaucracy will act. Insofar as this bureaucracy has the levers of state control, it is in fact in a better position than in the west, where one simply sees stagnation all round - in the private sector and in the public sector. The Chinese may have more control and may therefore be able to mitigate what could amount to a very difficult period for growth in China.

Little change

Today we are effectively in no better a position than we were before 2007. Even the banking sector remains in trouble, as the newspapers constantly report. This is particularly the case in Europe. Apparently, the US has to a large extent cleaned up its act - smaller banks have either gone bankrupt or merged, bigger banks

have been assisted, so as to allow them to continue, and because the US economy did actually grow (in contrast to the European economy) the banks were further assisted.

But it remains the case that banks are still in trouble in Europe. They need much more money in order to deal with the bad debts that they hold and they need a higher ratio of cash-type assets in relation to their total loans, so as to ensure that they do not get into further difficulty. The banking sector remains a source of trouble in Britain too.

The question, then, is where things go from here. In a crisis, it becomes obvious that the different poles pull apart. We have seen how finance and industry, which were already pulling apart before the crisis, pulled apart even further. We have seen the way protectionism is now spreading and intensifying. So far, protectionism has occurred on a relatively low scale, when compared with the great depression. It is nonetheless hotting up. The fight between China and Europe over solar panels is somewhat ridiculous when looked at from afar, but it reflects a discontent concerning competition with European producers.

Clearly, big German car manufacturers will not be asking for protection - except in certain circumstances, such big firms do not need protection (if they do then they will find ways of letting it be known in due course). At the present time, however, it is primarily the lower sections of the bourgeoisie - what might have been called the petty bourgeoisie, except they are wealthier, own firms and so on - which are asking for help. These firms are in debt and mainly depend on the larger firms, which attempt to buy at the lowest possible price and therefore will turn to outside their own immediate sphere, outside their particular country and so forth. So you would expect this lower section of the bourgeoisie to be highly discontented and to ask for protection. Their grievances will not only express themselves in the demand for protection, but in a series of other demands too.

In Britain, one of these demands is that Britain leave the European Union. If Britain does that then the British government could introduce a series of protectionist reforms in order to build up industry. That is the way they would look at it, and that is the way things are going. The tremendous demand for a referendum on EU membership expresses this group's interest above all. There are similar interest groups in other countries, with similar protectionist aims. As standards of living continue to fall and this section of the bourgeoisie finds itself forced down, one would expect these calls for protectionism to go even further. One would also expect this section of the bourgeoisie to seek common cause with a section of the workers in asking for such protection.

We are seeing forms of disintegration, as opposed to the forms of integration which had occurred during the period of colonial expansion. It is not a coincidence that various minorities within several states, including Britain, want to declare themselves independent - Catalonia sees itself as a richer area within a country it has to subsidise. We should expect this tendency to continue.

Europe

So how stable is the European Union in this climate of disintegration? Rather interestingly, in a June 10

article in the *Financial Times*, Wolfgang Münchau¹ takes up the cry of the International Monetary Fund that the attitude of the EU bureaucrats towards Greece was wrong when, three years ago, they began to put it under pressure. It clearly was wrong: not simply from the point of view that what they were doing was brutal and cruel, but also because what they were doing did not have a hope in hell of being successful. Münchau points out that still to this day the settlement that was reached - modified and amended all the way - cannot work and will never work. That is undoubtedly true.

That is a reflection of what is happening within the euro zone itself. Obviously, if the Greeks were to leave the EU, then many of them would lose out: there would be an immediate devaluation of the currency and the imports which they previously made would, in effect, cost a small fortune, with living standards dropping catastrophically. On the other hand, what Münchau is really pointing out is that the pressure still being applied to Greece is such that they may say 'Enough is enough' and leave. That is entirely possible.

The euro zone does not work. No measures have been introduced in order to make it work. In any economic union of the kind that was being envisaged, it is obvious that there will be some areas that are richer and some that are poorer. There will be some areas that import more from the richer areas and vice versa. You will consequently find an economic balance that will reflect itself in a series of economic data. Unless the richer areas are prepared to accept that, as in the US, the centre must in some way or other assist parts of its union - with the richer areas in effect subsidising the poorer areas - then it simply cannot work. This is all rather obvious and many people have been making this point for some time.

Yet so far there has been no movement whatsoever in this direction. If that continues to be the case, then it simply cannot hold. It is not just that Germany will effectively find itself in trouble in relation to the rest of the EU - France is already in conflict with Germany and there are real differences between them, not simply at the level of philosophy or outlook. But it is hard to see how the euro zone can actually hold together. Of course, it is possible that there could be a change in the coming election, with the Social Democrats actually moving to the left and putting across a version of the viewpoint that I just explained and bringing about a series of measures which will dampen down the problems.

However, at the present time it does not look like it. We are therefore in for a long period of instability in Europe. Given that Europe has a bigger population than the US, that it is a highly developed part of the world that is critical to the world economy, it is hard to see how much can change within the context of the overall global depression. However, it is not just Europe - there are problems in every country.

This is also true of the US. It enjoys a positive rate of growth, but when you consider the influx of young people into the labour force and add up the figures, what you find is that US GDP basically enjoys no growth at all. It is growing precisely because more people are joining the labour force and more people are working. Yet the percentages of those

actually working may be static or it may go down - crucially, the number of people entering the workforce continues to rise. Consequently, the GDP per person in the labour force is relatively static.

The reality, of course, is also that the number of unemployed remains very high. It is almost certainly at least twice as high as the figure that is usually announced. There is also a deadlock within Congress, which makes it hard to pump in enough money or decide upon projects which would actually raise living standards and lead to growth. Barack Obama spoke of the 77,000 bridges that needed to be repaired in the US this year and in his first term spoke of introducing high-speed rail across America. That would have helped ensure growth. Yet this is, of course, not happening.

Divided bourgeoisie

I would like to finish on a more general point. We live in a world which is in depression. We live in a world in which the parts are disintegrating. We also live in a world in which the bourgeoisie is fighting itself. It has taken a number of different viewpoints: some want austerity, some want growth and others have views which are variations of these two. We have seen the IMF speak of growth, something which almost certainly reflects the viewpoint of the US, as opposed to that of Germany or Britain.

We are not just dealing with governments here: we are talking about sections of the bourgeoisie. They are divided. But they are more than divided, because if you probe one or the other side, you see that they are not able to provide a coherent explanation of where they are and why they are there. Generally, they produce a series of propaganda statements, many of which are untrue and do not apply. This is particularly true of the Conservative-led government in Britain, whose talk of the need to save money and reduce the deficit is a nonsense. The US economist, Paul Krugman, is absolutely right to deem this approach "the economics of the madhouse".

There is no truth to what they are saying - particularly if one thinks of the crazy situation where the Bank of England is buying government bonds and holds something like a third of these bonds. This means that the British debt is a third less than what is claimed, which makes it wholly acceptable (in numerical terms).

That simple fact, which can never be fully articulated, shows how it is possible to expand. This leads one to conclude that there is, of course, another agenda: austerity.² They want something else: they want a small public sector and to change the whole nature of the economy. While such a view might not be held by every advocate of austerity, it is nonetheless present.

The overall result of these differing viewpoints amongst the bourgeoisie is a muddle. Whereas it is actually possible to get out of the present downturn, that will not happen, because ultimately this would be tantamount to suicide on the part of the capitalist class ●

Notes

1. W Münchau, 'Hail the outbreak of honesty about Greece's bailout' *Financial Times* June 10.
2. The subject of another podcast from comrade Ticktin, which is available to download at www.critiquejournal.net/28may.wma.

■ Without organisation the working class is nothing; with the highest form of organisation it is everything.

■ There exists no real Communist Party today. There are many so-called 'parties' on the left. In reality they are confessional sects. Members who disagree with the prescribed 'line' are expected to gag themselves in public. Either that or face expulsion.

■ Communists operate according to the principles of democratic centralism. Through ongoing debate we seek to achieve unity in action and a common world outlook. As long as they support agreed actions, members should have the right to speak openly and form temporary or permanent factions.

■ Communists oppose all imperialist wars and occupations but constantly strive to bring to the fore the fundamental question - ending war is bound up with ending capitalism.

■ Communists are internationalists. Everywhere we strive for the closest unity and agreement of working class and progressive parties of all countries. We oppose every manifestation of national sectionalism. It is an internationalist duty to uphold the principle, 'One state, one party'.

■ The working class must be organised globally. Without a global Communist Party, a Communist International, the struggle against capital is weakened and lacks coordination.

■ Communists have no interest apart from the working class as a whole. They differ only in recognising the importance of Marxism as a guide to practice. That theory is no dogma, but must be constantly added to and enriched.

■ Capitalism in its ceaseless search for profit puts the future of humanity at risk. Capitalism is synonymous with war, pollution, exploitation and crisis. As a global system capitalism can only be superseded globally.

■ The capitalist class will never willingly allow their wealth and power to be taken away by a parliamentary vote.

■ We will use the most militant methods objective circumstances allow to achieve a federal republic of England, Scotland and Wales, a united, federal Ireland and a United States of Europe.

■ Communists favour industrial unions. Bureaucracy and class compromise must be fought and the trade unions transformed into schools for communism.

■ Communists are champions of the oppressed. Women's oppression, combating racism and chauvinism, and the struggle for peace and ecological sustainability are just as much working class questions as pay, trade union rights and demands for high-quality health, housing and education.

■ Socialism represents victory in the battle for democracy. It is the rule of the working class. Socialism is either democratic or, as with Stalin's Soviet Union, it turns into its opposite.

■ Socialism is the first stage of the worldwide transition to communism - a system which knows neither wars, exploitation, money, classes, states nor nations. Communism is general freedom and the real beginning of human history.