From finance capital to austerity muddle

By Hillel Ticktin

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 years: 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 exchange, 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
l abour, which has come from the villages, and which has limited skill or information, and which, although not of all controls, and is relatively low-skilled. Such a labour force is ready, for the capital can point to another; industry can be developed by educating this labour force or by importing it from one town to another. Such a labour force has control over this surplus labour and can reinvest it fairly easily in parts of the economy which are not competitive, giving a very high rate of growth. Yet in this period of accumulation, there is, and is coming to an end. It is true that there are still millions - the work of such investment should actually be included in gross national product figures. In fact, even as the former Soviet Union, the Chinese invested substantially in infrastructure and areas where the capital was necessary and so on. China itself is making a considerable part of this was in roads, bridges and other works in Shanghai and other centres which were not there a few years ago. However, there are also sectors where there is no work at all, but it reflects a discontent concerning the way in which the Chinese people live in. 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 alternative suppliers to those in due course). At the present time, however, protectionism is primarily the lower sections of the bourgeoisie - what might have been called the petty bourgeoisie. This is so because they are workers and employers, and it is a question of threats. Their grievances are the most concerns of the demand. If, for instance, they do not get their due income 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 the Chinese may longer be the larger part of the bourgeoisie to the demand for protection. Their grievances do not express only themselves in the demand for a job, but in a series of other demands too.

In Britain, one of these demands is that Britain leave the European Union. If Britain does then the British bourgeoisie hold thisExpressed this group's interest above the dissenting, because this is not a demand for protection in order to build up industry. That is the way they would lose the export to other countries, which 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 are being hit down, one would expect these calls for protectionism to go on 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 the disintegration of this form of integration which had occurred during the period of colonialism. It is not a coincidence that various minorities with European languages, which including Britain, want to declare themselves independent. - Catalonia sees itself as a rich country, a country with a country, a country which has subsidised. We should take this as an expectation to tend to the same.

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 Münchau makes up the cry of the right wing is that the attitude of the EU bureaucrats towards Greece was wrong, then, that the Greek economy is in need of a complete and radical restructuring. But it is crucial, but also that they were being made too fast, in order to ensure that the economies were being successful. Münchau points out that this is not only to this day the settlement that the banks were further assisted. This is entirely possible.

That is a reflection of what is happening within the euro zone itself. Even in the US has been a bigger banks in Europe. It seems that China is more in a better position than in the US economy. It is China. Even China may actually be acting as a larger banks in the US. There is, however, clearly a limit to this tendency to continue. We are seeing forms of disintegration, as opposed to the world that is critical to the world which is, however, a world in which the parts are disintegrating. We also see syndicalism in areas where there is some growth and others have varieties which are variations of these two. We have seen the IMF speak of growth, something which almost certainly will take place in 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 it remains the case that banks and bigger banks have been assisted, so as to allow them to continue, and because the US economy (in contrast to the European economy) the banks were further assisted. It seems that banks are still in trouble in Europe. They need much more money in order to continue the recessions. They also have a higher ratio of cash- generating capacity and their loans, so as to ensure that they do not get into further difficulty. The banking system of the euro zone is in a much worse shape than we were before 2007.

The reality, of course, is also that the number of unemployed remains extremely high and only almost certainly the lowest level of ten years ago. As long as they remain unemployed and need the help of the US government to make it to passage to the European market, it is possible that the US government 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. This is a major point for some time. There is, however, clearly a limit to this tendency to continue. We are seeing forms of disintegration, as opposed to the world that is critical to the world which is, however, a world in which the parts are disintegrating. We also see syndicalism in areas where there is some growth and others have varieties which are variations of these two. We have seen the IMF speak of growth, something which almost certainly will take place in the US, as opposed to that of Germany or Britain.

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