

# **Capitalism in Crisis**

Workers Solidarity Movement

2009

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## The neoliberal origins of the global capitalist crisis

The neoliberal model that global capitalism has depended upon for its growth over the last three decades has collapsed in spectacular fashion. The collapse has been remarkable for the astonishing speed with which it has spread all over the world and into every corner of the global economy.

The roots of this crisis are found in the basic structure of the neoliberal economic system. Neoliberal economics first came into vogue in the late 1970s. They represented a reaction by the powerful against social democracy and the wave of radical social movements — anti-colonial, civil-rights, feminist, socialist — that flourished in the post-war period. At its essence neoliberalism amounted to a very simple strategy — to remove as many constraints as possible governing how capital could be employed. To this end, from the 1980s onwards, having gained ideological control of the political systems of the major economies, neoliberal financial, legal and diplomatic measures were introduced to progressively facilitate the free movement of capital around the globe. The mobility and freedom from regulation and oversight that such reforms allowed effectively removed any prospect of democratic forces influencing the running of the economy.

If any population even looked like they might have the temerity to impose restrictions on capital movements, the markets would move and capital would leave, destroying the economy in the process, long before the local population could act. If any workforce became too assertive and started organising to achieve better pay and conditions, production could move overseas, closing their factories and eliminating the workers' jobs. Thus, the basic neoliberal principles, when translated into policies, were very effective in increasing the power of those who owned significant capital and, conversely, decreasing the power of the masses who did not. For example, the rising tide of Third World nationalism and anti-colonialism was militarily impossible to defeat in the 1960s and 70s. However, the Third World debt crisis of the early 1980s managed to quash the threat, with an effect that lasted for decades. Similarly, neoliberal deregulation allowed the industrial barons of the US auto-industry to move production away from the heavily-unionised and militant cities of Detroit and Pittsburgh. The economic dereliction that they left behind still serves as a potent warning against any would be imitators of the militant Detroit workers.

The major problem, however, for the ruling class with this strategy is that the regulations that neoliberalism tore up were put there for a reason and they were largely put in place by the ruling class in their own interests. During the 19<sup>th</sup> century — the era of classic liberalism — 'laissez faire' economic ideas were in vogue. The unregulated economy experienced regular, cataclysmic crises, frequent cycles of boom and bust, social upheavals, resource wars and even revolutions. That economic period culminated in the apocalypse of the First World War and the Russian revolution. The economic mess that ensued led to the Second World War and another surge of social upheaval. The economic regulations, put in place as part of the post-war settlement — which neoliberalism shredded were put in place for a reason.

There are various different theories that explain why markets are prone to cycles of boom and bust. Regardless of the ultimate cause, however, what is clear is that, when people interact through markets, crises invariably occur. The severity and disruption caused by these crises depends on the presence of regulations and mechanisms for preventing them and counter-acting them when they occur. Without any regulation or oversight, markets will frequently collapse completely and will simply cease functioning. In general, regulations that have been put in place exist because, without them, significant problems may occur that threaten the survival of the

system. The neoliberal crusaders who constructed the financial infrastructure of the modern economy were presumably at least vaguely aware of the structural problems inherent in deregulated markets. However, they were able to delude themselves into imagining that modern fiscal and monetary policy mechanisms were of such sophistication and power that the government would be able to prevent the system from ever descending into crisis. This belief was seductive too. Neoliberalism delivered almost three decades of solid growth in profits. The frequent crises that appeared, in accordance with their fears, were managed, contained and isolated from the rest of the global economy by the International Financial Institutions. The major economies were largely able to avoid recessions – they were contained within developing regions such as East Asia or Latin America.

However, this apparent success in staving off busts in the major economies was based on a serious dose of both voodoo economics and wishful thinking. Every time that the markets got into trouble, central banks would lower interest rates, making it easier for people to borrow money to keep investments flowing. While it might have looked like it was working at the time, this simply amounted to moving bubbles around and keeping on inflating them whenever they looked like bursting. The dotcom bubble was moved into housing and financial services and, all the while, underlying debt was building up. The entire financial system eventually became little more than a massive pyramid scheme. What made the problem worse was that neoliberalism attacked workers' incomes and conditions as part of its drive to deliver profits to capitalists. Since modern economies such as that of the US are heavily reliant on consumer spending by workers, this creates a basic contradiction. Thus, during the neoliberal era, a large proportion of consumption as well as investment was fuelled by credit. Low interest rates allowed this dependence on credit to mushroom into a huge bubble.

Credit bubbles can only grow so large. At some stage, debt grows to such a stage that the debtors can't afford to service their debt. Thus, when interest rates increased in 2007, a chain reaction of debt-defaults was set in motion all across the global economy. It became clear that, rather than having conquered the boom- bust cycle, neoliberalism had simply managed to build up the greatest boom of all time, and its unwinding would be similarly the greatest bust. The immediate factor that triggered the rise in interest rates and the onset of the bust was the increase in commodity prices in 2007 (food, energy, minerals...). This represented a new, underlying and extremely serious long term threat to capitalist growth – the supply of commodities is inherently finite, but capitalist growth demands ever more resources as time goes on. At some stage the raw materials available from the earth will fall below demand. The commodity price bubble of 2007 represented the market's opinion that the rates of growth were not sustainable in the long term due to the finite nature of supply.

Although the prices of commodities collapsed along with the credit bubble, the spectre of resource shortages hangs over the system. Any recovery of capitalist growth is likely to lead to another explosion in commodity prices. Thus, overall, it is fair to say that the crisis of 2007/2008 represents an enormous and unprecedented challenge to the world's economic order. As of March 2009, there is no prospect of recovery on the horizon and the pace of the crisis is, if anything, increasing over time, despite the best efforts of bankers and politicians.

Despite the fact that the crisis has and will continue to cause great suffering for ordinary people all over the world, this is a good time to be a revolutionary. The neoliberal capitalist ideological orthodoxy, which reigned supreme for over three decades has been smashed to smithereens and will never return. Suddenly, there is space for new economic visions that are not based upon

capitalist greed and growth. Ordinary people are willing to consider different ideas as to how we should run our economy and in many cases, the impossible circumstances that they find themselves in will force them to seek out such answers. Nobody can be sure exactly how the current crisis will play out. We know that it will be severe and prolonged, but exactly what will happen is impossible to know. However, it is obvious that the crisis represents a real opportunity for anarchists and other socialists to rebuild support for alternative economic visions.

A new era of revolutionary possibilities lies before us.

## **The development of the capitalist crisis: 2008 to 2009**

The first 18 months of the crash from the Credit Crunch to the spread to the 'real economy.

### **Financial Crisis: August 2007 — September 2008**

In August 2007 the world's financial systems started grinding to a halt as financial institutions began to realise that they had no real idea of the risks that were contained within the complex financial instruments that they owned. Since the bankers couldn't work out exactly how risky their own securities were, they certainly weren't going to trust the assurances of other institutions. Due to the complexity of the inter-relationships within the financial sector, this resulted in the credit market basically shutting down. The financial institutions were no longer willing to lend money to any of their peers as they thought it was far too risky. This was known as the Credit Crunch.

As 2008 progressed, the credit market remained closed and it became ever more apparent that the reluctance of the bankers to make loans to one another was well-founded.

In March 2008, Bear Stearns, one of the world's largest investment banks, collapsed under the weight of its bad loans. Then, in September 2008, another Wall Street bank, Lehman Brothers, collapsed. Rather than bailing it out, or transferring its assets elsewhere, the US government allowed it to declare bankruptcy. This almost led to a total collapse of the global financial system, as Lehman's bad debts rippled through it. Lehman's bankruptcy shone a light on the vast web of deals between banks which meant that the entire system was dependent on the value of assets that were known to be 'toxic'. As of March 2009, the financial system continues on a downward spiral — the injection of trillions of dollars of public money has merely slowed the collapse. The basic problem is that almost all of the banks are insolvent. The financial system is dead and will not be revived in the same form ever again.

### **Crisis in the Real Economy: September 2008 — Spring 2009**

Although world stock-markets had been in retreat since November 2007, it wasn't until September 2008 that the full effects of the crisis started to be felt in the real economy. There were two basic reasons for this spread. Firstly, it became more difficult for businesses to access credit. This was particularly problematic as, during the era of neoliberalism, it became standard practice for companies to borrow heavily in order to minimise the tax liabilities of their owners. Many businesses were heavily dependent on cheap credit and when it disappeared, they faced an immediate crisis and had to close or downsize to survive.

Secondly, the crisis was ultimately triggered by the fact that workers were unable to service their debts. This meant that there was going to be less consumer spending and companies were going to sell less products. This caused share prices to collapse and companies to cut back even further. These effects combined in a negative feedback loop – rising unemployment and less credit caused companies to cut back even further as spending collapsed, leading to a runaway economic crisis.

## **Global Political Repercussions of the capitalist crisis**

As soon as the scale of the crisis became clear, all rhetoric about free-markets and competition vanished. Bankers, capitalists and right wing politicians were all suddenly huge believers in the role of the state and the importance of regulation.

It took no time at all for the bankers and various other troubled industries to start demanding public money to bail them out. This showed just how thin capitalism's ideological layer is – they will believe anything and say anything as long as it is in their own immediate interests to do so. Thus far, the neoliberal governments of the world, with their hatred for government interference have poured more than \$10 trillion into bailing out their banks. However, the chain reaction of the collapse in the real economy has caused even more fundamental shifts in economic policy.

### **Keynsianism**

The U.S. government amongst many others has responded to the crisis by adopting programs of economic stimulus. This amounts to a re-birth of the economic thinking of John Maynard Keynes, whereby countries spend their way out of recessions by borrowing heavily and using the money to provide jobs and capital to 'stimulate' the economy, in order to counteract the negative feedback loops that recessions cause. Keynesianism was traditionally associated with Social Democratic policies and the welfare state, so its new popularity marks a fundamental shift from neoliberalism. However, the scale of the crisis and the fact that it is occurring on a global level means that such responses, alongside the cost of the bank bailouts, have caused an explosion in demand for international credit at precisely the time when it is least available.

### **China**

Due to its large export sector, China is one of the principal creditors between states. However, the slow-down in the Chinese economy is likely to cause unrest amongst the huge and volatile Chinese working class. Whether China can continue to serve as a major international creditor in the long term is uncertain.

### **USA**

The massive cost of the crisis will put pressure on the imperial role of the US. Their public finances will increasingly constrain their ability to serve as the "world's policeman." Significant changes are in motion, exactly how they will turn out is impossible to say, but the world will be different.

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