

A lecture by Nick Beams

The World Economic Crisis: A Marxist Analysis

Part 1

By Nick Beams
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The following is the first part of a lecture delivered by Nick Beams, national secretary of the Socialist Equality Party (Australia) and a member of the International Editorial Board of the World Socialist Web Site, to audiences in Perth, Melbourne and Sydney in November and December, 2008. Part 2 will be published tomorrow and subsequent parts over the next few days.

It is now clear that the greatest financial crisis since the Great Depression is on the verge of becoming the deepest global slump since the economic catastrophe of the 1930s. We could spend the entire time available for this lecture simply enumerating the myriad expressions of this crisis and examining their far-reaching implications. I propose here to deal only with some of the most significant.

On November 24, *Bloomberg News* reported that after the \$306 billion bailout of the US bank Citigroup, organised at midnight the previous day, the US government had now committed itself to providing more than \$7.76 trillion to the financial institutions and banks. This amount was the equivalent of half the American gross domestic product (GDP), or \$24,000 for every man, woman and child in the US.

Within 24 hours, however, the Bloomberg estimate was outdated after the Treasury announced that a further \$800 billion was being deployed to support mortgage companies Fannie Mae and Freddie Mac and launch a new initiative to provide credit to holders of student loans, auto loans and credit card loans.

One reads these figures and asks the question: who is going to bail out the United States?

Stock markets around the world have tumbled, with an estimated \$25-30 trillion wiped off the value of shares in the past six months. Around 38 percent of the value of major companies has been erased. General Motors, once the most powerful industrial concern in the world, teeters on the edge of bankruptcy.

According to official statistics, all the major areas of the world economy are now in recession: the United States, the eurozone, Britain and Japan.

The growth estimates for China and the so-called emerging markets, which, once upon a time—and I use the fairy-tale form advisedly—were supposed to provide a boost to the world economy, are now being revised downwards virtually on a daily basis.

Like the financial crisis that caused it, the economic slump is centred in the United States. The number of private sector jobs has fallen for the past 11 months straight. Some 533,000 jobs were lost in November—the worst monthly decline since December 1974—with predictions that losses in December will be even greater. At least one quarter of all US businesses

plan to reduce employment next year. The mayor of Chicago, Richard Daley, recently warned of "huge" layoffs in the rest of the year, comparing today's "frightening economy" to that of the Depression years of the 1930s.

With unemployment rising and home prices continuing to slide—some 12 million homes in the US are said to be "under water", that is, worth less than the mortgages on them—consumer spending has dived.

US consumption spending, which comprises around 70 percent of gross domestic product, fell by 3 percent in the third quarter. According to a survey of economists conducted by Bloomberg, it will fall by a further 2.9 percent in the fourth quarter and 1.3 percent in the first quarter of 2009. Consumer spending has never declined for three quarters in a row during the entire post-World War II period.

Consumer prices in October fell by 1 percent, the biggest monthly drop since 1947. But instead of lower inflation providing a boost to financial markets, it had the reverse effect. Wall Street took a dive on fears that deflation, which raises the real level of debt, could take hold.

The Detroit "Big Three"—Chrysler, Ford and General Motors—have been seeking a \$34 billion lifeline from the government in order to avoid bankruptcy. It is estimated that if one or more of the auto manufacturers were to collapse, around 3 million jobs could be wiped out across the US economy.

The statistics on the global economy are as bad, if not worse. According to the International Labour Organization (ILO), the financial crisis will lift world unemployment from 190 million in 2007 to 210 million next year. And the ILO has warned that the 20 million predicted increase could prove to be an underestimation "if the effects of the current economic deterioration are not quickly confronted."

Last week, in a desperate measure to try to combat the crisis, the Bank of England lowered its interest rate to 2 percent—equal to the lowest level since its founding in 1694.

In its latest global outlook report, the World Bank has forecast a growth rate in 2009 of just 1 percent for the world economy as a whole, and a contraction of 0.1 percent for the high-income countries. According to the Bank's chief economist, the world now faces "the worst recession since the Great Depression."

The OECD, which covers the world's major industrialised economies, has forecast contractions of 0.9 percent, 0.1 percent and 0.5 percent for the US, Japan and the eurozone respectively.

One of the most significant statistics concerns world trade. For 2009, the World Bank has forecast a decline of 2.5 percent in world trade volumes, compared with an increase of 5.8 percent this year and a rise of

almost 10 percent in 2006. This will be the first time the actual volume of world trade will have decreased since the deep recession of 1982.

On November 15, the leaders of the G20 group of countries, whose economies account for about 90 percent of global output, met in Washington to discuss proposals to meet the economic and financial crisis. It might have been better if they had not. The meeting demonstrated not only that the leaders of world capitalism are bereft of any program to deal with the situation, but the divisions among them are widening.

On the eve of the meeting, Bush, anxious to repulse calls for greater regulation, delivered a speech extolling the virtues of the "free enterprise" system. The summit, he insisted, had to be devoted, above all, to a reaffirmation that "free market principles offer the surest path to lasting prosperity". It was necessary to "move forward with the free-market principles that have delivered prosperity and hope to people all across the globe." One might have wondered whether the speech was actually being delivered by a satirist from "Saturday Night Live", following Tina Fey's success with Sarah Palin.

Three weeks before the summit, in a hearing before a US Congressional Committee, the high priest of the free market, Alan Greenspan, the former chairman of the Federal Reserve Board, had been forced to acknowledge the bankruptcy of the entire system he had been instrumental in building, and over which he had presided for almost two decades.

"Those of us who have looked to the self-interest of lending institutions to protect shareholder's equity, myself included, are in a state of shocked disbelief," he said. The risk management system, based on the use of financial derivatives, had not only got out of control but had helped exacerbate the crisis. "This modern risk-management paradigm held sway for decades. The whole intellectual edifice, however, collapsed in the summer of last year." The crisis had "turned out to be much broader than anything I could have imagined. It has morphed from one gripped by liquidity restraints to one in which fears of insolvency are now paramount."

Before the summit opened, the economics commentator of the *Financial Times*, Martin Wolf, explained why, in his view, preventing a global slump had to be the priority for governments and central banks. The idea that a quick recession could purge the world of past excesses was "ridiculous."

"The danger is, instead, a slump, as a mountain of debt—in the US, equal to three times GDP—topples over into mass bankruptcy. The downward spiral would begin with further decay of financial systems and proceed via pervasive mistrust, the vanishing of credit, closure of vast numbers of businesses, soaring unemployment, tumbling commodity prices, cascading declines in asset prices and soaring repossessions. Globalisation would spread the catastrophe everywhere. ... This would be a recipe not for a revival of 19th century laissez-faire, but for xenophobia, nationalism and revolution. As it is, such outcomes are conceivable. ... Everything possible must be done to prevent the inescapable recession from turning into something worse" [*Financial Times*, October 29, 2008].

In another pre-summit comment, the well-known international economist Barry Eichengreen warned it was far from clear that governments and central bankers were at all prepared for the difficulties that would follow as the crisis spread from Wall Street. "There is no agreement on what to do about the global economic downturn. Economically and financially there is a clear sense of things spiraling out of control again."

The problems confronting the leaders of the G20 and global economic and financial authorities are not simply of an intellectual character. The inability to reach agreement and the rise of economic conflicts and tensions among the major powers is, first and foremost, a product of objective contradictions rooted in the world capitalist system itself.

Take the question of regulation. Any analysis of the global financial

system shows that some kind of international regulation is needed for the "efficient" operation of markets that are closely interconnected and integrated.

But to put such a system in place is impossible. The reasons lie in the very structure of the world capitalist economy. All markets are global in scope, but the world remains divided among capitalist powers—some greater, some lesser. Each section of capital is in a continuous struggle against its global rivals to maintain and advance its profit share. Those that fail to do so go under or are taken over by their more powerful rivals. In this struggle, each section of capital looks to its "own" national state as a political force through which it can advance its interests. There exists a conflict of each against all.

As the British magazine the *Economist* noted: "International finance cannot just be 'fixed', because the system is a tug-of-war between the global capital markets and national sovereignty. ... Governments broadly welcome the benefits of global finance, yet they are not prepared to set up either a global financial regulator, which would interfere deep inside their national markets, or a global lender of last resort." There is a fundamental dilemma, it concluded: "[I]nternational rules require enforcement, but nation-states demand sovereignty."

All the participants at the G20 summit, along with their numerous advisers and economists, agreed that the growth of protectionism would have disastrous consequences for the world economy. It is an intellectual given that the Smoot Hawley Act of June 1930, which raised tariff barriers in the US, played a decisive role in sparking the series of retaliatory measures that contributed to the disastrous two-thirds contraction in world trade from 1929 to 1933.

However, not only did the commitment, in the G20 summit communiqué, to eschew protectionist measures hang in the balance until the final hours, it was largely meaningless. This was made clear in a rather caustic comment by the foreign editor of the British *Daily Telegraph*.

"With no evident irony, the statement says: 'We underscore the critical importance of rejecting protectionism and not turning inward in times of financial uncertainty. In this regard, within the next 12 months, we will refrain from raising new barriers to investment or trade in goods and services.'

"What complete nonsense. Leave aside the unilateral bailout of banks in nation after nation that left, among other things, European Union competition policy in tatters. They were said to be essential. Where does it stop?

"General Motors, Chrysler and Ford are about to be given billions of dollars, presumably on the grounds that their failure would do as much damage to the American economy as a failure of financial institutions. If bailing them out is not a 'new barrier ... to trade in goods', I have absolutely no idea what is. Someone needs to tell the Americans that signing a communiqué with fingers crossed behind the back does not work outside the playground.

"And in case anyone thinks I am unfairly singling out the Americans, the coming rescue of Detroit is just a convenient and huge example. I can assure you the same arguments are being prepared to help, for example, Alitalia in Italy and other large companies elsewhere" [Comment by Adrian Michaels, foreign editor of the *Daily Telegraph*, published in the *Australian*, November 18, 2008].

The author of this comment may well consider that he has taken a stand on principle. However it is significant that his position reflects precisely that of British capital, which has little manufacturing industry left to protect, but which is concerned that the financial operations of the City of London should not be constricted in any way by the new regulatory mechanisms proposed by Monsieur Sarkozy, the representative of French capital and industry.

Disagreements abound, not only on the issue of finance and trade, but

on government intervention. The European powers are deeply divided, as has been made clear by the very public conflict over the size of any European Union stimulus package.

Consider *Newsweek's* extraordinary interview with German finance minister Peer Steinbrück, published in its December 6 edition. Steinbrück was responding to criticisms from France and the EU Commission that the German government should do more to try to stimulate its economy.

"We have a bidding war," he told *Newsweek*, "where everyone in politics believes they have to top up every spending program that's been put to discussion. I say we should be more honest to our citizens. Policies can take some of the sharpness out of it, but no matter how much any government does, the recession we are in now is unavoidable. When I look at the chaotic and volatile debate right now, both in Germany and around the world, my impression and concern is that the daily barrage of proposals and political statements is making markets and consumers even more nervous. Still, Brussels is pressing for a joint European approach. For a while the position in Brussels and a few other places has been 'We're now very much for setting up large-scale spending programs, but we're not really going to ask what the exact effects of those might be. And since the amounts are so high, well, let's get the Germans to pay because they can'."

To be continued

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