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Economy

A crash course in capitalism

- IV Online magazine - 2008 - IV406 - November 2008 -

Publication date: Sunday 30 November 2008

The seism on Wall Street has surprised the world Establishment. At the summits of power, panic and alarmist declarations dominate. Everyone is absorbing an event which could be the beginning of a change of epoch. The comparison with the fall of the Berlin Wall gives some indication of this historical dimension.

[https://internationalviewpoint.org/IMG/jpg/katz.jpg]

The present crisis started to incubate in June 2007, with the collapse of the insurance funds managed by Bear Stearns, and demonstrated its force with the nationalization of the British bank Northern Rock. From this gestation we moved on to events the profundity of which is obvious to everyone.

Dimension and costs

The rapid conversion of problems of liquidity into insolvent deficits illustrated from the beginning the enormous dimension of a crisis which could not be contained by partial patching up. The reduction of interest rates proved to be useless, just like the attempt to form rescue funds managed by the banks. Nor was making large sums of money available or the assistance of the external sovereign funds sufficient.

The government of the United States undertook several contradictory initiatives to attenuate the explosion. By allowing Lehman Brothers to go bankrupt it opened up the possibility of a brutal cleansing of the banks which were failing and tried to place certain limits on rescue operations. It thus granted the Federal Reserve full powers to judge who should be saved and who could drown. But since that sowed terror among financiers, it quickly backtracked.

The opposite alternative, aiming at nationalizing all the losses, was consolidated by the nationalization of AIG. The official support granted to the largest world insurer (and to its gigantic portfolio of pension funds) thus supplemented the previous rescue of Fannie Mae and Freddie Mac, which finance half of housing in the United States. The fact that these semi-public institutions were contaminated indicates to what point the initial problems of bad quality debts (subprimes) had already been surpassed.

The new series of nationalisations came to the aid of the latest victims of the hurricane: hedge funds, venture capital funds(which operate with highly speculative financial products) and money market funds (which accumulate investments that are less audacious and not without government guarantee). But in fact the it was the commercial banks that constituted the critical point.

The bankruptcy of Washington Mutual inaugurated the collapse which threatens to extend to 117 minor entities surveyed by the FDIC (the official guaranteeing body). Certain estimates forecast that the last rites will be said over half of the 8,500 US banks. In any case, the crisis has already reached the investment banks (which raise money directly in the financial circuits) and is affecting the entire system, with interbank operations becoming paralysed and insinuations of deposits being in danger.

We are also seeing a vertiginous wave of acquisitions within this framework. Merrill Lynch was captured by Bank of America, Bear Stearns was taken over by Morgan Stanley, Wachovia passed into the hands of Citigroup (or Wells Fargo) and Goldman Sachs put its package of shares up for sale. This virulent change of owners extended on an international scale, with the acquisition of Britain's HBOS by Lloyds and the absorption of subsidiaries of Bradford and Bingley by the Spanish bank Santander.

Some buyers (Barclays) are pocketing the small change of their old competitors (Lehman) or foraging among their leftovers. The result of all that will be a new level of banking concentration. Those who will survive their gambles (possibly the trio JP Morgan Chase, Bank of America and Citigroup) will take the leadership of the whole of the American financial system. This centralization is being preceded by a furious devaluation of the capital concerned, handled up until now in the financial sphere.

Another option underway is that of the nationalization of toxic mortgages, an option that Congress is examining in a climate of blackmail by the Stock Exchange. The financiers (presented as “the market”) demanded government aid to stop the economy going under (“restoring confidence”). They asked the government to purchase the depreciated securities in order to revalorize them before reselling them.

This rescue resembles that obtained by Mexican financiers in 1995. There too the state bought the devalued securities, thus cleansing companies’ balance sheets, and marketed bonds at a pure loss for the state budget. The speculators had created a climate of panic so that this new swindle would come as a blessed relief.

But this time the shameless aid brought by the state to those responsible for the collapse produced an indignation against the bankers which called into question their sacrosanct rules of the free market. This rejection of Wall Street - which had not been seen since Roosevelt’s time - obliged the legislators to incorporate some restrictions on the blank cheque initially asked for by the Federal Reserve. The amendments thus include tax reductions of various kinds, to create the illusion of a more equitable distribution of the load.

The widespread malaise expresses, moreover, a massive intuition that there has been a useless waste of resources. If the future confirms that two thirds of mortgage credits are completely irrecoverable, a mountain of money will have been frittered away. It is obvious that no financial engineering can resist the continuing collapse of property prices, nor the unending deterioration of the income of house-buyers.

For this reason Congress is also sponsoring a certain form of renegotiation of mortgages between those in debt and the banks, with the mediation of the state. But only a context of economic recovery - which appears distant - could provide support for such an initiative.

For the moment, what predominates is a crisis without an foreseeable solution, which has put into question all the neo-liberal principles. In a climate of state intervention and subsidies, the regulator is welcome and the market is challenged. But as the rescue is not free, it will be necessary to resort to an operation whose cost is unknown. The emission of securities on securities was so sophisticated that nobody is in a position to calculate the amount concerned. In July 2007 the Federal Reserve estimated the losses at around 50 billion dollars. At the beginning of the year 2008 the figure leapt to 512 billion dollars and current evaluations turn around 1,000 to 2,000 billion dollars. How will such a bill be paid?

The great banking crises of recent decades had colossal costs for the underdeveloped countries. They represented 55.1 per cent of the Gross Domestic Product (GDP) of Argentina (1980-1987), 55 per cent of that of Indonesia (1997-2004) and 34 per cent of that of Thailand (1997-2004). But this percentage hardly reached 3.2 per cent of GDP at the time of the last great financial rescue operation in the United States (1981-1991). This is the first time in decade that the leading world power will have to face a full-scale financial loss.

Global recessionary impact

The outbreak of the crisis transformed the economic slowdown into a clear recession. Braking is already perceptible in the fall in investment, the stagnation of consumption and the fragility of US exports. The discussion between the optimists and the pessimists with regard to the future level of economic activity has already been settled by a common diagnosis of a drop in GDP.

There are already no more margins making it possible to act by reductions in the interest rate, while the financial operation aiming to take over losses and purge portfolios precipitates the contraction of credit and a deflationary escalation. Since the 1960s all recessions precipitated by collapses of the property market have been long-lasting.

Consumption on credit, which held up the US economy, has been hit head-on and we are headed for a profound social crisis. The desperate debtors who abandon their homes to avoid liquidation are the first victims of this nightmare. The disorder in the housing market threatens a population already irritated by the rise in the price of petrol, and which fears unemployment in a country that does not have significant social protection. This climate increases indignation against the executives of Wall Street, whose revenues have, over the three last decades, gone from 40 to 344 times the wage of the average worker.

The international role of the US economy is determining the accelerated transmission of its recession. Wall Street alone handles a volume of funds higher than that of all the European Stock Exchanges. The United States concentrates 20 per cent of world GDP, but its imports determine world trade and its transnational corporations set the tone for the production of the whole of the planet. Moreover, the leap that globalization represents has increased the international synchronization of business cycles.

The initial hope of a cyclical decoupling led by Europe was abandoned following the nationalisations which followed the US wave (Fortis in the Benelux countries, Bradford and Bingley in England, Glitnik in Iceland…). The old continent is confronted with the same problems of irrecoverable debts as the United States, while carrying out, moreover, a tough monetary policy which is trying to homogenize different national situations around the euro .

The crisis has not only undermined this attempt but divided the governments, between the partisans of a general recovery fund and the promoters of rescues taken in charge by each national budget. This rupture obviously indicates that the health of the banks is very differentiated across the region. Moreover, any European attempt aimed at supporting the project of neo-liberal unification through high interest rates is seriously threatened by the slowing down of economic activity which it would impose.

For its part, Japan did not resist the recession either, having furthermore to face up to its own depression. The Japanese economy has less autonomy than that of Europe to exert pressure outside its own narrow field of influence. It had hardly started to recover when it was hit head-on by the US collapse.

The compensatory role that some were hoping would be played by China and India has been diluted, because there is no locomotive capable of pulling a train which has completely derailed. There has been much discussion as to whether China would be able to resist the world slowdown because of the expansion of its internal market. Certain economists have put forward this possibility, whereas others ruled it out, pointing out the dependence of the US market on growth in Asia. But in any event the possibility of China acting as a counterweight was only conceivable in the case of a moderate slowdown in the centres of the world economy and not in the case of the brutal recession which has taken place. This is why the decoupling that was announced is tending to be transformed into a recoupling of Asia to the general crisis.

Comparisons

Many analysts are seeking in preceding crises a guide to imagining the possible developments of the current shock. The initial analogies with the stock exchange crash of 1987 or the bursting of the technological bubble in 2001 have already been completely left behind. In both cases it was shares that were involved and not housing, and none of these crises led to banking collapses. They precipitated only recessions of limited intensity and duration, which the reactivation of consumption absorbed within a relatively short time.

The fact of ruling out the resemblance to these declines in economic activity, whose impact was weak, has led to generalized comparisons with the depression of the1930s. Many economists underline the points of coincidence with this traditional antecedent of generalized collapse. But they are comparing the possible depth of the fall and not the modalities of the crisis. Will the intensity of the drop in production and of social regression attain this scale? For the moment this is an unknown factor. But the dynamics of the process that is underway show many differences with the road which led to 1929.

The measures which were applied eighty years ago after the crash were this time implemented in an anticipated way. The injection of liquidities that has been carried out over the last few months would have horrified Hoover [1]. and provoked applause from Keynes. Similarly, at present they are limiting the fall of the banks and not envisaging increases in interest rates. It will have to be seen whether these measures attenuate economic collapse or if, on the contrary, they worsen it. But they are being employed in an international context that is very different from the past.

During the 1930s the present-day intertwining of capitals did not exist. Nor was there any coordination between the Federal Reserve and the central banks of Europe and Asia. Instead of there being international currency of reference, a conflict then reigned over who would inherit the primacy of the pound sterling and it was in function of this aspiration that the great powers devalued their currencies. The protectionist context of commercial sectors engaged in a struggle with each other is also very far removed from the present-day interconnection that is imposed by the transnational corporations.

The Great Depression led towards a military confrontation and to war between the principal powers, something which no one any longer envisages at the beginning of the 21st century. A military confrontation between the United States, Europe and Japan is unimaginable.

Another fashionable comparison presents the stagnation of the Japanese economy as a mirror of what is waiting for the United States. This Asian economy experienced a very similar property bubble: prices tripled (1986-1991) before collapsing by two thirds. But Japan hesitated to implement the measurements that have been quickly orchestrated by the United States, thus confirming the distance which separates a subordinate power from a dominant power. Moreover, the Japanese economy has never acted as the locomotive of the world economy and, depending on US military protection, it re-modelled its economy by commercial and monetary measures (revaluation of the Yen and opening up of its economy). Measures that nobody dares to suggest in the United States.

Perhaps the most adequate comparison with the current economic collapse would be with what happened in 1975-1976. This crisis put an end to a stage (the boom of the post-war period) in the same radical fashion that the collapse of 2008 could put an end to neo-liberalism (founded by Thatcher and Reagan). In taking into consideration this historical reference it is necessary to take into account the measures which lead to significant modifications. Three decades ago these sharp turns were the inconvertibility of the dollar (1971) and the increase in interest rates (1978). The current crisis will certainly include transformations on this scale and we will know fairly quickly whether these measures, which have already been adopted, will attenuate or on the contrary exacerbate the intensity of the upheaval.

The barometers

Rather than trying to guess the future extent of the crisis, it is more productive to characterize its tendencies. Their contours are concentrated in the weaknesses and the resources accumulated by the leading world power.

The indicators of American fragility are visible, in particular in the political field. Bush is a corpse of the neo-conservative project, undermined by the adventure in the Middle East. This military adversity limits the capacity of American imperialism to transfer the crisis to its competitors.

But the sudden loss of presidential authority to act in the face of a banking collapse is more significant. It is not the proximity of the elections which have eroded his power, but really the division in the United States elite faced with the seism on Wall Street. There has not been such a volatile scenario since the time of Nixon.

The economic weaknesses of the United States are also well-known. A trade deficit of 6 per cent of GDP does not make it possible to turn towards an export-based model, after so many years of buying euphoria. The country has the biggest debts in the world, half of its Treasury bills are in the hands of foreigners and it is approaching a record tax deficit.

But the other face of this reality is the ability shown by the Federal Reserve to protect the dollar and the Treasury bills from general collapse. Up to now it has proved capable of conducting a controlled fall in the American currency, preserving a rate that is attractive for the inward flow of capital and at the same time stimulating exports. Since the two levels are contradictory, for them to maintain the equilibrium requires a great predisposition of the creditors to maintain the monetary primacy of the United States. This subordination has continued up to now, in spite of the economic and financial collapse.

During the fall of Wall Street the predisposition of capital for quality favoured the currency which was in great danger. The capitalists of the whole world paradoxically took shelter by acquiring the dollar and its Treasury bills, i.e. the currency and the bills which were formally the most threatened. No other economy could provoke such a reaction, which obviously flows from the central role of the United States in the reproduction of world capitalism.

This reaction of complicity is based on the protection which the Pentagon guarantees to all the ruling classes. This is a decisive guarantee which modifies all the conventional models of evaluation of the economic process. It is important to point out this characteristic, in order to avoid analyzing the US economy with parameters identical to the analysis of any other nation's economy.

The dollar serving as a refuge also illustrates the increasing internationalization of exchanges around a currency which monopolizes 70 per cent of world trade and 65 per cent of world reserves. By supporting the dollar the majority of the world's creditors are defending their own skin.

After the tsunami that we have seen over the last few weeks it is difficult to imagine a simple continuity of this monetary hegemony. If it manages to maintain itself as the world reserve currency, the dollar will have to adapt to the new relationships of forces which emerge from the crisis. The acceptance of a greater presence of foreign banks in the United States (by reducing old restrictions on it) could be part of this adjustment. The transfer of the shares of Morgan Stanley to China Investment and to Mitsubishi, the sale of Goldman Sachs to Sumitomo Mitsui and the transfer of the external operations of Lehman to Nomura anticipate this tendency.

However the possibility of a rupture of the monetary system, which would oblige the dollar to share its domination with other currencies, cannot be excluded. In this case we would see the appearance of geographical monetary zones, similar to the competitive model of the inter-war period. Until now the indices of such a possibility do not exist, because contrary to the past no country is aiming to establish its power by crushing the dominant imperialism. But the candidates for the division of power in the world will not accompany the dollar to the point of suicide, if the US currency collapses. The various scenarios that are possible thus depend mainly on one factor: the extent of the crisis.

The orthodox and the heterodox

Interpretations of the crisis are more important than descriptions of it or forecasts. The orthodox economists have remained devoid of arguments, confronted with a collapse which refutes all their principles. They maintain a low profile while waiting for the storm to pass, and even find certain justifications for their approval of the nationalisation of the banks. But as the hypocrisy of neo-liberalism has been revealed to the light of day and its spokesperson are discredited, we can expect the ideological retreat of the right-wing ideas that have been the most influential over the last several decades.

We can still hear voices which explain what has happened by “insufficient control over credit” and the granting of “bad loans” to “doubtful customers”. But the generalized impact of the housing bubble indicates that it was not a question of occasional errors. The bad quality loans became massive because of the competition that the banks were engaged in, taking advantage of permissive legislation.

The financial collapse also calls into question orthodox confidence in the sophisticated (“securitised”) debt packages. As these constructions included debts of very varied consistency, they imagined that diversification reduced the risk. The crisis pulverized this belief, producing the typical scenario of everyone seeking to save their own skin.

The eclipse of the talibans of the market brought into the foreground their heterodox rivals. Krugman, Stiglitz and Soros have been endlessly repeating their theory that the crisis was caused by insufficient control, attributing the disease to deregulation and postulating its treatment by the application of a dose of supervision. They question the weakness of the control exerted by federal agencies, criticize the elimination of the compartmentalisation of banks that was imposed after the 1930s and propose governmental measures aimed at evaluating the estimates of risk and controlling international movements of finance.

But deregulation was not a whim. It was generalized in order to restore profits and it will be again if this variable is seriously affected. Under capitalism controls are articulated by profitability. They are reinforced or decrease according to profits.

Regulationist fantasies are inspired by the way bankers are being presented as the only people responsible for the crisis. We must suppose that they act independently of their colleagues of industry and agriculture, being particularly and perversely inclined to speculation.

But to bet on a fast profit in the financial sphere is an intrinsic characteristic of capitalism. It is the product of the competing constraint which governs a system characterized by blind rivalries and periodic bubbles. The effects of these movements remain occult in periods of prosperity and become sharply obvious only in times of crisis.

The novelty of the present period lies only in the scale and the sophistication of speculative activity. Unwonted forms of packaging and marketing debt were introduced, as were operations with derived financial products whose prices are established depending on another financial product.

We have witnessed the expansion of securitization (getting rid of portfolios by the emission of securities that are acquired by other investors), credit derivative swaps (CDSs) (separation of the creditor's risk in order to negotiate it separately) and Collateralised debt obligations (CDOs) (fragmentation of debts into segments with differing degrees of risk).

This type of operation was extended at a frenetic rhythm, especially after 2001, between the investment banks, in which the relationship between the credits that were being offered and the patrimony (capital) reached an alarming level. The traditional relationship of 1 to 8 between the banks' own capital and the loans provided was amplified by 25 or 30 times.

The dynamics proper to capitalism stimulated these actions and what happened to Wall Street offers us a crash course in this system, in its web of complicities (Paulson running the Federal Reserve under the auspices of Goldman Sachs) and its contradictions (Bush nationalizing the banks).

A particular crisis of over-accumulation

In the face of the heterodox simplifications it is necessary to turn again to Marxist interpretations which explain the crisis by the intrinsic contradictions of capitalism. These imbalances erupt periodically and cannot be eliminated as long as a system governed by the supremacy of profit subsists. But what are the singularities of the present crisis?

The present shock has several specific causes. First of all, it expresses the tensions created by the capital that has been over-accumulated in the banks at the end of a long process of fictitious expansion of funds, free from any real counterpart in the productive sphere. This atrophy developed during the years of the expansion of credit and the generalization of derived products and is the result of the strengthening of the power of the financiers.

But the promotion of this banking elite to the summit of capitalism took place in support of a regressive project shared by all the oppressors. It made it possible to impose the social discipline that the ruling classes demanded, by shareholder management of companies, pressure aimed at maximum profitability and the empire of the Stock Exchange. The explicit purpose of these transformations was to increase profits to the detriment of popular revenues. The supremacy of finance was an instrument for the flexibilisation of work and served as a guarantee of the increase in exploitation.

This financial hegemony put in place a veritable time bomb, which exploded in Wall Street. The expansion of “personal finance” transformed the worker into a customer anguished by debts. American workers were imprisoned in a network of compromises with the banks in order to be able to pay their costs of housing, education, health and retirement.

This house of cards started to collapse when insolvency invaded it. The impossibility of reimbursing subprime credits - granted to those whose incomes were not regular or sufficient enough to acquire a home - was the spark for the present collapse.

This crisis of over-accumulation was delayed by refinancing by means of a mountain of securities on securities, offering high yields. The skein of emissions was so complex that it effaced the trace of the debts themselves in a generalized environment of ignorance of the nature of the credits. The bankers themselves no longer know what contracts they own, because by abandoning the traditional estimates of risk they have lost contact with their clients.

Faced with fictitious valorization on such a scale the present collapse was inexorable. What nobody had imagined, in spite of the many warnings which had announced it, was the impressive scale of this crash.

All the collapses which had since the 1980s shaken Latin-American, European, Japanese and Asian finance announced the cyclone which was about to reach Wall Street. The most explicit signal was given by the bankruptcy in 1998 of the big Long Term Credit Management (LTCM) hedge fund, which operated with the same derived products as those which have rotted the US financial system. Since the hunger for profit does not cease because of warnings, the crisis of over-accumulation finally reached the centre of the system.

National and world overproduction

To avoid financial phantasmagoria it is important to analyze the productive contradictions which underlie the banking crisis. These imbalances correspond to a cycle of production and are the result of the periodic inequality between the increasing expansion of production and the restrictions on purchasing power which characterize capitalism. Competition aimed at increasing the rate of exploitation widened the breach of surpluses.

Overproduction openly manifested itself in the property sector (housing) which had experienced strong growth over the previous decade. The big rise in property prices and the multiplication of high-risk credits generated the present surplus of housing in relation to solvable demand. Financial speculation certainly reinforced this tendency, but the most significant bubbles have all related to the commodities that were most in demand at the time. The valorization of these investments awakens the hope of increasing profits, which collapses when the tendency is inversed. The recession demonstrates the same mechanism for other goods whose prices have taken off.

The present overproduction nevertheless has a large international dimension, which derives from competition to lower wages. This schema stimulated the opening of frontiers to the advantage of the corporations, which competed to multiply production while seeking to lower their costs, leading to a plethora of commodities. These surpluses were nourished in particular by the Asian manufacturing pole, which flooded the world with its exports, favouring the general depreciation. Since the crisis of South Korea and Thailand (1997) this deflationary tendency has affected many industrial goods.

Overproduction is also the result of the internationalization of production that is stimulated by the transnational corporations. The application of micro-electronics in industry and the fall in the prices of transport and communications contributed to multiplying surpluses. In the anarchistic competition aimed at reducing costs, no company asked itself the question: who will be able to acquire the new goods?

The fight for production at low cost ended up by encumbering the shops. This is the result of the restriction of purchasing power which is still the case in the periphery and of the instability of consumption inflated by debt that the flexibilisation of work imposed in the central countries. The United States is the epicentre of this mercantile artifice based on the extension of working time and on putting all family members to work.

As long as the capitalist class maintained its optimism - produced since the 1980s by the recovery in the rate of profit - these tensions remained in the background. But surplus goods overflowed, indicating the absolute limits of United States consumption, provided by Asia and financed by the whole world.

Under-production of raw materials

The increase in the prices of raw materials was the third pillar of the present crisis. The rise in the price of oil (which in a few years went from 10 to 120 dollars a barrel) affected the central economies, and the rise in the price of raw materials (+114% since 2002) troubled the world economy. This rise reversed the downward tendency that had been in progress since 1997, but it went beyond cyclical variations, both by its duration and its scale.

The rise in the prices of raw materials reflects the weakness of investment in the sector of production of natural resources. But it was reinforced by speculation by financiers who, faced with potential losses in other sectors, sought refuge in oil and raw materials. The bankers introduced into the raw materials market all the derivative engineering of Wall Street, so much so that the purchase of fuel or corn has been transformed into a sophisticated mathematical operation.

But the rise in the prices of raw materials also influenced the structural process of destruction of the environment after several decades of capitalist competition for control of essential supplies.

This combination of conjunctural, structural and historical tendencies exerted an inflationary pressure on raw materials, which many specialists think will be more lasting with regard to fuels (few discoveries, rise in the costs of extraction, conflicts in the production zones) than with regard to food.

This rising cycle confirms that the relative prices of raw materials are not subject to systematic and permanent deterioration. They experience periodic oscillations and when they increase the modalities are abrupt because they are less sensitive to the increase in productivity, in comparison to the products of industry. The imminent world recession will impose a ceiling on the inflation of raw materials. But we will have to see if this fall in prices will reach the level of the preceding cycle. For the moment we are dealing with indices of a fall in these prices, but not with their collapse.

Consequently, the current crisis is the confluence of three processes: under-production of raw materials, financial over-accumulation and industrial overproduction. In that it presents similarities with what occurred in 1975-1976 and will have a very unequal regional impact.

Periphery and semi-periphery

The peripheral countries were the main victims of the neo-liberal stage and they are candidates to suffer from the worst effects of the present crisis. They suffered from the degrading effects of the world polarization which marked the 1980s and 1990s. Certain areas, such as Africa, were crushed by the foreign debt, trade liberalization and capital flight. They face the tragedy of emigration, refugees and massacres because of local wars.

The recent beginning of famine constitutes another example of this impact. Following financial speculation, trade deregulation and forced specialization in crops for export, the rise in the price of food threatens the survival of 1,300 million people.

If during the period of consumption-led prosperity in the United States the impoverished economies of the planet suffered from a massive drain on their resources, the imminent recession foreshadows major sufferings. The Third World countries which are driving out their desperate inhabitants will face new financial restrictions and serious trade difficulties.

The panorama is more contradictory in the semi-periphery. An intermediate layer of non-central countries - with autonomous ruling classes and which play their own game on the world market – have limited world polarization over the last few years. This group of economies concerns in particular China, India, Russia, South Africa and Brazil. The capitalists of these nations benefitted from the rise in the prices of raw materials and developed their own industrial activity, in partnership with the transnational corporations. They even forged “emergent multinationals” which operate on a world scale.

The change of the financial cycle also reduced the weight of the debt in various medium-sized countries. Growth associated with continuing social inequality produced sufficient profits to remove the foreign debt. This is the reason for the emergence of Asian and Arab sovereign funds.

The crisis that is underway can prolong this promotion of semi-peripheral countries, as already occurred in 1975-1982 during the period of petrodollars, of a rise in the prices of raw materials and the United States’ defeat in Vietnam. This process could even be consolidated if forms of growth, similar to those observed during the world instability which followed the crisis of the 1930s, made their appearance. At that time the stagnation of the central economies opened up a space for the industrialization of certain underdeveloped countries.

But the current recession can also precipitate opposite dynamics, brutally putting an end to the forward march of the semi-peripheral economies. We would then witness a repetition of the scenario of 1982-1990, when the neo-liberal offensive precipitated a fall in the price of raw materials and asphyxiation by debt, which spread distress across the planet.

It is premature to anticipate which of the two tendencies will prevail, or whether it is a combination of both which will emerge. Capital flight - which affects Russia and Brazil – is so far coexisting with the affirmation of the sovereign funds which are taking part in the rescue of American banks and which will be able to be paid for their assistance.

Contrary to all the financial collapses of the last two decades, Latin America is the recipient and not the originator of the present crisis. But the unequal dependence of its various countries towards the United States produces differentiated effects from the recession that is underway. Whereas Mexico and Central America are very much linked to this epicentre, the Southern Cone maintains a greater degree of autonomy. The financial transmission of the crash is also unequal according to the importance of the external refinancing of each country. The peripheral and semi-peripheral economies of the region have followed divergent paths.

But in the immediate future the difficulties for US imperialism to intervene in its back yard will be accentuated. This limitation reinforces the room for manoeuvre for the implementation of economic policies in rupture with these countries’ creditors and for carrying out the nationalization of natural resources. Such orientations could reduce social inequalities and benefit the popular majority, if they are implemented in opposition to the local ruling classes.

Socialism as the objective

The crisis in progress will be solved on the political level. To examine the significance of this event in exclusively economic terms does not make it possible to grasp what is at stake between the contending forces. Without understanding the capitalist nature of the financial tsunami we cannot seek effective remedies for its consequences. The struggle against the social regime which is at the origin of current misfortunes is the only way to prevent sufferings from coming down on the popular majority.

In the struggle to clarify the capitalist character of the crisis we should not enter into competition with the press with regard to the forecast of even bigger collapses. The fear that the media propagates tends to provoke paralysis rather than indignation. Instead of predicting dark scenes it is advisable to work with proposals which open up popular alternatives.

This attitude is at the antipodes of conformism or the resigned belief in the eternal duration of capitalism. It is false to suppose that this system will always be able to find a way out, whatever the tragedy that it imposes on the majority of society. To imagine that capitalism is immutable is as fatalistic as to disregard action and strategy for its eradication.

Certain thinkers on the left formally accept these premises, but make the point that now is not the time to work in an anti-capitalist direction. They justify this attitude by “the absence of favourable conditions” or “the weight of accumulated defeats”.

Such an attitude blocks any appreciation of the political and ideological transformations that are taking place. Socialism is not an anthem for special days, nor is it a nostalgic dream. It is a project to be established at critical moments and energetically diffused when capitalism exhibits its most nefarious visage.

The new conjuncture can be felt in the brutal change in the language of the press. From despair or confusion the mass media are no longer singing the praises of capitalism. With panic and stupor they write ironically about the “socialism for the rich” which accompanies the rescue of the bankers. They do not know that real socialism is the antithesis of this rescue, that it aims at helping those who are abandoned and penalizing the rich. At the beginning of a great political turning-point this simple message can once again become as popular as ever.

Buenos Aires, October 4, 2008

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[1] Herbert Hoover was president of the United States from 1929 to 1933

