Anarcho
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April 10, 2008

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that into action. If they do not, capitalism will continue as they pay the price required to overcome the slump.

Finally, it must be stressed that this analysis does not imply that anarchists think that capitalism will self-destruct. In spite of crises being inevitable and occurring frequently, revolution is not. Capitalism will only be eliminated by working class revolution, when people see the need for social transformation and not imposed on people as the by-product of an economic collapse. Bad times may radicalise people into action, but it real change needs ideas and will come about when people are inspired by hope for a better society, when they realise that, to quote Stirner, that *"restless acquisition does not let us take breath, take a calm **enjoyment**. We do not get the comfort of our possessions..."* Our task as anarchists is to help spread this awareness that we need not live like this and get involved in spreading the spirit of revolt needed to bring that hope into reality.

An edited version will appear in the next issue of **Black Flag** and, hopefully, the full version in the next **Anarcho-Syndicalist Review**



Brown is now discovering that proclaiming the end of **"Boom and Bust"** does not, in fact, mean much. The amazing thing about the current economic panicking is not that it is happening but that some people seem surprised by it. While on the way up many "experts" seem to forget it, capitalism has always been marked by a business cycle.

During the good times, it is proclaimed with sadly predictable regularity that **this** upswing will be permanent and the business cycle has come to an end (as in the 1990s, 1980s, 1970s, 1960s and so on). As bad times approach, it is proclaimed with equal predictability that the "fundamentals" are "good" and the economy is "strong." Then the crises happens (as in the early 2000s, late 1990s, late 1980s, and so on). And bad times do seem to be approaching…

The response of our political rulers to the looming financial crisis is to be expected – bailouts a plenty for the few whose actions got them (and us) into this mess. Compare this instant intervention for the elite with the response for those at the bottom. For example, while visiting tornado-ravaged Tennessee after the credit crunch became part of the general language Bush had these helpful words for those affected: "**You know, life sometimes is, uh, you know, is unfair, and you don't get to play the hand that you wanted to play."** Compare this to the response after the "Black Monday" of 2008, which saw £77bn wiped off London share values with similar drops on Wall Street. Then it was a case of drastic emergency cuts in interest rates and "simulation" packages and bailouts.

So, if you are part of the elite then you should get lavish government help and tax cuts rather than accept the consequences of your actions. If you are a working class American who has the misfortune to be in the way of a tornado or hurricane, well, that is just life and everyone knows that life is unfair…

When working class people have their lives thrown into turmoil due to rising unemployed we are sagely informed that capitalism is functioning as it should. If the commentator wants to appear knowledgeable then such expressions as Schumpeter's ***"creative***

***destruction”*** will be used to show that such turmoil is for the best as it allows "the economy" to respond quickly to changing conditions. To have a welfare state to make unemployment more bearable would only hinder the "efficiency" of the markets and so should be opposed by all right-thinking people. It may be hard for the workers and their families, but it is necessary. Strangely, when it is part of the ruling elite (executives, stock dealers, rentiers) which face the same ***"creative destruction"*** and their income falls, global capitalism is broken and needs to be fixed.

Some good news, though. Americans will now not have to listen to Republican Presidential candidates yakking on about private Social Security accounts or about investing part of Social Security funds in the stock market. The bad news is that, as usual, they and the Bush Junta will argue that tax cuts for the wealthy are on the cards. This is unsurprising, as the Republicans, including the Bush Junta, have long taken the view that tax cuts (especially permanent tax cuts for the rich) are the best in ***every*** situation. During the 2000 election campaign, tax cuts were justified because of the budget surplus accumulated under Clinton. So tax cuts (for the wealthy) are necessary because of economic goods times. Then, in 2001, Bush used the impending recession as an excuse to cut taxes for upper-income Americans. So tax cuts (for the wealthy) are necessary because of economic bad times. The same "logic" is at work now.

Clearly, the cuts were/are never intended to stimulate the economy and what impact they had was limited. This is unsurprising, as the rationale is to boost investment and which sane company would do so in a declining market (particularly one caused by over-investment). To keep the economy going, the Federal Reserve (and Bank of England) was forced to lower interest rates and then ignore that banks started to lend recklessly. The economy was kept going on borrowed money and borrowed time. Keynesian state demand management was supplemented by its atomised variation, individual borrowing. Luckily, with inequality exploding since the 1980s the rich had more money to spend, so working class fami-



in the **Financial Times** are upset about the predominating influence that financial capitalists have on government policy.

And the hypocrisy is clear. Since the 1980s the dominant ideology has been preaching against the evils of state intervention and urging governments to let the markets do their magic. Yet when they face problems, the free marketeers go running to the state and beg for help. Faced with results of their own actions and ideology, they return to the state they so revile and get it to answer their calls for help. So the mantra of capitalism is simple: if the finance markets make money then they can keep it but if they are loosing money then we need to pay for it. But why be surprised. The stock market is founded on corporate "Limited Liability" which is an effective means of privatising gains and while socialising losses. Anyone with an awareness of the history of capitalism will know that it has always been parasitical on the state. State action created it and continues to keep it going, whether in the form of government funding R&D to create the internet, other forms of "corporate welfare" (i.e., state subsidy ) or last minute bailouts. So while the capitalists want **us** to support them, they deny us any say – but, then, capitalism has always been based on bribing and mollycoddling the wealthy.

It seems unlikely that cash injections will countermand the underlying problems caused by the housing and other bubbles – previous cuts in interest rates simply postponed the inevitable. What comes next is the key. Capitalism will, of course, survive this latest downturn as it has the rest – unless working class people finally act to end it. The good news is that according to a September Pew Research poll, 48% of Americans say they live in a society carved into haves and have-nots. In 1988, it was only 26%. Sadly, 45% see themselves as part of the haves but even this figure is an improvement (in 1988, 59% thought they were part of the "haves" while 17% placed themselves in the half-nots, now it is 45% "haves" vs. 34% "have-nots"). It is nice to know that some people are aware that "Trickle Up economics" has worked! Now they have to turn

## The Future…

It is surely significant that a single French rogue trader has provided "the markets" and media with a useful excuse for the economic woes facing capitalism. Of course, assuming that it was true, this in itself is deeply significant as it shows the fragility of "the markets" that one person can have, allegedly, such an impact. So, even if true (and that is doubtful) it simply exposed an underlying weakness which will become more apparent as time goes on.

Recession is likely, which brings us to the question of how deep it will be. There is evidence to suggest that it will be deep. The 1990–91 recession in America was brought on by a credit crunch while the 2001 recession was routed in overinvestment (namely, the dot.com bubble and the spurious "investment" that produced). This time, it looks like both have occurred. Moreover, after pressure to "liberalise" its market in the 1980s, Japan experienced a housing bubble as well. It then spent the 1990s in an economic quagmire which it is just getting out of. While people talk about "a crash" it is useful to remember that even 1929 took time to play itself out. The depression did not happen overnight and even Wall Street rallied somewhat in the days after Black Monday. So while some assert that recent recessions were brief and shallow, this ignores the fact that the last two were followed by prolonged *"jobless recoveries"* – in other words, longer recessions for working class people. This is the case with the economy under Bush – job creation has been pathetic and far eclipsed by Clinton's.

Significantly, Martin Wolf, a columnist at the **Financial Times**, attacked the world's finance industry as having an extraordinary *"talent for privatizing gains and socializing losses"* and then get *"self-righteously angry when public officials … fail to come at once to their rescue when they get into (well-deserved) trouble … the conflicts of interest created by large financial institutions are far harder to manage than in any other industry."* It says a lot that even people who write



lies could borrow at high interest rates from the wealthy (and take more than one job) to maintain their living standards which were being eroded by wealth flowing upwards (as seen by rising inequality).

Rest assured, though, by working harder for longer **now** higher stock markets would mean their pension schemes would be higher **later**. But, unfortunately, the stock and housing market bubbles have exploded that faint possibility. Thatcher and Reagan managed to convince many people (not only in the so-called middle class) that if you shovel enough cash into the pockets of the wealthy, what trickles out of their overflowing pockets will enrich them as well. That has not happened, in fact the results of making "actually existing" capitalism more like the impossible models of the economic textbooks have been less than wonderful.

The facts are that in spite of many "reforms" capitalism is not in great shape. Growth has fallen steadily each decade, with the 1980s worse than the 1970s, the 1990s worse than the 1980s and so on. And this is average growth, so rising inequality means that the living standards of the many are less than that (which makes debt seem more appealing to maintain them). Neo-liberal capitalism has been given the appearance of success by the various bubbles the "liberation" of the finance markets has produced. The 1990s "boom" was, for example, premised on the dot.com bubble, quickly followed by the housing bubble. In fact, the US state has intervened to rescue the American financial system from four crises during the neo-liberal period: the debt crisis and "savings and loan" crises of the 1980s, the dot.com bubble of the 1990s; and now the subprime and credit crisis.

## The origins of the crisis

So what causes crises? The business cycle is a product of capitalist production and the social relationships it creates. The need for the capitalist to make a profit from the workers they employ is its underlying cause. If the capitalist class cannot make enough surplus value (profit, interest, rent) then it will stop production, sack people, ruin lives and communities until such time as enough can once again be extracted from working class people.

So what influences the level of surplus value? There are two main classes of pressure on surplus value production, what we will call the "subjective" and "objective." The "subjective" pressures are to do with the nature of the social relationships created by capitalism, the relations of domination and subjection which are the root of exploitation and the resistance to them. In other words the subjective pressures are the result of the fact that *"property is despotism"* (to use Proudhon's expression) and are a product of the class struggle. The objective pressures are related to how capitalism works and fall into two processes. The first is the way in which markets do not provide enough information to producers avoid disproportionalities within the market. In other words, that the market regularly produces situations where there is too much produced for specific markets leading to slumps. The second objective factor is over-investment, when it is capital goods which are over produced.

All three factors operate together in a real economy and we have divided them purely to help show the issues involved in each one. The class struggle, market "communication" creating disproportionalities and over-investment all interact. Due to the needs of the internal (class struggle) and external (inter-company) competition, capitalists have to invest in new means of production. As workers' power increases during a boom, capitalists innovate and invest in order to try and counter it. Similarly, to get market advantage (and so increased profits) over their competitors, a company invests in new machinery. While this helps increase profits for individual companies in the short term, it leads to collective over-investment and falling profits in the long term. Moreover, due to lack of effective communication within the market caused by the price mechanism firms rush to produce more goods and services



holds as well as the increased concentration of wealth. The two are linked. Due to *"the decline in real hourly wages, and the stagnation in household incomes, the middle and lower classes have borrowed more to stay in place"* and they have *"borrowed from the very rich who have [become] richer."* By 1997, US households spent $1 trillion (or 17% of the after-tax incomes) on debt service. *"This represents a massive upward redistribution of income."* And why did they borrow? The bottom 40% of the income distribution *"borrowed to compensate for stagnant or falling incomes"* while the upper 20% borrowed *"mainly to invest."* Thus *"consumer credit can be thought of as a way to sustain mass consumption in the face of stagnant or falling wages. But there's an additional social and political bonus, from the point of view of the creditor class: it reduces pressure for higher wages by allowing people to buy goods they couldn't otherwise afford. It helps to nourish both the appearance and reality of a middle-class standard of living in a time of polarisation. And debt can be a great conservatising force; with a large monthly mortgage and/or MasterCard bill, strikes and other forms of troublemaking look less appealing than they would other wise."* Debt is *"an important form of social coercion; mortgaged workers are more pliable."* (Henwood, pp. 64–6, p. 232)

Today, the legacy of confusing the basic need to have access to the resources required for personal freedom with private property is becoming clear. The so-called ownership society simply means the debt-society, where you are owned by your creditors just as much as your labour and its products are owned by your boss. The 1990s dot-com bubble burst and employees watched their stock-heavy pensions disappear. Now the 2000s have the subprime mortgage crisis, with millions of homeowners facing repossession.

caused by capital markets on economies subject to them as just as bad, downplaying long term issues and investment. But, as the rich get richer and can exercise control over the state by these markets they will continue as long as capitalism does and, of course, be rationalised by the economics profession as being "efficient" and "rational."

## The ownership society

Max Stirner once noted that property *"in the civic sense means sacred property, such that I must* ***respect*** *your property … Be it ever so little, if one only has somewhat of his own – to wit, a respected property: The more such owners … the more 'free people and good patriots' has the State."* However, *"in practice people* ***respect*** *nothing, and everyday the small possessions are bought up again by greater proprietors, and the 'free people' change into day labourers."* Thus the *"civic proprietor is in truth nothing but a propertyless man, one who is everywhere* ***shut out****. Instead of owning the world, as he might, he does not own even the paltry point on which he turns around."*

This has been the basis of neo-liberalism, with Pinochet and Thatcher seeking to create many such *"free and good patriots"* while, in reality, increasing inequality and squeezing the so-called middle classes. Bush, likewise, wanted to turn more people into a "civic proprietor" by privatising Social Security and delivering their accounts to Wall Street. Moreover, he urged that his *"ownership society"* required easy access to the credit needed for homeownership. *"Under 50 percent of African Americans and Hispanic Americans own a home,"* Bush stated in 2002, *"that's just too few"* and he called on Fannie Mae and the private sector *"to unlock millions of dollars, to make it available for the purchase of a home."* Which, of course, they did – it was called a sub-prime loan.

Then there is the social role of credit and debt. As noted, since the 1980s the UK and USA have seen a rising debt burden on house-



in specific boom markets, so leading to over-production and the resulting gluts result in slumps due to investment becoming concentrated in certain parts of the economy. Relative over-investment can occur, increasing and compounding any existing tendencies for over-production and so creating the possibility of crisis.

Meanwhile, as unemployment falls workers' power, confidence and willingness to stand up for their rights increases, causing profit margins to be eroded at the point of production. This has the impact of reducing tendencies to over-invest as workers resist the introduction of new technology and techniques. The higher wages also maintain and even increase demand for the finished goods and services produced, allowing firms to realise the potential profits their workers have created. Rising wages, therefore, harms the potential for producing profits by increasing costs yet it increases the possibility for realising profits on the market as firms cannot make profits if there is no demand for their goods and their inventories of unsold goods pile up. In other words, wages are costs for any specific firm but the wages other companies pay are a key factor in the demand for what it produces. This contradictory effect of class struggle matches the contradictory effect of investment. Just as investment causes crisis because it is useful, the class struggle both hinders over-accumulation of capital and maintains aggregate demand (so postponing the crisis) while at the same time eroding capitalist power and so profit margins at the point of production (so accelerating it).

And we should note that these factors work in reverse during a slump, creating the potential for a new boom. So, eventually the slump will end (capitalism will not self-destruct due to internal economic processes). The increased surplus value production made possible by high unemployment is enough relative to the (reduced) fixed capital stock to increase the rate of profit. This encourages capitalists to start investing again and a boom begins (a boom which contains the seeds of its own end). How long this process takes cannot be predicted in advance (which is why

Keynes stressed that in the long run we are all dead). It depends on objective circumstances, how excessive the preceding boom was, government policy and how willing working class people are to pay the costs for the capitalist crisis.

Thus subjective and objective factors interact and counteract with each other, but in the end a crisis will result simply because the system is based upon wage labour and the producers are not producing for themselves. Ultimately, a crisis is caused because capitalism is production for profit and when the capitalist class does not (collectively) get a sufficient rate of profit for whatever reason then a slump is the result. If workers produced for themselves, this decisive factor would not be an issue as no capitalist class would exist. Until that happens the business cycle will continue, driven by "subjective" and "objective" pressures — pressures that are related directly to the nature of capitalist production and the wage labour on which it is based. Which pressure will predominate in any given period will be dependent on the relative power of classes.

One way to look at it is that slumps can be caused when working class people are "too strong" or "too weak." The former means that we are able to reduce the rate of exploitation, squeezing the profit rate by keeping an increased share of the surplus value we produce. The latter means we are too weak to stop income distribution being shifted in favour of the capitalist class, which results in over-accumulation and rendering the economy prone to a failure in aggregate demand. The 1960s and 1970s are the classic example of what happens when "subjective" pressures predominate while the 1920s and 1930s show the "objective" ones at work.

It is fair to say, this crisis (like all the post 1980s ones) is a product of "objective" factors. The detachment of wages from productivity growth since the 1980s shows this, as does the fact that the **Bureau of Labor Statistics** shows a radical decline in strikes and work stoppages. There is virtually no work time is lost to industrial conflict in the USA and, unsurprisingly, as workers have increas-



Which means, of course, that finance markets are not the "efficient" and "rational" allocators of investment funds portrayed in the economic textbooks and finance pages of the newspapers. Wall Street and its equivalents frequently misallocate capital and credit. The "tech bubble" of the late 1990s was one episode. Now we have subprime mortgages.

This should be unsurprising, as the existence of a stock market has serious (negative) effects on investment. As Henwood notes in his essential analysis of finance capital, there *"are serious communication problems between managers and shareholders."* This is because *"[e]ven if participants are aware of an upward bias to earnings estimates [of companies], and even if they correct for it, managers would still have an incentive to try to fool the market. If you tell the truth, your accurate estimate will be marked down by a sceptical market. So, it's entirely rational for managers to boost profits in the short term, either through accounting gimmickry or by making only investments with quick paybacks."* So, managers *"facing a market [the stock market] that is famous for its preference for quick profits today rather than patient long-term growth have little choice but to do its bidding. Otherwise, their stock will be marked down, and the firm ripe for takeover."* While *"[f]irms and economies can't get richer by starving themselves"* stock market investors *"can get richer when the companies they own go hungry — at least in the short term. As for the long term, well, that's someone else's problem the week after next."* In fact, *"the signals emitted by the stock market are either irrelevant or harmful to real economic activity, and that the stock market itself counts little or nothing as a source of finance. Shareholders … have no useful role."* (**Wall Street**, p. 171, p. 292)

Ironically, this situation has a parallel with Stalinist central planning, where the manager of State workplaces had an incentive to lie about their capacity to the planning bureaucracy. The planner would, in turn, assume higher capacity, so harming honest managers and encouraging them to lie. This, of course, had a seriously bad impact on the economy. Unsurprisingly, the similar effects on. This leads firms to pay more of their profits in interest repayments, cut back in investments, fire employees and so forth. Banks, meanwhile, cannot find resources to meet their creditors' demands and hold on to what money they have, causing the credit markets to freeze up. It also reduces consumer demand, as individuals can no longer find easy credit and have to use more of their wages to service their debts and/or cannot find credit to bolster demand in the face of declining or stagnating income from wages. A general decrease in demand is combined with over-investment, mutually reinforcing each other. In the end, the boom turns to slump and firms and banks fail. The state then intervenes to try and stop the slump getting worse (with varying degrees of success and failure).

Thus the generation of credit is a spontaneous process rooted in the nature of capitalism and is fundamentally endogenous in nature. This means that the business cycle is an inherent part of capitalism even if we assume that it is caused purely by disequilibrium in the credit market. In other words, it is more than likely that the credit market will be in disequilibrium like every other market in any real capitalist economy – and for the same reasons.

This explains why so many banks speculated in such an obviously insane market as the sub-prime loans one. As a boom leads to euphoria, Minsky argued, banks and other commercial lenders extend credit to ever more dubious borrowers, often creating new financial instruments to do so (and new instruments are created to avoid what regulation exists as well). During the 1980s, junk bonds played that role. More recently, it was the securitization of mortgages, which enabled banks to provide home loans without worrying if they would ever be repaid. Then, at the top of the market (in this case, mid-2006), some smart traders start to cash in their profits while the rest were left with the grim reality of lending money to people who could never afford to pay it back in the long run. Short-termism came home to roost, only to find that it had been repossessed.



ingly lost their capacity for collective industrial action, the share of national income going to wages and salaries has fallen. According to the **Center on Budget and Policy Priorities** *"the share of national income going to wages and salaries in 2006 was at its lowest level on record, with data going back to 1929. The share of national income captured by corporate profits, in contrast, was at its highest level on record."* (Aviva Aron-Dine and Isaac Shapiro, **Share of National Income Going To Wages And Salaries At Record Low In 2006: Share of Income Going to Corporate Profits at Record High**, 29 March 2007) The share of wages and salaries in US National income was at its lowest level on record, lower than in 1929 when records began (51.6% vs. 53.6%). This is even worse than it looks, as "wages and salaries" includes CEO pay (which has exploded since the 1980s). Corporate profits are at 13.8% (11.5% in 1929).

In spite of this fall in class struggle and the corresponding bolstering of profits, capitalism is facing a crisis. This is where finance capital comes in.

## The credit crunch…

While surplus value is ultimately created in production, this does not mean that finance capital has no impact on the cycle. Its role is important and can heighten a boom and deepen a slump. While finance capital is dependent on industrial capital, it shapes how that develops. In good times, it can add to investment. In bad times, it can stop it as credit dries up – the so-called *"credit crunch."*

Why does the credit crunch happen? To understand why, we need to turn to the ideas of the noted Post-Keynesian economist Hyman Minsky. He created an analysis of the finance and credit markets which gives an insight into why banks create credit money (i.e. loaning more money than available savings) and why it becomes unstuck. This model is usually called ***"The Financial Instability Hypothesis."***

Let us assume that the economy is going into the recovery period after a crash. Initially firms would be conservative in their investment while banks would lend within their savings limit and to low-risk investments. In this way the banks do ensure that the amount of credit available reflects the amount of savings. However, this combination of a growing economy and conservatively financed investment means that most projects succeed and this gradually becomes clear to managers/capitalists and bankers. As a result, both managers and bankers come to regard the present risk premium as excessive. New investment projects are evaluated using less conservative estimates of future cash flows. This is the foundation of the new boom and its eventual bust. In Minsky's words, *"stability is destabilising."*

As the economy starts to grow, companies increasingly turn to external finance and these funds are forthcoming because the banking sector shares the increased optimism of investors. Let us not forget that banks are private companies too and so seek profits as well. As Minsky argues, *"bankers live in the same expectational climate as businessmen"* and so *"profit-seeking bankers will find ways of accommodating their customers … Banks and bankers are not passive managers of money to lend or to invest; they are in business to maximise profits."* Providing credit is the key way of doing this and so credit expansion occurs. If they did not, the boom would soon turn into slump as investors would have no funds available for them and interest rates would increase, thus forcing firms to pay more in debt repayment, an increase which many firms may not be able to do or find difficult. This in turn would suppress investment and so production, generating unemployment (as companies cannot "fire" investments as easily as they can fire workers), so reducing consumption demand along with investment demand, so deepening the slump.

To avoid this and to take advantage of the rising economy, bankers accommodate their customers and generate credit rather than rise interest rates. In this way they accept liability structures



both for themselves and for their customers *"that, in a more sober expectational climate, they would have rejected."* (Minsky) The banks innovate their financial products, in other words, in line with demand. Firms increase their indebtedness and banks are more than willing to allow this due to the few signs of financial strain in the economy. The individual firms and banks increase their financial liability, and so the whole economy moves up the liability structure. Like other businesses, banks operate in an uncertain environment and have no way of knowing whether their actions will increase the fragility within the economy or push it into crisis.

The central banks, meanwhile, accommodate the banks activity. They do not and cannot force them to create credit. Alan Holmes, a senior vice president at the New York Federal Reserve, put the process this way: "*In the real world, banks extend credit, creating deposits in the process, and look for the reserves later. The question then becomes one of whether and how the Federal Reserve will accommodate the demand for reserves. In the very short run, the Federal Reserve has little or no choice about accommodating that demand, over time, its influence can obviously be felt.*"

As long as profits exceed debt servicing requirements, the system will continue to work. Eventually, though, interest rates rise as the existing extension of credit appears too high to the banks or the central bank. This affects all firms, from the most conservatively financed to the most speculative, and "pushes" them up even higher up the liability structure. Refinancing existing debts is made at the higher rate of interest, increasing cash outflows and reducing demand for investment as the debt burden increases. Conservatively financed firms can no longer can repay their debts easily, less conservative ones fail to pay them and so on. The margin of error narrows and firms and banks become more vulnerable to unexpected developments, such a new competitors, strikes, investments which do not generate the expected rate of return, credit becoming hard to get, interest rates (particularly inter-bank ones) increases and so