The Crisis, Bailouts, Quantitative Easing, Tapering and Class War

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Since 2009 the US state has been undertaking Quantitative Easing (QE), which has involved the US state creating $ 85 billion a month, effectively electronically printing money out of thin air, and linking this to the "purchasing" of paper assets like US government bonds and also more importantly mortgaged backed securities from banks, hedge funds, private equity firms, and asset management companies, which lost their value when the capitalist crisis hit hard in 2008. Through this, these financial institutions and banks have been given up to $ 85 billion a month for the last five years. Much of this money has been used by these corporations to increase their speculative activity, including speculating on government bonds sold by the likes of the South African, Brazilian, Argentinean, and Turkish states. Now the US state has been looking to start tapering QE and speculators as a result are exiting these government bond markets. As this article explores it will probably not be the ruling class (capitalists and top state officials) that suffer the worst convulsions associated with tapering, although they may be affected, but the working class in countries such as South Africa, Brazil, Indonesia, India, Argentina and Turkey. This article examines why and how this could take place, how ruling classes from different countries are trying to protect themselves; and why and how the working class will in all likelihood be worst hit. In order to, however, understand how the class war around QE is unfolding it is important first to look at the role states have played during the crisis, along with the competition that exists between states.

Bailing out the rich, attacking the poor

The current crisis that first became openly evident in 2008 can be traced back to the 1970s when on a global scale capitalism went into crisis due to over-production and over-accumulation. As a result, profit rates went into decline. To try and escape this, corporations began speculating on an unprecedented scale and the financial sector globally grew rapidly – indeed, the profit rate within sectors like manufacturing has continued to decline over the last four decades and it has only been speculation in the financial sector that has, to a degree, masked this. This, however, never resolved the underlying crisis of over-production and over-accumulation, and periodically the speculative bubbles that have been created have burst.

When the bubble associated with speculation in household and corporate debt burst within Europe and North America in 2008, states spent trillions of dollars bailing out the banks and financial institutions that were involved in this. This has been done through taking on greater state debt, cutting social spending, and increasing taxes on the working class and transferring this money to the richest capitalists on earth.

Leading this charge, the US state has done everything in its power to protect and further the interests of the US ruling class during the capitalist crisis, especially the section of that class that owns financial corporations and banks. It has been estimated that since 2008 the US state has spent well in excess of $ 14 trillion dollars on bailing out banks and other financial institutions, for the benefit of the super rich capitalists that own them. This initially involved the US Treasury swapping government bonds for the junk financial companies were holding when the crisis hit, including securitised loans and derivatives that became worthless when the underlying debt could not be paid. Added to this, the US state then pumped hundreds of billions of dollars into stock and money markets to keep private companies afloat. Through this, trillions of dollars were given over to the rich for them to use as they saw fit, with absolutely no public involvement. The

giant banks that were the main beneficiaries of these bailouts then used this money to expand their power, partially through buying up smaller banks that were not heavily involved in speculating on toxic 'assets'. Once these financial corporations were saved and back on their feet, they were then ensured profitability by the US state feeding them money through amongst other things QE and zero percent loans. In the process of handing out all of this money the US state's debt spiralled from $ 9.6 trillion in late 2007 to over $ 17 trillion at present.

The aim though has not been to create jobs, help the working class or even to shore up manufacturing in Europe and North America, but to assist the finance sector. Of course, the top state officials and politicians that facilitated this in the US and parts of Europe had their own interests at heart in doing so. Some are connected directly to financial corporations, but beyond that they depend on capitalist exploitation and a functioning capitalism – and specifically in today's capitalism a thriving finance sector — to fund states and their lavish lifestyles.

Smaller states, however, too followed the lead of the US state. The South African state, for example, spent billions assisting South African corporations through tax breaks, modest bailouts, grants, financial support and infrastructure projects during the present crisis. Coupled to this, it also allowed South African corporations to extend the amount of capital they could legally take out of the country in order to, amongst other things, entrench their exploitation of workers and the poor across Africa and play stock markets to boost their bottom lines across the globe.

Of course, states were doing all of this whilst cutting spending on education, healthcare, housing and pensions for the working class – gains that had been made by the working class through decades of struggle against states and capitalism. Along with this, taxes on the working class have been increased in many countries, especially in countries such as Greece. While bailing out the rich and saving their own skins, states have also backed capitalists in their drive to restore profit rates by supporting the retrenchments of millions of workers and the lowering of wages in real terms. In South Africa while the state was following a policy of corporate welfare 1 million workers lost their jobs. Through this, states have been playing a key role in ensuring the working class pays for the crisis and becomes further impoverished, and that wealth is transferred upwards during the crisis towards the rich. So while states handed trillions of dollars to fellow members of the ruling class; they at the same time attacked workers on an unprecedented scale driving them into greater poverty and indebtedness to get them to bear the costs of the crisis. In fact, a no-holds-barred class war has been waged by capitalists and top state officials (the ruling class) during the current crisis. Consequently, the words of the libertarian communist/anarchist Errico Malatesta still hold true as he argued the state is *"by its nature oppressive and plundering, and that it is in origin and by its attitude, inevitably inclined to defend and strengthen the dominant class".*

The battle between states

While an intensified class war from above has been waged against the working class in countries in every continent during the crisis, there has also been heightened competition and aggression between the ruling classes of different states and the imperialism that accompanies this. The manner in which the crisis unfolded in Europe perhaps highlights this and also gives an insight into inter-state rivalry associated with QE and its tapering — as will be discussed later.

When the crisis first broke in Europe, smaller states within Europe – such as Greece, Spain, and Portugal – followed the lead of larger powers and bailed out banks. To do so, states such as Portugal and Greece took on greater debt, largely financed by German, French and US banks. In fact, US, German, and French banks and financial corporations used much of the money that they were given by their respective states through bailouts, interest free loans and QE in order to increase speculation and create new bubbles. Much of this money was used by these financial corporations to play stock markets, speculate on derivatives, buy back their own shares to inflate the prices, and to speculate on real estate. Importantly, however, they also used the money from QE and interest free loans to speculate on the bond markets of the Greek, Spanish, Italian and Portuguese states (and as will be discussed later also the bond markets of states such as South Africa, Argentina, Turkey, and Brazil).

For many years, especially since they adopted the Euro, the Greek, Spanish, and Portuguese states have often run large trade deficits. Indeed, when they adopted the Euro, because of its high value, their exports became more expensive and declined. Along with trade and investment liberalisation, this devastated manufacturing in these countries. They began to import far more than they exported; notably from Germany but also China. To finance and cover this trade deficit, and the often accompanying negative balance of payments and current account deficits, these states needed to take on debt. They did so, like all states — including South Africa, Brazil, India, Indonesia, Turkey, and Argentina — by selling government bonds to speculators. In order to attract such speculators, high interest rates were offered on these government bonds.

As the crisis hit hard in 2008, states such as Greece, Portugal, and Spain bailed out the banking and financial sectors in their countries as these local companies had also been speculating on household and corporate debt. As part of this, the states involved took on even greater debt, including through the sale of further government bonds. By 2010 worries, especially amongst rating agencies, surfaced that the Portuguese, Greek and Spanish states were going to have problems servicing this debt. The banks and financial speculators that held this debt, notably German, US and French financial corporations, through mainly bonds, were also spooked. In the aftermath of this, and in particular the downgrading of the Greek government bonds to junk, the International Monetary Fund (IMF) and European Central Bank (ECB) stepped in. The IMF itself is controlled by the US state; while the ECB is effectively controlled by the German state, and through these institutions a series 'bailouts' were offered to the Portuguese, Greek and Spanish states between 2010 and 2012.

In each case, it soon became evident that these 'bailouts' were loans that would be made to the Spanish, Greek and Portuguese states in order for them to continue to service their existing debt, mainly in the form of bonds, being held by German, French and US corporations. These bailouts, therefore, were for these corporations; and not the working class or even the states in Spain, Greece, and Portugal. As a matter of fact, money from the bailouts flowed almost directly to the banks and corporations that were holding Spanish, Greek, and Portuguese government bonds.

In return for the so-called bailouts, the German, French and US state required the Spanish, Greek and Portuguese states to undertake a major attack on the working class in those countries. This included further trade and investment liberalisation and wholesale privatisations. The main beneficiaries of this were German, French and US corporations who snapped up some of the assets that were being privatised. Along with this, the US and German states demanded an immediate attack on the Spanish, Portuguese, and Greek working class through the cutting of

social services, cutting wages and the lowering of welfare (euphemistically called austerity measures) in order for this money to be diverted to paying back the 'bailouts'. Hence, the working class in these countries would pay for the bailouts for German, US and French banks that held Spanish, Portuguese and Greek government bonds.

For the German ruling class this was particularly profitable. Not only did the German banks benefit from the guarantee, through the 'bailouts', that the debt owed to them would be paid, but they could also continue to export products to Spain, Greece and Portugal – which would not have been possible if these states had defaulted on their debt. The fact that continued self-interest in trade with the likes of Greece was partly driving the German ruling class's position can be seen in the fact that while demanding that the Greek state cut social spending, no demands were made for it to cut its military spending. The central reason why is that the Greek state is the largest purchaser of weapons from Germany's arms industry. Consequently, the German state placed no brakes on the level of the Greek state's military spending.

Bakunin described how such imperialist domination by powerful states, for their own interests, is the order of the day under the state and capitalist system, when he stated:

> *"The supreme law of the State is self-preservation at any cost. And since all States, ever since they came to exist upon the earth, have been condemned to perpetual struggle – a struggle against their populations, whom they oppress and ruin, a struggle against all foreign States, every one of which can be strong only if others are weak – and since States cannot hold their own in this struggle unless they constantly keep on augmenting their power against their own subjects as well as against the neighbourhood States – it follows that the supreme law of the State is the augmentation of its power to the detriment of internal liberty and external justice".*

Imperialism and class

While the Greek, Spanish and Portuguese states were told, by the major imperialist powers, to attack the working class, it would be a mistake to see the ruling classes of these countries as mere victims. They may have been annoyed by being told what to do by the likes of the German and US states, but their own material interests meant they were not going to resist too strongly. Indeed, the Greek, Portuguese, and Spanish states could have opted to default on the debt they owed to French, US and German banks and avoid or limit austerity by freeing up the money that was being paid on existing debt already. That, however, would have meant leaving the Eurozone, but it also would have meant hard times in the short term for the Greek, Spanish and Portuguese ruling classes.

Powerful sectors of Greek, Spanish and Portuguese capital, those centered around the banks, construction, tourism, and the shipping industries, instead of pushing for their states to default, were conversely highly supportive of the Greek, Spanish and Portuguese states paying the debt; and attacking the local working class to do so. This meant they would still have access to capital as a class from France, Germany and the US. At a local level, it also meant they would have access to cheaper labour – associated with the impact of austerity – and it guaranteed they would not face the prospect of major tax increases to finance the state (once states agreed to the terms of the 'bailouts' they were free to continue to borrow to finance their ongoing deficits). Coupled to this, the privatisation attached to the 'bailouts' also offered sections of the Greek, Spanish,

and Portuguese ruling classes opportunities, either as new owners or local partners in the newly privatised assets. The Greek, Spanish and Portuguese capitalists, therefore, along with their allies in the state, were quite willing to shift the burden of the terms of the 'bailouts' onto the working class by cutting social services and following privatisation. As such, these local ruling classes may been in some ways belittled by the imperialist powers, who effectively set economic policies for the Greek, Spanish and Portuguese states as part of the 'bailouts', but they also had a class interest in backing the imperialist maneuvers by the likes of the German state, because the local working classes would bear the brunt of the austerity; and they as the local ruling class could also benefit in some ways.

QE, tapering and the lessons of the recent past

Like the Greek, Portuguese and Spanish states, the South African, Brazilian, Turkish and Argentinean states have often run either large trade deficits, current account deficits or have had negative balance of payments over the last few years. To cover this, like the Greek, Portuguese, and Spanish states; the South African, Brazilian, Turkish and Argentinean states have sold government bonds and have taken on greater debt. Along with this, they also have come to rely on inflows into their stock markets to cover deficits.

One of the reasons why countries such as South Africa often suffer from large trade and current account deficits is due to the liberalisation of the economy that has taken place since the 1980s. In the case of South Africa due to trade liberalisation the manufacturing sector has shrunk. Certain industries like textiles have declined and almost disappeared, often replaced largely by greater imports from countries such as China. Under investment liberalisation and exchange control liberalisation South Africa has also experienced massive outflows of capital. This situation to a greater or lesser degree also exists in countries like Brazil, Argentina and Turkey.

In a similar manner to Greece, Spain and Portugal, the government bond markets of the likes of South Africa, Brazil, Argentina, India, Indonesia and Turkey have also been targeted by speculators over recent years. When the current crisis first broke into the open in 2008, and the US stock market fell and interest on US government bonds dropped to zero, US banks, hedge funds, asset management companies and private equity firms looked for speculative opportunities outside of the US to try and keep some semblance of profitability. In fact, they looked towards the stock markets and government bond markets of countries such as South Africa, Brazil, Turkey, Indonesia, and Argentina. The reason being, in order to cover ongoing deficits, these states offered speculators very high interest rates on the government bonds they were selling (in a similar manner to what Greece, Spain, Italy and Portugal were also doing).

For US banks and other financial corporations, speculating on these government bond markets was easy money. Since 2008 they have been able to use the money from the bailouts to do so. More importantly, they could also use the $ 85 billion they were receiving each month since 2009 via QE, along with interest free loans from the US state, to buy South African, Brazilian, Argentinean, Indonesian, Indian and Turkish government bonds. This was a very profitable exercise. For example, US banks and other financial entities could use the money they received from QE and interest free state loans to purchase South African bonds, which not only guaranteed their capital, but a minimum of 6% interest as well. But it was not only US companies that made large profits out of this speculative frenzy; local ruling classes also joined in. In the case of South

Africa, South African capitalists have benefitted from the speculation on South Africa's stock market and they too joined US corporations in speculating in government bonds. This speculative frenzy, however, looks like it is coming to an end, but it won't be US banks, hedge funds, private equity firms or asset management corporations, or even the local ruling classes, that are worst impacted.

Tapering and the danger of the government bond bubble bursting

In fact, the speculative party in the government bond and stock markets of South Africa, Brazil, Turkey, India and Argentina looks like it is ending largely because the US state has began the process of reducing QE. In other words, ending the supply of easy money that US corporations were using to speculate on these government bond markets is meaning the bubble that was created through this is starting to show very stark signs of bursting.

Indeed, QE keeps interest rates low in the US and this feeds into bubbles – which at some point will burst — in bond and stock markets both in the US, but importantly at this point in time in other parts of the world. Added to this, keeping QE in place over a long term could lead to rapidly rising inflation in the US as the money supply rapidly increases. Hence, the US state feels that now that financial corporations have been returned to profitability there should be a planned and careful tapering off of QE to try and limit problems associated with it for the US state, US banks and US financial corporations. Linked to this, the US state now also wants to try and draw capital back to its shores, including into its equity markets. The US state is, therefore, choosing to taper off QE at a time when other states, such as Turkey, Brazil, South Africa and Argentina, will feel the impact worst rather than itself or US companies. The ruling classes in countries such as South Africa and Turkey are aware of this, and they are using their own respective states to try and protect themselves. One of the few ways they can do so is to use the state to transfer the pain to their own respective local working class – the same principle that was used during the crisis in Greece, Spain and Portugal.

The move to tapper QE by the US state was first announced in 2012, but it only started doing so in the last few months. In December 2013 it reduced QE to 75 billion a month, and in January this year it reduced it by a further 10 billion. This, along with slower growth in places such as China, caused a panic amongst financial corporations as they rightly feared the bond market bubble they had been creating in countries such as Argentina, Turkey, Brazil and South Africa would burst. They also feared that without money for nothing via QE the profits they have been making would largely disappear and the full brunt of the crisis would become visible again.

As a result in late 2013 and early 2014, many financial corporations started selling the government bonds of states such as South Africa, Brazil and Turkey that they had been speculating on. They did this to move their money to assets that are seen as safe havens in times of crises, such as US treasury bonds. This saw R 8.9 billion worth of the South African state's government bonds being sold off in January 2014 alone as money flowed back to the US. Added to this, in the same month, over $ 12 billion was taken out of the stock markets of countries like Brazil, India, Argentina and Turkey by speculators – taking their profits and heading somewhere else that was perceived as safer.

This caused a major problem for states such as South Africa, Argentina, Brazil and Turkey in January 2014. With their bonds being sold off by speculators these state's balance of payments

went into greater deficit and the value of their currencies fell sharply. The US state, however, benefitted as money flowed into its bonds – which are seen as safe havens because speculators can't perceive the US state ever going bankrupt, and hence believe the US state will always honour its government bonds.

The working class pays

To try and stop this, and stabilise their own position as local ruling classes and the position of local capital, states such as Turkey and Brazil pushed up their interest rates to try and entice speculators to return to their bond markets in January. Turkey even raised their interest rate in January by almost 5%. The South African state and the South African Reserve Bank also responded by raising the interest rate by 0.5% in late January. If the Rand continues to fall and speculators continue to sell South African government bonds it is likely interest rates will be raised even further. In effect, therefore, these states were and are attempting to lure speculators back by offering them greater profits – via higher interest rates — in order to try and stabilise capitalism locally by avoiding their bond market bubbles bursting; and also to ensure the financial stability of the state.

This, however, is likely to hit the working class hard. Due to the reality that in real terms wages have not kept up with inflation, or have in some cases declined, since the 1970s, millions of workers in Brazil, Turkey, Argentina, India etc. have taken on debt to try and maintain some semblance of a decent lifestyle. In South Africa, due to low wages, millions of people from the working class are also indebted to retailers, micro-lenders and banks. It has been estimated that 10 million South Africans (out of a population of 52 million) have some form of credit impairment, and the rise in interest rates is likely to make this worse. Indeed, part of the demands for R 12 500 by mine workers in the 2012/13/14 strikes in South Africa were and are fuelled by the need to service debt.

With the present, and perhaps future, hikes in interest rates, many more workers are, in all likelihood, going to battle to service the debt they have and will face problems such as greater repossessions, garnishee orders and debt collectors. Yet again we are seeing states, in places such as Turkey, Brazil and South Africa intervene for the ultimate benefit of banks and financial corporations – but also for their own stability – and in the process they are attacking the working class through raising interest rates.

Austerity

It has, however, not only been interest rates that have been used as a weapon against the working class, but some states, such as Brazil, are increasing their austerity measures. This is aimed at lowering the state's budget deficit (which are in fact not large, but speculators like investing in states with low budget deficits) and in the process they hope to use this to also entice US speculators back into their government bond markets. As a matter of fact, the Brazilian state recently announced it was cutting its budget by $ 18 billion. Likewise, the South African state announced it would cap its budget increases to 2% a year, which is well below the inflation rate – meaning in real terms it will be spending less and less each year if inflation is factored in. It has already said that this cap will mainly be for spending on social services and welfare and not on

incentives for business nor infrastructure to support business. Likewise in Argentina the state has already begun to also cut state subsidies on some public services. In some of the provinces (states) in Argentina pay cuts have also been announced for low ranking state workers. Indeed, if the exodus from the government bond markets by speculators continues, these states are likely to attack the working class even further, through cutting spending even further on social and public services.

Only the working class and defend the working class

Of course there is hope. Recently huge struggles have been fought in countries such as Turkey, Brazil and South Africa. These struggles are the only thing that can stop the attack the working class has been under, including the attack by the local ruling classes of raising interest rates and in some cases capping spending on social services. If the working class is to resist current and future attacks, however, the recent struggles that have been seen in countries such as Brazil, Turkey and South Africa will have to be broadened and deepened and clear perspectives – based on anti-capitalism, anti-imperialism, but also anti-local ruling classes and their states — will have to be developed in the process. Indeed, if the government bond market crisis hits even harder than it already has in countries such as South Africa, Brazil, Turkey, India, Indonesia, and Argentina only the working class itself, through struggles, can defend itself against further the attacks that will inevitably come from local ruling classes.

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