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# Domination, Capitalism, and Economic Crises

Workers Solidarity Movement

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April 2016

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and allocate debt bestows on them stupendous power in society, which is used often against the common good in pursuit of profit.

Internationally, the economic trade flow imbalance could easily have been managed (as was suggested by John M Keynes during the Bretton Woods sumit) through Surplus Recycling Mechanisms and through creating an international reserve currency, which he named the Bancour. This would have democratised to a large degree the running of the economic world order, as opposed to leaving it controlled by the superpower of the day.

Nation states however, existing as concentrations of power will by default seek to dominate and control, leaving the common good or even sustainability as a mere afterthought. In the story of the last century, the abuse of the macroeconomic system to develop political leverage for individual countries, is the primary cause of its demise.

Much of this argument, is made more elegantly in the work of Yanis Varoufakis, Joesph Haveli, and Nicholas Theocarakis. The curious reader should refer to “The Global Minotaur: America Europe and the Future of the Global Economy”, and for a more technical exposition “Modern Political Economics”. For an insightful analysis of the flaws in mainstream economic thinking, and of the post Bretton Woods America, one should refer to James Galbraith’s “The Predator State.”

of lending – debt creation. The bubbles that grew on the back of this money, helped by financial deregulation grew so large, and inhabited such a large part of the economy, that when they burst the entire system nearly came tumbling down.

The high debt, lack of demand, and obscene levels of inequality which now plague the system as a consequence of these events, also inhibit any potential recovery. It is therefore apt to expect further economic crises in the near future, given the system remains fundamentally unchanged. For now it is running on steroids – massive injections of liquidity and more debt.

## **An Anarchist Perspective**

While a thorough exploration of capitalism and imperialism is necessary in uncovering much of what we see and despise in our current society, the degree to which the nuances and problems of these systems relate to anarchist theorising is limited.

Because a libertarian socialist, or anarchist society would oppose structures of control and coercion, such as unregulated finance, privately ran business and corporations or state structures, the anarchist perspective (as opposed to a ‘left-capitalist’ or social democratic perspective) can only provide a fundamental critique of these systems on philosophical grounds.

Still points which are central to anarchist political theory resonate boldly with many aspects of the story just told. Considering the self-destruction of the financial sector: finance is an industry dominated by a small number of privately controlled, hierarchical institutions – corporations. The sole purpose of the corporation is to funnel wealth either produced by its workers, or from society into the hands of its owners.

The creation of lucrative bad debt was the logical consequence of pursuit of profit. The ability of banks, private institutions to create

The history of capitalism has been a history domination; of landowners’ domination over tenants, of bosses’ domination over workers, of economically robust countries’ domination over developing economies. of bloody labour struggles, social struggles, and of many crises, which have the most devastating effect on the working class, those furthest away from the levers of power and influence. As the framework of capitalism has developed, its systems have expanded in complexity, but paradoxically also in fragility.

As Marx discussed, crises which litter capitalism’s history were often the result of contradictions in the internal logic of capitalism. The crash of 2008 and the ensuing economic meltdown was such a crisis.

The crash of 2008 was a moment of immense significance in the history of capitalism.<sup>1</sup> Over the course of a few months \$40 trillion worth of equity (around 18% of global GDP) had evaporated.

In the US alone \$14 trillion of household wealth disappeared, along with 700,000 jobs a month. GDP growth ground to a halt as the global economy plunged into the depths of the great recession, unparalleled by anything since the crash of 1929.

As the stock markets in New York, London, Paris, Frankfurt, Moscow, Beijing and Tokyo all recorded record losses, the giant banks, hedge funds and insurance corporations of the financial industry gradually revealed their exposure and the likelihood of their imminent collapse.

By way of response, US and EU government officials, comprising mainly of staunch neoliberals (‘free-market’ ideologues who proudly touted rhetoric of minimal government interference in the market place) went on a tax-funded spending spree of mass nationalisations and bank guarantees, unprecedented in recent history.

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<sup>1</sup> For the purpose of this essay, I will refer to the phenomenon of state backed quasi-market structures and corporate monopoly over production which presently prevails, as capitalism. This is far removed from the conception of ‘pure capitalism’, which is more impressive as an exercise in calculus than as a proposal for a feasible, sustainable or just system.

While these points provide a glimpse of the systemic collapse that was capitalism hitting the self-destruct button in 2008, they fail to fully capture the scale, complexities, or significance of the event, or of the aftermath in which we remain.

This article briefly outlines the immediate causes of the 2008 Financial Crisis – the trigger of the Global Economic Crisis, which still very much plagues the global economy today.

Of more interest however, we look at how the conditions which precipitated the financial and economic crises were the result of the engineering of imbalanced geopolitical economic systems, designed and implemented by the United States and its international institutions, for the purpose of geopolitical hegemony and effective domination of the capitalist world.

## The Financial Crisis in Brief

*Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes a bubble on a whirlpool of speculation. When capital development becomes a by-product of the activities of a casino, the job is likely to be ill-done.-*  
John Maynard Keynes, 1936.

Since the 1970s the political response to downturns in economic growth has been a simple one. Money. By reducing interest rates, Central Banks can reduce the ‘cost’ for businesses (investors) of acquiring capital, in effect pouring money into the beleaguered market. The increased liquidity causes an upsurge in confidence, hence demand, and the recessionary feedback of falling demand = falling output/redundancies = falling demand can be happily avoided.

Overuse of this policy however creates an abundance of money, flowing around the markets looking for the most profitable investment, which often (usually) is in speculative finance – an enterprise which produces nothing, except profit.

Singapore. Demand for the Singapore Dollar (its value) is therefore tied directly to industry and economic activity within Singapore.

If large trade deficits develop between Singapore and other nations, investors fearing a devaluation may exchange to a safer currency, causing a drop in demand, hence depreciation in the value of the Singaporean Dollar. In a floating currency system therefore, market shock absorbers therefore come into play to stem trade imbalances.

Crucially however, the special status of the US Dollar as global reserve currency (it is the currency in which commodities such as oil are priced, and it is used for international trades not involving the US) means that it’s value is not just tied to economic activity in the US but to the global economy and global commodity prices. As a convenient offset of this trade, its means is that the US has the capacity to run both enormous trade and fiscal deficits – massive trade deficits in perpetuity. This was exactly the plan when Nixon chose to abandon the Bretton Woods system.

## Stable instability?

What the US created, both in the reconstruction of global capitalism in the aftermath of WWII, and through the dissolution of the Bretton Woods agreement, were patterns of international trade which would flow on aggregate in one direction. In both instances this move focused power and geopolitical leverage into the hands of Washington planners and US corporations, as was their intention.

By default however it also created a system which was imbalanced, and therefore unsustainable. What happened in 2008 was the US losing its ability to recycle the surpluses of Europe and China through creating debt on Wall Street.

The amassed surplus wealth, which could not be redistributed to deficit regions outside of the market was recycled in the form

US dollar of which it had sole custody, Nixon and his appointed economist Paul Vockler devised and implemented what was to be the new international economic order.

On August 15<sup>th</sup> 1971, Richard Nixon abandoned the Bretton Woods currency regime, devaluing the dollar, sending the price of gold and other commodities skyrocketing. The effect of this was to reconstitute American hegemony over the international economic organisation, but this time instead of being a producer surplus nation as it had been after world war two, it would establish dominance by being a net consumer, on which surplus producing countries such as Germany, Japan and China would depend to keep demand for their output, in effect holding the surplus producing countries hostage.

By abusing its position as global currency reserve, the US could and would maintain massive trade and fiscal deficits without being punished with a flight from the dollar. This monumental switch in the flow of capital meant that US consumer needs would now be met by imports bought with debt.

Not surprisingly coincided with the planned degradation of the American labour movement, disempowered by the sharp decline in American manufacturing, and the rise of finance and financialisation as a major component of the economy.

With labour defeated, neoliberals in the halls of politics and behind the desks of government and economics departments waged an ideological and class war on the working class, as well as against developing countries who failed to comply with neoliberal doctrine. The elite have been set free to dominate capitalist society, writing trade deals such as TTIP, C51 and the TPP to enshrine their power – deregulating and wreaking havoc on global finance, with effects on the environment barely an afterthought.

What happens in a system of floating exchange rates (like the one which replaced Bretton Woods) when a country maintains consistent trade deficits? Consider this: one only holds the Singapore dollar if one is interested in buying goods or services originating in

In the early 2000s in response to the economic shocks following 9/11 and the bursting of the dotcom bubble (a speculative bubble which inflated the shares of internet based companies), the US federal reserve held interest rates at a ground level 1%.

The result was an abundance of cash which predatory banks put to use in the fuelling of major bubbles in the US mortgage and credit markets. In Ireland and peripheral Europe, swathes of cheap money (a result of currency union) flowing from central Europe in search of higher returns similarly fuelled bubbles in credit and real estate.

In the US what was developed was called the ‘subprime mortgage market’. Loans were given to ‘subprime borrowers’ – people on low incomes who had poor creditworthiness, often with no collateral. False assurances and propaganda from the banks convinced people of the wisdom of taking out mortgages to buy houses they couldn’t afford at artificially inflated prices.

One might fairly ask, what lender would possibly find it advantageous to give money to somebody with poor credit, to buy an inflated asset which will probably have collapsed in value by the time the borrower fails to repay?

This is where the magic of financial ingenuity, and financial deregulation allow predatory capitalism to enter full flight in its departure from reason and self-preservation. In the early 2000s, after rounds of financial deregulation under Clinton, bright minds in finance were busy developing new economic models, and financial instruments which would allow them to eliminate risk from the system of money lending; or so they believed.

They created financial instruments called ‘Collateralised Debt Obligations’ – CDOs – tradable debt assets made up of snippets of loans from a variety of borrowers, with varying credit-worthiness. In a traditional loan, the value of the debt (asset) created is directly commensurate to the borrower’s ability to repay.

However given that CDOs were made up of many loans from many borrowers, the belief was that if one person defaulted on

their debt, this would not affect another person's ability to repay. In effect the buyer of a CDO hedged their risk, and could expect close to full repayment along with receiving the usurious interest rates chargeable only to the most underprivileged and vulnerable people in society.

What took place was the mass creation of CDOs across the financial industry, supposedly riskless assets which were extremely lucrative. Of course in reality the CDOs were comprised substantially of subprime mortgages, and hence were extremely high risk.

Yet due to the fact that the regulatory agencies are in essence employees of the financial industry, and that people actually believed that risk could be engineered away, CDOs were given the highest possible credit rating, AAA – treated as indistinguishable in risk from US Treasury Bills, or indeed cash. As a result, banks and hedge funds around the world began stuffing their coffers with these lucrative CDOs, introducing massive risk and vulnerability into the financial system.

When the residential property bubble inevitably burst, the financial crisis began to unfold. Once a few people began defaulting on their mortgages, economic slowdown turned it into an avalanche.

The value of a given CDO became indeterminable. Banks were forced to reveal that much (in some cases all) of the reserves that underpinned the solvency of their business were in the form of CDOs which were now in effect worthless. One by one they were forced to reveal their exposure, organise their own buyouts and/or go to their respective governments to receive bailouts.

Panic set in to the financial sector, and banks ceased lending to one another, for fear that they would be lending to a moribund business. This credit crunch had the effect of bringing the woes of the financial sphere into the real economy, which came to a grinding halt.

Actual productive businesses, which relied on short-term credit, were left bereft of liquidity and were forced to close. Falling demand inspired dread and fear of what was to come, and investment

American business output). Domestically, ethnic, gender and class tensions were simmering as an entire generation of young Americans began to see their country for the first time through clearer eyes – as a business governed imperialist.

The military adventurism had caused a steady decline in real wages, and an increase in general prices – as well as hitting profit levels significantly. The political concession to the significant protest and resistance movements that had developed was Lyndon Johnson's 'Great Society' program – a hefty social investment aimed at the rejuvenation of real wages and a reduction in inequality.

The cost of funding these two expenses (Vietnam War and the 'Great Society') would however have to be placed on the balance books of a declining superpower. The trade flows of US manufacturing to Europe and Asia which had fortified American industry in the decades previous had weakened significantly, reducing its trade surplus to a deficit.

By 1971 the US's liabilities stood at \$70 billion, while its gold reserves (under Bretton Woods the dollar theoretically transferrable into gold – giving the currency its value) were only \$12 billion. In short the economic position of the US was weakening significantly as the government printed money to fund its programs.

This caused serious tensions internationally; because of the Bretton Woods stipulation that other currencies must remain at a fixed exchange rate to the dollar, US inflation was by default exported to all Bretton Woods countries, who were forced to print more money in order to maintain parity with the devaluing dollar. Even by the end of the 60s it was becoming ever clearer that the Bretton Woods system of fixed exchange rates and gold-dollar convertibility could not be sustained given the changing international economic environment.

Like all power centres, the US looked for ways of maintaining its economic dominance in the face of declining power. By exploiting its 'exorbitant privilege' – the international dependence on the



Under Bretton Woods, currency devaluation was expressly prohibited, setting in stone the relationship of one way flows of wealth, wherein deficit countries would be dependent on the benevolence on the US for economic survival.

The second and arguably more ingenious part of the US Bretton Woods plan was the decision to invest heavily in the infrastructure of its defeated enemies, Germany and Japan. The idea was to create friendly, subservient capitalist surplus areas, which would use the export markets of Europe and China to develop themselves as junior hegemony (incidentally containing the communist USSR).

As a result the US insisted on the formation of the European Coal and Steel Community (the precursor to the EU) and the introduction of free trade within Europe. After Mao's Marxist revolution in China, referred to as 'the loss of China' in US policy planning circles, the US began military ventures in Southeast Asia in part to protect Japanese export markets from communist influence.

The plan was remarkably successful. The decades that followed are often referred to as 'the golden era of American capitalism.' The US and global economies boomed as the system of US generated surpluses, sold to Germany and Japan strengthened the US industrial manufacturing base. Equally the exports of Germany and Japan found respective markets.

As the German and Japanese economies continued to grow however, and as their industrial sophistication and output began to rival and trump that of the US, America's status as primary surplus producer nation waned. American dominance over the global economic system seemed to be drawing to a close.

## **Phase two of American Hegemony.**

By the mid to late 1960s the US found itself overextended militarily in the Vietnam war which was costing hundreds of billions of dollars (both through US state spending, and resulting damage to

dried up, thus beginning the shutdown of the productive economy – the great recession.

## **The Broader Context**

While the Financial Crisis of 2008 was devastating in its effect on wages and employment, and exacerbated by the equally destructive government policies of austerity pursued across Europe, it does not explain the current global economic stagnation, high debt and high inequality which pervades. More fundamentally, the financial crisis was a consequence of shifts in the geopolitical economic system of international trade and credit flows; the rules of which were laid down by the United States. The current economic no-man's-land is the result of a discontinuity in this system of surplus production and absorption (current global capitalism) which has broken down.

## **Of Surpluses and Deficits**

Areas of high economic activity are areas that produce excess economic value – marketable goods or services (surplus). Economic activity tends to be geographically focused in certain locations – Dublin in Ireland, New York or Silicon Valley in the US, the Rhine Industrial Zone in Europe.

These areas produce more goods (or goods of higher market value) than their inhabitants can consume, they are therefore producing surplus. By exporting this surplus to less economically active regions, they attract the profit and capital necessary to keep their industries burgeoning, generally keeping high employment and higher living standards.

While surplus areas, or economic centres, are more developed and affluent and are therefore more politically powerful than their deficit counterparts – the source of their wealth and power comes from the demand for the goods they produce coming from deficit

areas. This means the strength of the surplus generating economic centres is directly contingent on the demand (economic health) of the peripheral deficit areas.

Thus we can view operating economies as circuits between regions of excess production exporting to regions of excess demand. Under market economics, we must consider, each transfer of economic goods from a surplus area to a deficit must be matched by a transfer of money of equal value in the opposite direction.

As a result what develops is a pattern of trade wherein goods flow from the centres to the peripheries and money flows from the peripheries to the centres. The effect of this natural imbalance between more and less productive regions is a build-up of debt on the part of the deficit region (a trade deficit). This grants the surplus area economic and political leverage over the deficit area due to its effective indebtedness.

This economic relationship lies at the heart of geopolitics, hegemony, and imperialism – however, crucially – is by its nature one sided and therefore unsustainable i.e. if a deficit region remains indebted to a surplus region indefinitely (as is usually the case), it cannot continue buying the productive wares being produced in the surplus region without some form of redistribution.

This creates an interesting yet deadly dynamic, which in effect is the cause of the undoing of the current economic system. As a surplus area you by definition are more powerful than less prosperous deficit areas; their dependence on the economic goods you produce grants you immediate political leverage.

However ultimately the source of your power is the deficit area's demand for your goods, without which your economy fades. Therefore you are in a fixed state of unequal interdependence, which if you abuse – by disallowing the redistribution of wealth from the surplus region to the deficit, outside of a market transaction (allowing the trade deficit to grow indefinitely), you choke off the demand of the deficit region, destroying the system whole.

In the aftermath of World War II, the United States found itself in a position of major geopolitical advantage. Having emerged from the war as the only creditor nation (excepting Switzerland), its major industrial rivals of Germany, Japan, Britain, and the USSR were all either occupied or devastated by fighting.

The Great Depression which had mired US industry in a state of low profit, low production and high unemployment in the decade previous, had been defeated by massive state investment. It was in this context that the 'New Dealers' (US politicians and planners associated with Keynesian economics and the presidency of Franklin D. Roosevelt) set about planning and rebuilding the global economy, placing itself at the centre, in a position of unchallengeable dominance.

In July of 1944, 730 international delegates from the capitalist industrialised world met in the small town of Bretton Woods, New Hampshire. The order of the day was to develop a global monetary order and the necessary institutions that would support it. Two of the three institutions which were formed still occupy preeminent roles in the current economic system – the International Monetary Fund, and the World Bank. The third was the Bretton Woods fixed exchange currency system. Under this system countries agreed to peg their currencies at a fixed exchange rate to the dollar, the dollar was pegged to gold – convertible at \$35 per ounce.

The reason this fixed exchange rate principle is important is because of the relationship between surplus and deficit regions discussed earlier. If two countries develop a one way transfer of economic goods (from surplus to deficit), the flow can be combatted by a devaluation in the deficit region's currency.

From the perspective of consumers in the deficit region, the devaluation will cause the price of imports from the surplus region to increase, making domestically produced wares more attractive. Concomitantly consumers in the surplus area will perceive a price fall in goods produced in the deficit region, stemming or perhaps reversing the flow of trade.