In Defense of Washington and Wall Street

written by Robert Fitch | June 12, 2009

1. The Crisis of 2007-2008

THE VERY ELDERLY ARE PRONE TO FALL. And unlike infants who also tumble frequently, each time seniors stumble, they risk a disabling or even a fatal injury. On August 9th 2007, after an unparalleled quarter century long expansion, which had been checked in the developed countries only mildly and briefly, capitalism finally tripped and lost its balance with predictable results: banks tottered, while credit and commercial paper markets writhed in paralysis. After about a month, though, notwithstanding the failure of the markets to unfreeze, the crisis was declared over. The palsied patient was deemed well enough to resume normal activity — a diagnosis apparently confirmed when two months later, on October 9th, the Dow Jones Industrial Average reached 14,164, an all time high. The March 2008 meltdown of two hedge funds belonging to Bear, Stearns suggested otherwise. A pillar of the "shadow banking system" that had emerged over the last two decades, Bear was forced into liquidation, sold to J.P. Morgan for $256 million. Scarcely more than a year earlier it was said to be worth $68.7 billion. Yet this stunning write-down barely moved Wall Street's needle. The market continued to move choppily until September 14th 2008, when Mr. FIRE (as in finance, insurance and real estate) fell again, with even more dire consequences. That Sunday, Lehman Brothers filed for bankruptcy. Later in the day, Merrill, Lynch announced its liquidation. Just two days later, AIG, the world's largest insurance company, was taken over by the government. This time, Wall Street had suffered the equivalent of a broken neck. Even in the immediate aftermath of the 1929 Crash, the biggest Wall Street banks didn't fail. They continued to lend. (The wave of failures by thousands of heartland banks came later.) But in 2008, it was precisely the big banks which formed the leading vector of the collapse. Within a period of 200 days, the five biggest U.S. investment banking houses — the institutions that since the Reagan era had given Wall Street its swagger and identity — had either gone bankrupt, or forced to find a merger partner or re-organized themselves as bank holding companies. Whenever the spinal cord is severed at the top two vertebrae, i.e., at the neck, the greatest immediate peril is that the victim stops breathing. The September 2008 crisis was marked by increasingly desperate measures to keep big FIRE from asphyxiation. The measures taken included flooding the system with liquidity — almost unlimited loans and loan guarantees. The Bush Administration came up with a $700 billion plan to deleverage the banks (i.e., raise their dangerously low ratio of equity to debt) by buying their bad mortgage-backed securities. And when that didn't work, passed legislation which amounted to a semi-nationalization of the remaining big banks — the equivalent of cutting a hole in the patient's trachea. By October's end FIRE was breathing, albeit with a tube provided by the U.S. guarantee of inter bank loans. Butbreathing is not walking. A financial system in which banks lend only to other banks refusing to act as intermediaries to the non-financial sector– is still non-functional. In the midst of the anarchy, the headline "Capitalism in Convulsion" appeared not in *The Militant* or *The People's World,* but in the August, salmon colored pages of *The Financial Times*.[1] Unlike the Long Term Capital Management (LTCM) crisis or the dot.com bust which were more or less confined to the G-7 countries, or the Asian, Mexican, Argentinean crises — which remained localized within the Third World — the crisis of 2007-8 was truly global. It spread from America to Europe to Latin America to Asia and even to remote Iceland which was all but officially bankrupt and forced to await rescue from the IMF. Nor was the crisis confined to capitalism's financial sub-system. Production was

shrinking, consumption was off. Even foreign trade, the main driver of the world economy, was contracting. “There is a real possibility of a real, deep, international depression,” said one senior monetary official at a G20 meeting in Dubai who spoke on the condition of anonymity, calling the crisis “the worst in 100 years.”[2]

2. The Meaning of the Meltdown

IN 1989, THE FALL OF THE BERLIN WALL was widely interpreted as a failure of the Communist system. But not by its supporters. They favored minimalist interpretations. Liberal Stalinists saw it as a reaction to certain overzealous GDR officials in the security apparatus; conservatives as the failure of those same officials to contain the illegal exodus. Still others blamed Soviet Premier Gorbachev’s blundering efforts to deregulate the Soviet system, which they insisted was still fundamentally sound. Similarly, the present crisis can be interpreted in various ways. Not as the result of inherent, structural, repeated, and irredeemable tendencies within the capitalist system. But as altogether something more surmountable. Democrats have pointed to a failure of capitalism’s financial sub-system, i.e., of Wall Street — where greed ran amok — and in Washington where officials refused to rein in the Street’s wildest propensities. By repealing the depression era Glass-Steagall Act in 1999, the argument runs, Congress demolished the pillar of the old regulatory architecture. And it declared off limits any supervision of the new, escalating trade in opaque forms of over-the-counter derivatives.[3] Republicans, while not immune to the widely popular “greedy” banker trope, tended mostly to blame capitalism’s regulators — above all blundering by Fed Chairman Alan Greenspan, who allegedly, in the aftermath of the 2001 dot.com collapse, held interest rates “too low, too long.” He should have kept his hands off the monetary joystick. The implosion interrupted what might be called “The Big Sleep of the American Left”: our failure to exert a detectible influence on working class institutions or on American political life as a whole. The sleepy time coincides roughly with the quarter century long boom which began in 1983 with the recovery from the stagflation crisis of the seventies. Throughout the period, as the global economy continued its unparalleled dizzying ascent, 19th century supply side economics experienced a revival. Not just the napkin version preached by Arthur Laffer, who argued that if you want to increase tax revenues, cut tax rates. But an over-arching argument about the nature of capitalism and its powers of adjustment. The 19th century classic writers — James Mill, J.B. Say, David Ricardo — taught that market failures or “gluts” were impossible. Temporary over-supply in this or that market for shoes or hats or handkerchiefs, yes. A generalized over-supply, of shoes, hats and handkerchiefs all at the same time, no.[4] So absent meddling by government authorities, depressions were not a possibility. Markets would always self-adjust because market agents — suppliers of labor and capital — would behave rationally. Workers, seeing that they had priced themselves out of the market, would work harder and lower their wages. Holders of capital would lower interest rates, which would reduce saving and spur investment. Acceptance of the simple supply side formula, “supply creates its own demand” bred confidence among the believers. The concerns of Keynes, who worried about “effective demand,” and the notions of Marx, who argued that the scramble for profits created its own barrier, could be dismissed as groundless. And as America’s ruined central cities sprang back to life from the arson and abandonment of the seventies and the stores filled up with cheap Asian goods and American designed microchips powered a global technoboom, with unemployment falling to record lows, a lite version of supply side economics quietly permeated the Left — in the assumption that “post-industrial” capitalism was more or less impregnable in its First World stronghold. Perhaps understandably, sections of the Left began to lose interest in the struggles going on in the material world around them, re-grouping around the priority of culture wars and even for some science wars. And while economic radicalism didn’t disappear, the burden of its critique lay in the idea of an unequal exchange between first and third world countries, which

prevented less developed raw material producing nations from industrializing. The idea of class wars within nations gave way to the notion of "proletarian nations."[5] Socialism became strictly a Third World option. The Left could try to assist the special victims of First World capitalism — blacks, women, minorities, immigrants. But not American workers. As Michael Kazin observed, very few American leftists invoked the link between labor and the creation of wealth and capital and the appropriation of that wealth which had been at the core of American radicalism from the 19th century to the 1940s.[6] Speculation about transforming first world capitalist institutions became about as respectable as spoon bending. One consequence of the 2007-8 economic tsumani is to wash away the foundations of the intellectual world of the sensible center.[7] But much of the Left's outlook rested tacitly on those same foundations. As well as its secret sense that it had no genuine vocation for politics except on the margins of American life. Perhaps the collapse of financial markets hasn't yet produced a mass market for ideas about democratic control of the economy. Yet there appears at least to be a niche. Are markets always wiser than majorities? Would the majority of Americans have voted in a plebiscite for deindustrialization? At a minimum, now that a Republican administration has ordered a semi-nationalization of banks and insurance companies, the supply side era is over, creating the potential for a Left socialist revival. But not without challenging the minimalist interpretations of the great meltdown put forward by the two mainstream political parties.

3. Three Things I Learned About Crises From Marx

THE DEPTH AND SCOPE OF THE MELTDOWN have made Marx fashionable once again at least in Europe, the BBC reports.[8] But acquiring the intellectual resources for the challenge is not simply a matter of mining Marxian texts. If there is a Marxian road to understanding the crisis, it's a cloverleaf highway – with many ways to get on and get off, and each turn-off resulting in a different political direction. There are many Marxist schools. And each explains crises in different ways – as the result of underconsumption; of overproduction; in terms of the falling rate of profit; or as a consequence of the disproportionality between growth rates in consumer and producer good sectors.[9] Notwithstanding the impossibility of establishing a true Marxist interpretation of the crisis, his powerful, suggestive, but mostly undeveloped crisis analysis contains three contentious insights which provide a scaffold for grasping the present events. The first might be called the "universal dynamism" thesis. Supply-siders accept it but most modern Marxists don't. Marx portrayed capitalism as an inexorable accumulation machine whose dynamism is fed by the behavior of multiple competitive capitalists all forced to consume productively rather than personally, all relentlessly recycling their profits back into the enterprise. All searching for a way to reduce costs. This feature turned capitalism into a uniquely dynamic and expansive system: one whose dynamism could not be confined to its Western countries of origin. The spread of English commerce, he argued, albeit restricted at first to opium, would "lay the material foundations of Western society in Asia."[10] At the same time — and here's where supply siders get off the bus and neo- Marxists get back on — Marx recognized capitalist development traced no smooth, upward, untroubled arc. Growth was achieved only through system shattering crises — "business cycles" — which proved comprehensively destructive.[11] In the abrupt swing from world prosperity to world depression, tens of millions were doomed to unemployment and the dole; economic upheaval would shatter normal trade relations, freeze immigration and promote economic nationalism and political dynamite — in the form of left/right polarization leading to dictatorship, fascism and war. Finally, there's the least accepted Marxian argument about crises: his claim that they have their origin in the "real" sector of the economy – where commodities were produced — not in the financial sector where the crisis almost invariably breaks out. "At first glance," Marx writes, "the whole crisis seems to be merely a

credit and money crisis." But look again, he advises, and you see that the unsaleable securities represent unsaleable commodities. Or in our own immediate case the oversupply of mortgage backed securities represents the oversupply of houses, and ultimately an oversupply of capital in general. In this way, the crisis expresses in a violent way capitalism's fundamental conflict: Capitalism develops awesomely large productive forces whose limits are checked by the requirement that production be profitable.[12] To avoid depressing the profit rate, productive capital saves instead of investing, transferring its saving from the productive sphere, seeking shelter in the financial system where productive capital is turned into credit or financial capital. Indeed, too much. "But credit," Marx wrote, only "*accelerates* the violent outbreaks of the crisis."[13] To accelerate something is not to cause it.[14]

4. Explaining The Meltdown

THE PROXIMATE CAUSE OF THE 2007-8 CRISIS was the imploding of what Yale Professor Robert Shiller called the greatest real estate bubble in U.S. history or possibly even world history. Between 1996 and 2005, house prices nationwide increased about 90 percent. In the five years between 2000 to 2005 alone, house prices increased by roughly 60 percent.[15] That hadn't happened even in the real estate boom of the 1920s, whose premonitory bust in 1926 gestured wildly but vainly at the still greater collapse to come in 1929. While the inner mechanics of the individual parts that make up the self-destructive bubble apparatus are famously complex — the SPVs SIVs, the CDOs, CDSs and other "financial dark matter" — the mechanics of the collapse itself are fairly straightforward. It's not necessary to understand quantum mechanics to grasp why an apple falls to the ground. Newtonian mechanics will suffice. Nor do we need to study the structure of DNA to know why old people fall — they take slower and shorter steps. Similarly, by concentrating on the intricacies of frenzied finance on Wall Street and faulty regulatory mechanisms in DC, we lose perspective on the ultimate as opposed to the proximate causes of the world crisis. The ultimate cause of the 2007-8 crisis was not the pricking of the real estate bubble in the United States, but the implosion of the greatest and longest global expansion in the history of capitalism going back to the first industrial revolution (1760-1830). The rapid transformation, particularly of the Chinese and Indian economies, produced a super boom that blew away all norms for economic expansion.[16] World GDP rates rose to unprecedented levels – peaking at 6 percent in 2007, six times higher than the rate during the first industrial revolution. And what drove the boom? Notwithstanding the core claim of the sensible center that the nature of the period was defined by the rise of post-industrialism and the fall of the blue collar worker who would go the way of the peasant, the boom was shaped by record rates of manufacturing growth and even higher rates of growth in manufacturing trade. The increase in manufacturing itself was fed by a world-reshaping, mass migration of manufacturing capital from the more developed to the less developed countries. Capital was attracted by appalling, but ultimately ravishingly high rates of labor exploitation — to India, which was emerging as the world's back office, but above all to China, which became the world's workshop, employing 109 million manufacturing workers. (Versus 53 million in the G7 countries.)[17] In the United States, median hourly manufacturing wage was $17.85 an hour.[18] In China, manufacturing workers in the coastal provinces earned 91 cents an hour at productivity rates increasingly converging with those in the United States[19] (inland workers earned 57 cents an hour.)[20] The long boom that began in 1983 saw astonishing reversals of economic structure — particularly in the United States where the FIRE industry displaced manufacturing and all others — as the leading industry by GDP share. In 1983, at the beginning of the boom, manufacturing was still larger than FIRE. By 2007, the FIRE sector had become 1.8 times the size of the manufacturing sector.[21] There were equally bizarre reversals of

economic fortune, as the United States once the world's prime creditor nation, became its greatest debtor nation, with poor nations — most prominently China — among its largest creditors. Yet despite these startling novelties, the present boom has ended in overproduction and over-consumption just like the classic booms of the past. Consider the world depressions that began in 1837, 1873 and 1929. For these crises, like the implosion of 2007-08, the following seven stage sequence can serve as a model:

i. A fall in the rate of accumulation, or at least a fall in the rate of acceleration; actual profit rates may even rise just before the collapse; but the high rates are sustained by a slowing down of accumulation rates.
ii. Formation of surplus capital hoards. Unable to return "home" for productive re-investment, the surplus seeks to preserve itself by moving into financial channels.
iii. Capital over-supply forces down interest rates, clearing the way for asset inflation and financial excess. First because low interest rates automatically increase the value of fictitious capital in land and in securities; and second because low interest rates cause risk premiums to fall, promoting riskier behavior as *rentiers* chase yield.
iv. Asset bubbles form as speculators are attracted by the seemingly inexorable rise in asset prices. Prices accelerate further because of rampant bubble psychology.
v. The chain letter snaps. Housing prices burst the bounds of household incomes. Stock prices soar far beyond historic price/earnings ratio. Prices collapse. A local financial crisis breaks out among the most vulnerable borrowers, who can no longer re-finance, leaving the most recent round of developers and mortgage holders unable to pay off their loans, and/or stock speculators can't cover margin calls from their brokers. Asset prices collapse, taking down credit suppliers.
vi. A spreading of the financial ripples outward from their point of origin, as asset deflation produces a global panic. And finally — but not yet of course in 2007-08:
vii. Protracted economic stagnation; widespread double-digit unemployment rates; falling wages and commodity prices; growing economic nationalism and a tendency towards "organized capitalism."

There are two main differences between this seven step scenario and the mainstream accounts. Regulatory and monetary explanations see the problem as U.S. centered. Obviously the United States can't be ignored — the meltdown began here. But the emphasis must be on global imbalances. True, the United States is over-consuming. But the rest of the world is over-producing. The second difference is the emphasis on how excesses in the real sector — the capital glut and the resulting low interest rates — produce wilding in the FIRE sector. By contrast, mainstream models reverse the causal arrow so that financial and real estate excess bring down an essentially healthy real sector. Except for the wrongheadedness of Greenspan or the antics of a comparative handful of hedge fund operators, mainstreamers then see no reason why the expansion should not go on indefinitely. They don't look at a twenty-five year expansion as being the equivalent of a twenty-five year old dog. The bubble simply erupted. But whence? Either exogenously — outside the system — by dodgy regulators who disrupted the economy's natural path towards self-correction — in the Republican version; or in the Democratic version the bubble is produced endogenously — in the FIRE sector — aided by dodgy regulators who look the other way at speculative excess. The Democrats cite a whole host of regulatory failures. There's the problem of fragmented regulation - the Fed regulates banks; the SEC stocks; the states insurance companies. They point to de-regulatory measures like the repeal of Glass-Steagall. Then there's the embarrassment of private regulation — ceding securities rating to the conflict-of-interest laden private rating agencies. Even more serious perhaps is the absence of new regulation for new institutions — e.g., failure to bring Over -the-Counter derivative trading under control; ditto the emergence of a shadow banking system, which created "a de facto assembly line for purchasing, packaging, and selling unregistered,

high- risk securities."[22] The Republicans — along with their economic mentors in academia — supply-siders, monetarists, Austrians and Chicagoans — often talk about too stringent regulation — like the passage of the Community Reinvestment Act of 1978. The Democratic Administration, they allege, allowed community groups like ACORN to coerce giant banks into making hundreds of billions of dollars in loans to unqualified minority borrowers. But mostly they focus on the interest rate activism of Alan Greenspan. The "too low too long" mantra — the fed funds rate, they point out, remained below two percent from 2002-2004. One problem with the explanation is that the bubble didn't start in 2002. It was already underway in 1996. As Robert Shiller points out, it lasted three times longer than the period of monetary laxity. Bubble growth continued to accelerate even in 1999 when the Fed was tightening. Moreover, 30 year mortgage rates were mostly unresponsive to Fed moves at the short term end of the interest curve.[23] What's more, if the U.S. bubble was simply the result of a Fed policy error — why did real estate bubbles form all around the world? Bubbles in Spain, Ireland, U.K. and perhaps the mother of all bubbles in Shanghai, where 1 million apartments were built in a single year — as opposed to 2 million in the peak year for the entire United States. And the average apartment was $300,000 in a city where the median household income is $2,000.[24] By comparison, the median household income in Queens is $42,000. If the same income to housing price ratio obtained in Queens, the average housing price would be $6.3 million. Perhaps even more challenging to the Greenspan as the Grinch Who Stole Prosperity model is the comparable behavior of German bank regulators. Roughly speaking between 2002-4, overnight interest rates charged by German banks were only about a percent higher than the federal funds rate. German rates were kept low for longer than in the United States. Yet there was no German real estate bubble. The same could be said for Switzerland and Austria: very low interest rates, no real estate bubble. What German banks, along with their Swiss, Austrian and west European counterparts, do have instead is an emerging market nations bubble: $4.7 trillion in cross-border bank loans to Eastern Europe, Latin America and emerging Asia extended during the global credit boom. It's a sum, according to a Bank for International Settlements reckoning, that "vastly exceeds the scale of both the U. S. sub- prime and Alt-A debacles."[25] There are many ways to build a bubble. Different countries have different architectural styles. America, with the most advanced entreprenurial culture, has the most complex: a financial engineering industry — the United States invented such financial gimmicks as securitization, the Special Purpose Vehicles (SPVs), and the Collateralized Debt Obligations (CDOs). But the central European method, while more traditional, works just as well. Austrian bankers simply lend huge amounts to their favorite clients, the Hungarians. Lending money to Hungarians who can't pay them back is an Austrian tradition that goes back to the early 19th century when the Rothschild Creditanstalt no sooner financed the Hungarian railway system when it abruptly failed. Hungarian loans were a major factor in the collapse of Creditanstalt again in 1931 which took down an estimated 60- 80 percent of Austrian industry triggering the European great depression.[26] This time Austrian banks have lent 85 percent of their GDP to Hungarians, who have an external debt worth about 100 percent of their GDP. Ideally, strict, comprehensive, incorruptible regulation could have stopped all this over-lending to under- qualified borrowers dead in its tracks. But in what world do regulatory bureaucrats, barking and snapping like Welsh corgis herding cattle, determine the moves of bankers? Certainly not in ours, where the relevant laws that create the framework for regulation are passed by legislatures influenced not by concerns for macro-economic stability, but by the strength of relevant lobbies. In our world, the FIRE lobby is the largest by far.[27] Even if the regulators had more power, and there were a lot more of them, it's not clear how they could be so effective as to prevent another Long Term Capital Management (LTCM) from happening. LTCM showed that one renegade hedge fund, is all it takes to ignite a crisis when the fields of capital are very dry. What regulator would second guess a team of Nobel Prize winners or fathom their formulas for risk or even decipher their complex trades?[28] And even if legislators and regulators somehow summoned up the political will and financial sophistication to tame rogue genius lenders, why wouldn't the traders who like to discount risk simply de-camp for some less regulated place? As Chairman Bernanke observed in the immediate aftermath of the Bear Stearns collapse: "The

oversight of these firms must recognize the distinctive features of investment banking and take care neither to unduly inhibit efficiency and innovation nor to induce a migration of risk-taking activities to institutions that are less regulated or beyond our borders."[29] Historically, the influence of regulators is pro-cyclical, least evident when it's most needed. Regulations are strictest in the aftermath of a collapse, weakest during the manias. Glass Steagall, comprehensive legislation taming the securities behavior of big banks, passed in 1933; it was repealed in 1999 at the height of the dot.com boom. Evidently, what chiefly regulates bankers' behavior is not regulators but conditions in the money market. What the great depressions of 1837, 1873, and 1929 share with the present crisis is a huge inflow of surplus capital into financial centers which drives down interest rates and alters banking standards and norms. That such a surplus formed prior to the 2007-8 crisis there is little doubt. A big policy debate broke out in 2005 involving Bernanke, and critics of U.S. monetary policy over its provenance and meaning.[30] Both pointed to the U.S. current account deficit as proof of the surplus. But Fed critics called it a "liquidity glut." The hundreds of billions flowing uphill each year from poor Asian countries to wealthy America were driven by the hydraulics of U.S. monetary policies. Overly stimulative U.S. policies enabled the U..S. to over consume and over borrow. Martin Wolf, editor of the *Financial Times,* noted that the United States had absorbed 70 per cent of the rest of the world's surplus capital, while its consumption accounted for 91 percent of the increase in gross domestic product in this decade.[31] Bernanke, who in 2005 was just a Fed governor, defended U.S. posture and policies. He took note of the bizarre role reversal — Scrooge borrowing from Tiny Tim — but argued that the surplus took the form of a "savings glut." And the Chinese were its agents. The United States was just reacting to the Chinese decision to save so great a portion of their income. Well over a trillion was now mostly invested in U.S. Treasuries and government sponsored enterprises. China's savings rate — managed by the state — had reached a staggering 50 percent. Even Chinese households on their comparatively tiny incomes saved 30 percent. The U.S. private households, which at the beginning of the superboom were saving nearly 10 percent, now have negative savings. But Americans were making the best of a situation not of their making, acting as Stakhanovite consumers in order to promote the continuation of global expansion. U.S. borrowing was necessary to protect the world from imminent collapse. A striking feature of Bernanke's account — as well as that of his adversaries who assert the liquidity thesis — is that neither think trade has anything to do with the trade deficit. Explains Bernanke, "The U.S. trade balance is the tail of the dog; for the most part, it has been passively determined by foreign and domestic incomes, asset prices, interest rates, and exchange rates, which are themselves the products of more fundamental driving forces." For the economists, the financial markets determine the markets for commodities. Any nation could have a giant trade surplus; it's ultimately just a policy choice about savings behavior. The country with the giant surplus just happened to be China. Utterly ignored is the fact that trade surplus/ capital glut could never have formed without staggeringly high rates of labor exploitation in the strict Marxian sense: the ratio of value added by labor divided by wages.[32] As far as what drove the boom and what caused the bust, it's the rate of exploitation that's the dog. The savings rate is the tail.

Conclusion

MARX TALKS FREQUENTLY about the capitalist's "wolfish hunger" for profit and his ravenous appetite for capital accumulation. It's no small irony that the most wolfish and ravenous capitalists in history should turn out to be Chinese Communist Party officials trained to revere Marx. But that doesn't detract from the serviceability of Marxian premises about capitalist dynamics. Whose fault is the crisis? Chinese over-exporting or American over-importing? "It should be noted in regard to

imports and exports," Marx observes, "that one after another, all countries become involved in a crisis and that it then becomes evident that all of them with few exceptions, have exported and imported too much. So that they all have an unfavorable balance of payments."[33] Marx wouldn't have been surprised at the failure of the once highly touted $700 billion Troubled Asset Relief Program. "The entire artificial system of forced expansion of the reproduction process cannot, of course, be remedied by having some bank, like the Bank of England, give to all the swindlers the deficient capital by means of its paper and having it buy up all the depreciated commodities at their old nominal values."[34] Making the swindlers whole does nothing to restore profitability in the real sector. The global rupture that's taken place over the last 15 months suggests a pattern of growth — a global division of labor — that has grown not just increasingly unwieldy, but probably unsustainable. How can the "imbalances" be fixed unless the United States becomes a producer as well as a consumer of commodities? But how can the United States become a producer on the world market given the vast disparity in rates of exploitation? Only in a post-industrial world which never existed. How can the United States continue to consume Chinese products without Chinese credit — which is dependent on unsustainable American consumption? No doubt adjustments can be made — both China and the United States can de-globalize. But such necessarily wrenching transformations take time, more like decades than years. No doubt there is something comforting about the world of the sensible center where greedy bankers, bad regulators or too much regulation brings doom and disaster. At least we remain masters of our fate. At least the virtues still count — if we can only renew our commitment to them. In the capitalist world as described by Marx — and this is perhaps the insight most in need of refurbishing — we think we're actors but we're not. Capitalism is the form of society that must ruthlessly develop the productive forces, but it develops them in a form that turns their agents into passive victims of the process. The reassuring side of Marx's view of capital expansion and collapse is the opportunity it offers for a revival of the spirit of resistance among the working people:

> "Without the great alternative phases of dullness, prosperity, over-excitement, crisis, and distress, which modern industry traverses in periodically recurring cycles…with the up and down of wages resulting from them …the working class… would be a heart-broken, a weak- minded worn-out unresisting mass whose self-emancipation would prove as impossible as that of the slaves of ancient Greece and Rome."[35]

Class struggle is the best stimulus package.

Footnotes

1. John Plender,"Capitalism in Convulsion," *Financial Times*, September 18, 2008.
2. Thomas Atkins, "Depression overshadows G20 summit," Reuters, November 10, 2008.
3. See for example Joseph Stiglitz.
4. 4See *Capital*, III, 251-2 for Marx's definition of "absolute overproduction" and its cause.
5. A core notion of Mussolini and various fascist intellectuals like Corradini, re-cycled by Mao and filtering down to the Third Worldist Left in the 70's.
6. em>The Populist Persuasion, (New York: Basic Books, 1995). 273.
7. A self-referential term used by such as The Brookings Institution, the Democratic Leadership Council and Colin Powell.
8. BBC, "Marx popular amid credit crunch," Oct. 20, 2008.
9. Michael Bleaney, *Underconsumption Theories* (New York: International Publishers, 1976), esp. ch.6.
10. "Future Results of British Rule in India," *Portable Marx,* 337; see also *Capital*, III, 333-334.

11. Mainstream economics — particularly “supply side” economics which flourished during the Long Boom — was able to grasp #1 but not #2. While acknowledging problem of inequality, they maintained that people were still better off than before; And insisted that true system-shattering crises were impossible. Economists influential on the American Left rejected both #1, and #2. They saw capitalism sunk in protracted stagnation; and argued, just like the Russian 19th century populists that the only way to develop productive forces in third world was some form of de-linkage.
12. *Capital*, Vol III (Moscow: Progress Publishers, 1966), p.490.
13. Vol. III, Ch.27, p. 441.
14. A point made by an anonymous blogger who insists that Marx is obsolete because he fails to realize that the crisis really is caused by machinations of the financial sector.
15. Ben S. Bernanke, “Remarks on the economic outlook,” At the International Monetary Conference, Barcelona, Spain (via satellite), June 3, 2008.
16. A genuine boom, marked by unprecedented growth in productivity, and not a super-bubble, as George Soros argues. See *The New Paradigm for Financial Markets* (New York: Public Affairs, 2008) esp. ch.5 “The Super-Bubble Hypothesis”
17. Judith Bannister, “Manufacturing Employment in China,” BLS, *Monthly Review*, July, 2005.
18. BLS, “Earnings.”
19. RIETI, “Benchmarking Industrial Competitiveness by International Comparison of Productivity,” Dec. 26, 2006.
20. Judith Banister, “Manufacturing Earnings and compensation in China,” BLS *Monthly Labor Review*, November 2005.
21. BEA, Gross Domestic Product by Industry Accounts, 1947-2007. Between 1983 and 2007 financial profits rose from 17 percent to nearly 40 percent of all corporate profits ERP, Table B-91, 2008.
22. Christopher Whalen, “Expanding Fed’s Power is Wrong Plan,” *American Banker*, April 4, 2008.
23. *The Subprime Solution*, 49.
24. Don Lee, “A Home Boom Busts,” *Los Angeles Times*, Jan. 8, 2006.
25. “Alt -A” stands for Alternative A. It’s a euphemism for mortgages slightly less dodgy than sub-prime mortgages. See here.
26. Niall Fergusson, *The House of Rothschild 1849- 1999*. 465.
27. Opensecrets.org credits FIRE with approximately $2.76 in lobbying expenditures between 1996 and 2008.
28. Roger Lowenstein, *When Genius Failed*, (New York: Random House, 2000), 187.
29. Ben S. Bernanke, “Financial Regulation and Financial Stability, July 8, 2008.
30. For savings glut thesis see here. For the liquidity glut view see StanleyRoach.
31. Martin Wolf, “Villains and victims of global capital flows,” *Financial Times* June 12 2007.
32. In Marxian terminology, the ratio of surplus value(s) over variable capital (v) or s/v., which is also the ratio of paid to unpaid labor.
33. Vol. III, ch. 30, p. 491.
34. Vol III, ch.30. p. 490.
35. *New York Daily Tribune*, July 14, 1853, cited in Lezek Kolakowski, *Main Currents of Marxism* (New York: W.W.Norton, 2005), 248.