

The Global Financial and Political Crisis of 2007 to 20??

**How the crisis of over-
accumulation exposes the
bankruptcy of the capitalist
system**

Topics of this PowerPoint

- **Current extent of the crisis**
- **Causes of financial over-accumulation**
- **Causes of the housing bubble**
- **Decline of US manufacturing, rise of finance capital**
- **Falling rate of profit—Marx's law**
- **Capitalist risk-taking and irrationality**
- **How crises cause the stupidity of bankers and politicians, not the other way around**

Topics, continued

- **Marxist versus liberal views**
- **Preventing crisis with regulation?**
- **Political and military aspects**
- **How war “solves” capitalist crises**
- **What to do in this crisis**

Current Extent of the Crisis

- **Recession officially began in December, 2007, 16 months ago**
- **Since late 2007, more than 5 million jobs lost in US, perhaps 50 million world wide**
- **US GDP contracting by more than 6% per year in late 2008**
- **Big increase in mortgage foreclosures**
- **Disappearance of trillions of dollars in capitalists' capital and workers' savings**

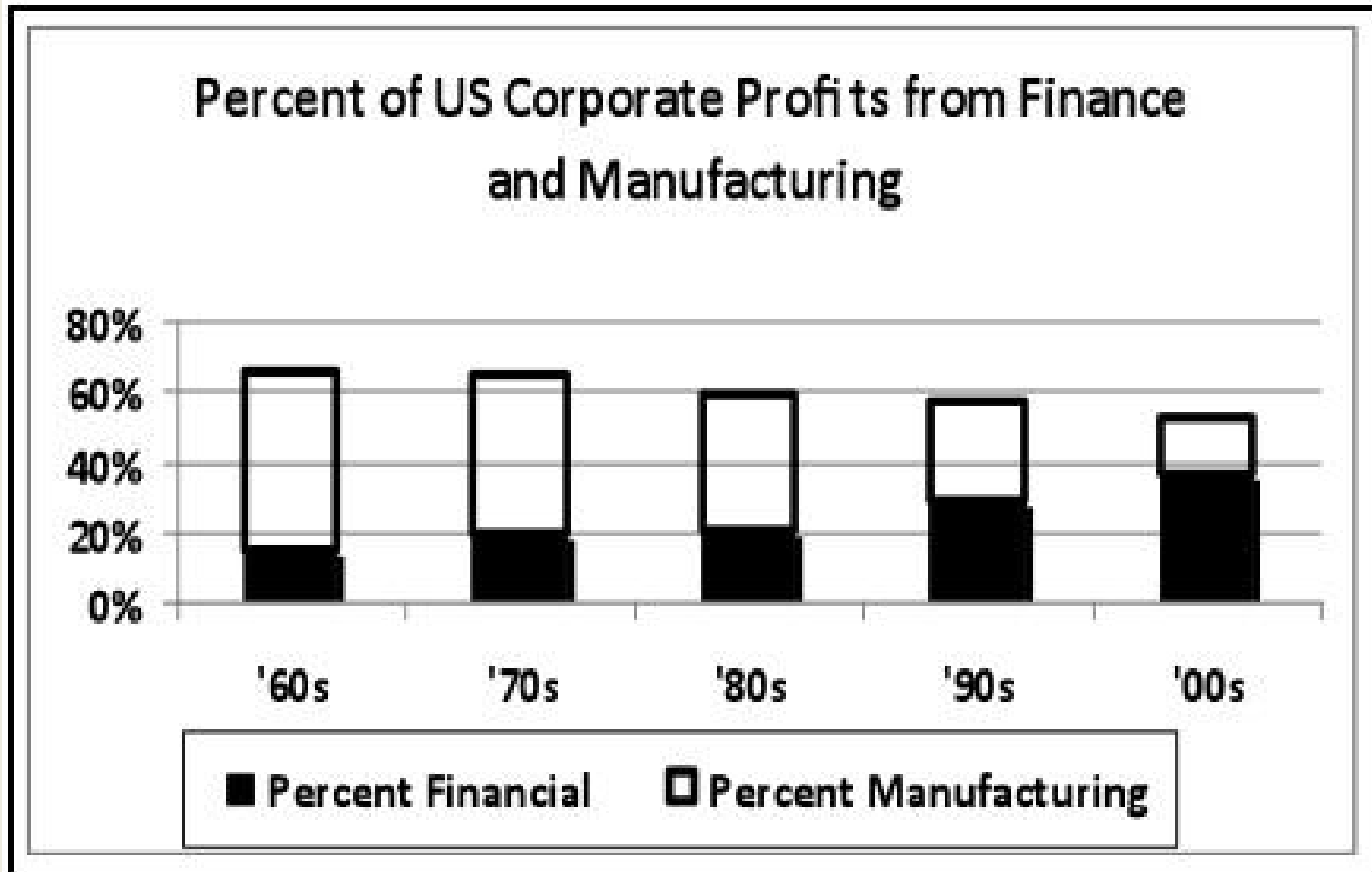
Extent of the Crisis, continued

- **Trillions of dollars spent or committed to bail out banks, AIG, Fannie Mae and Freddy Mac, stimulus package**
- **Banks still not lending to businesses**
- **Feds struggling to create market for bad assets**
- **Crisis has spread to the rest of the world**
- **World economy will shrink this year and perhaps future years**

Decline of U. S. Manufacturing and Rise of Finance Underlie Crisis

- **Two key factors in the crisis: (1) Fall in the rate of profit and (2) Massive inflow of financial capital**
- **Manufacturing in 1960s = 50% of U. S. corporate profits, and finance = 15%**
- **Manufacturing in 2000s = 16% of U. S. corporate profits, and finance = 37%**
- **Main source of profit became speculation, not the real economy**

Speculation Dominates Production



Decline of U.S. Share of World Manufacturing

“Value Added by Manufacture”

	1970	1995	2006
United States	35.0%	23.5%	22.3%
Euro Zone	26.2%	24.4%	21.6%
Japan	10.1%	19.6%	12.8%
E. Asia + Pac	1.0%	7.1%	13.1%
Russ Fed	--	--	2.2%

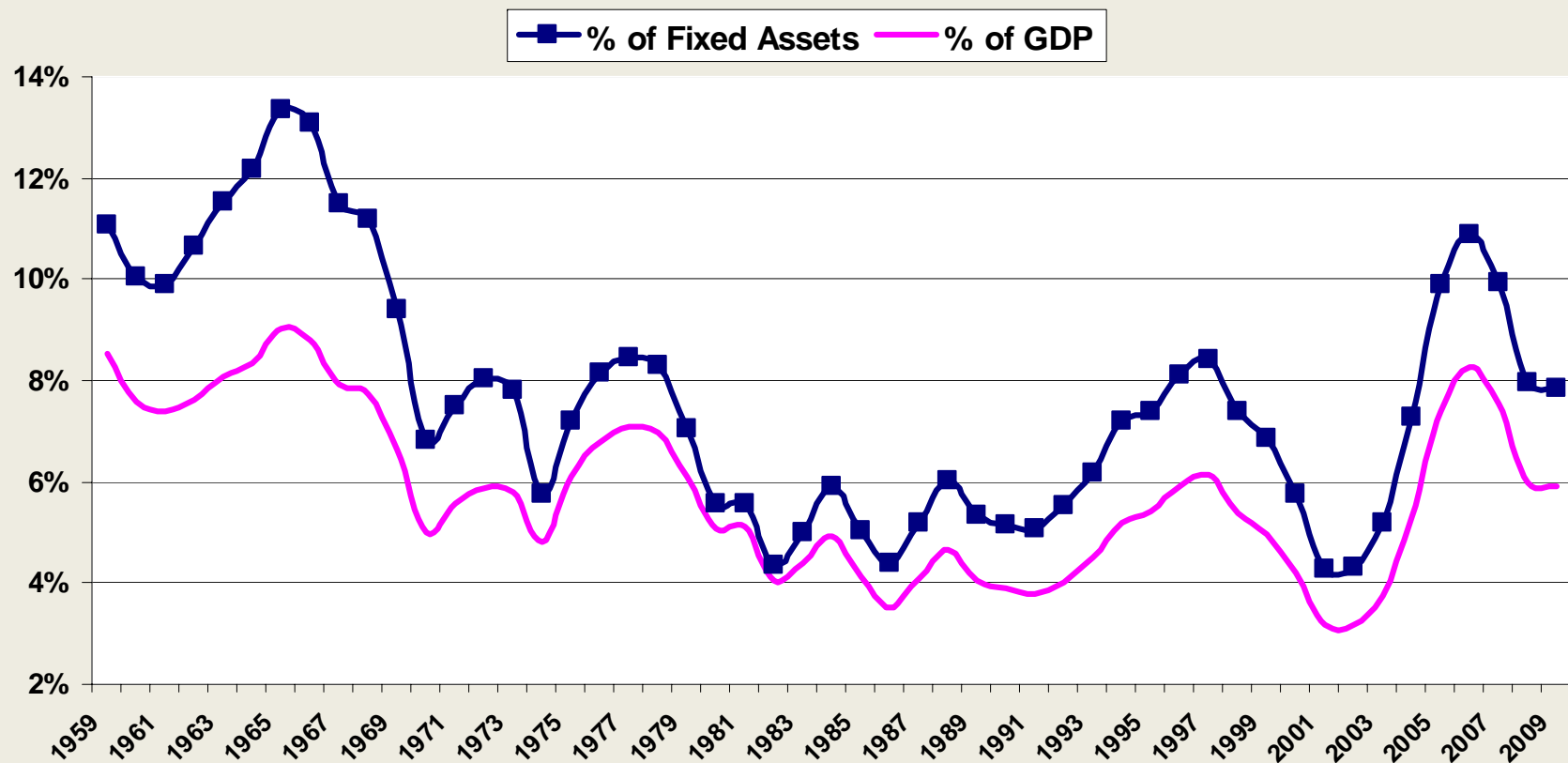
(World Bank Data)

Decline of U. S. Manufacturing

- U. S. % of corporate profits and % of work force in manufacturing has *declined*
- Rate of profit in manufacturing has *declined*
- But U. S. manufacturing output has *increased* because of productivity increases
- Huge *increase* in U. S. imports of manufactured goods from East Asia

Decline of profit rate not limited to manufacturing

U. S. Non-Financial Corporate Profits

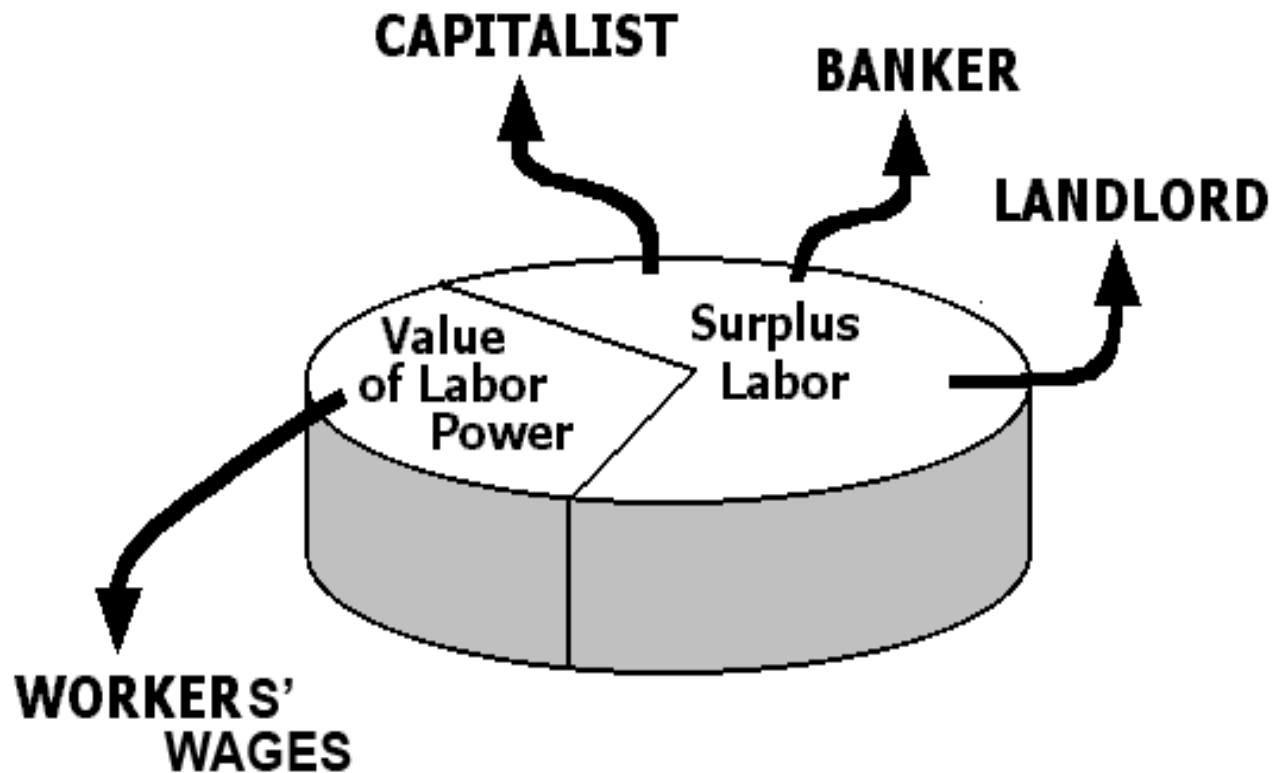


Explaining the falling rate of profit

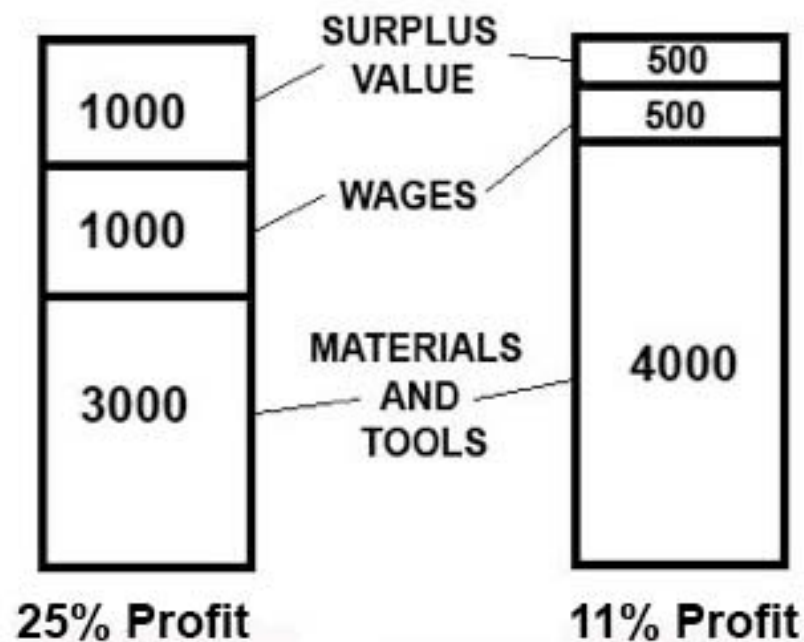
- **The source of profit is surplus labor—labor which workers are not paid for**
- **Competition forces capitalists to use more labor-saving technology and fewer production workers per unit of production**
- **This means less overall profit from a given total investment in production**

All Value Comes from Workers' Labor

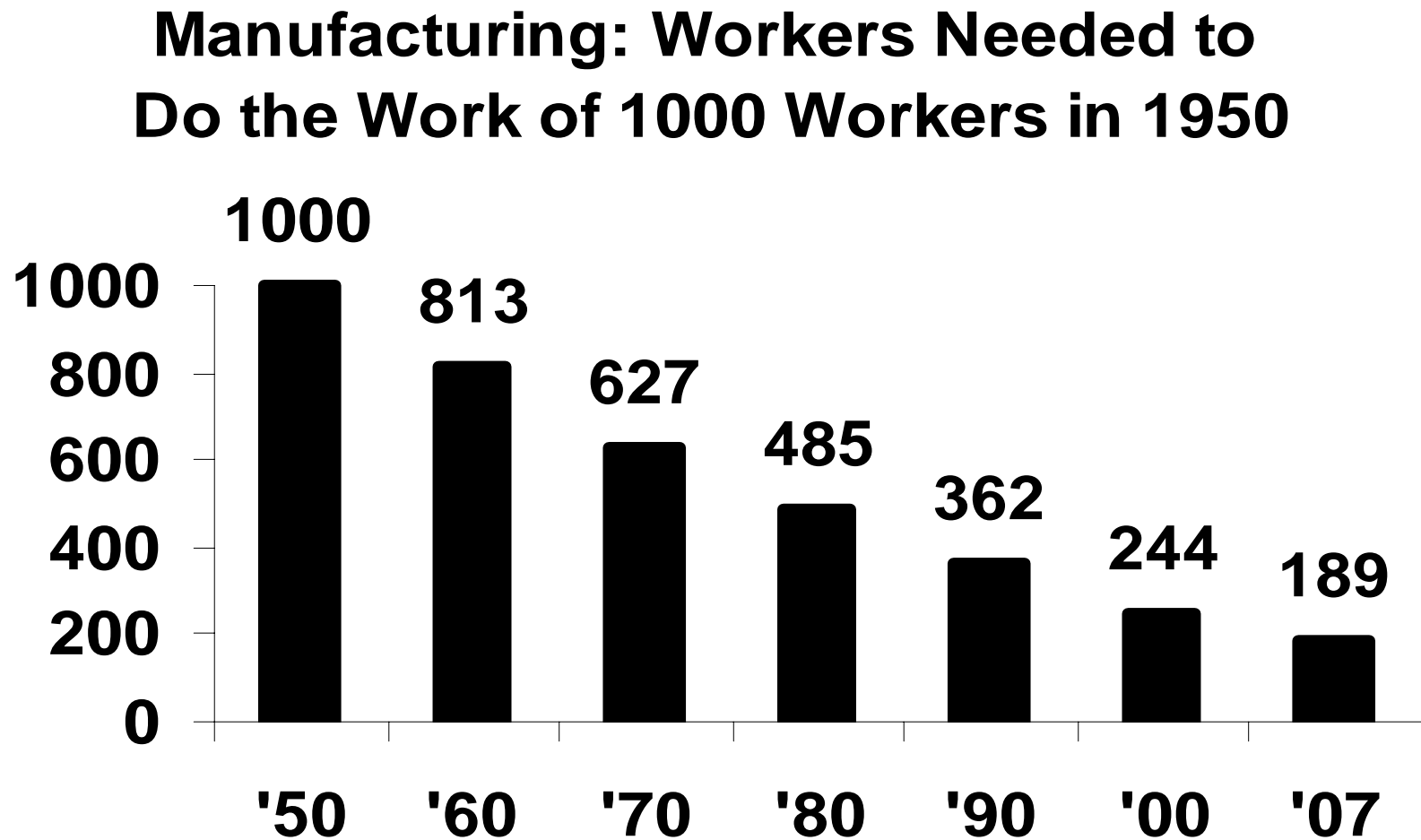
RESULTS OF WORKERS' LABOR TIME



Rate of Profit Falls When Higher Cost Machinery is Used in Production



Fewer Workers Means Less Surplus Value and Less Profit



Marx's formulation of the tendency of the rate of profit to fall

“... at times too much wealth is produced in its capitalistic, self-contradictory forms ... the development of the productive power of labor creates out of the falling rate of profit a law which at a certain point comes into the most hostile confrontation with this development and must be overcome though crises.”

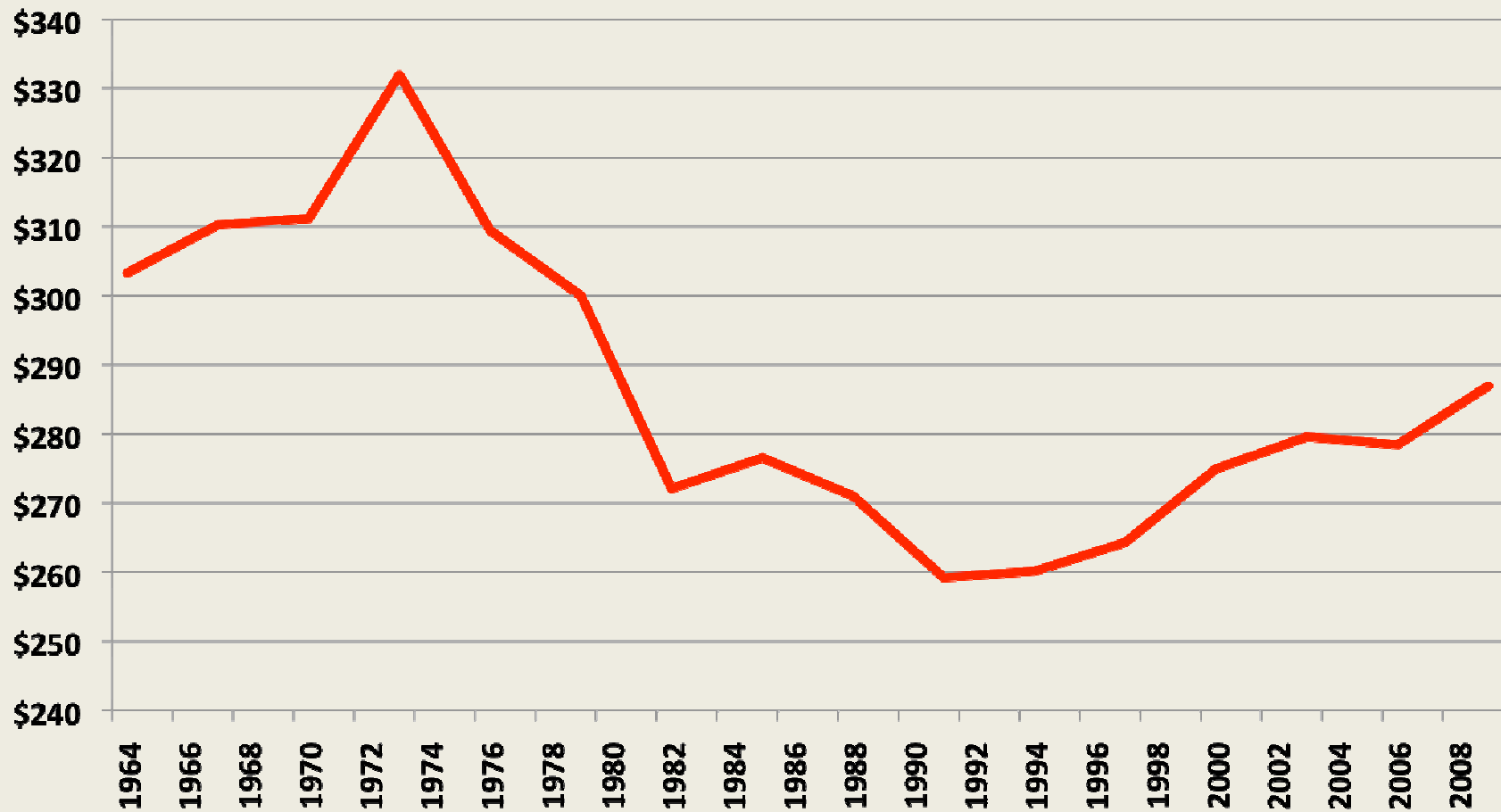
--*Capital*, vol. 3

We need to see why this is so!

Capitalist Economic Response to Falling Profit Rate

- **Lowering wages by attacking unions (Hormel, Patco)**
- **Lowering wages by moving to the South**
- **Lowering wages with racism and sexism**
- **Lowering wages by moving to a lower-wage country (“offshore” production)**
- **Getting into other businesses**
- **All of the above**

Production Workers Average Weekly Wage (1982 Dollars)

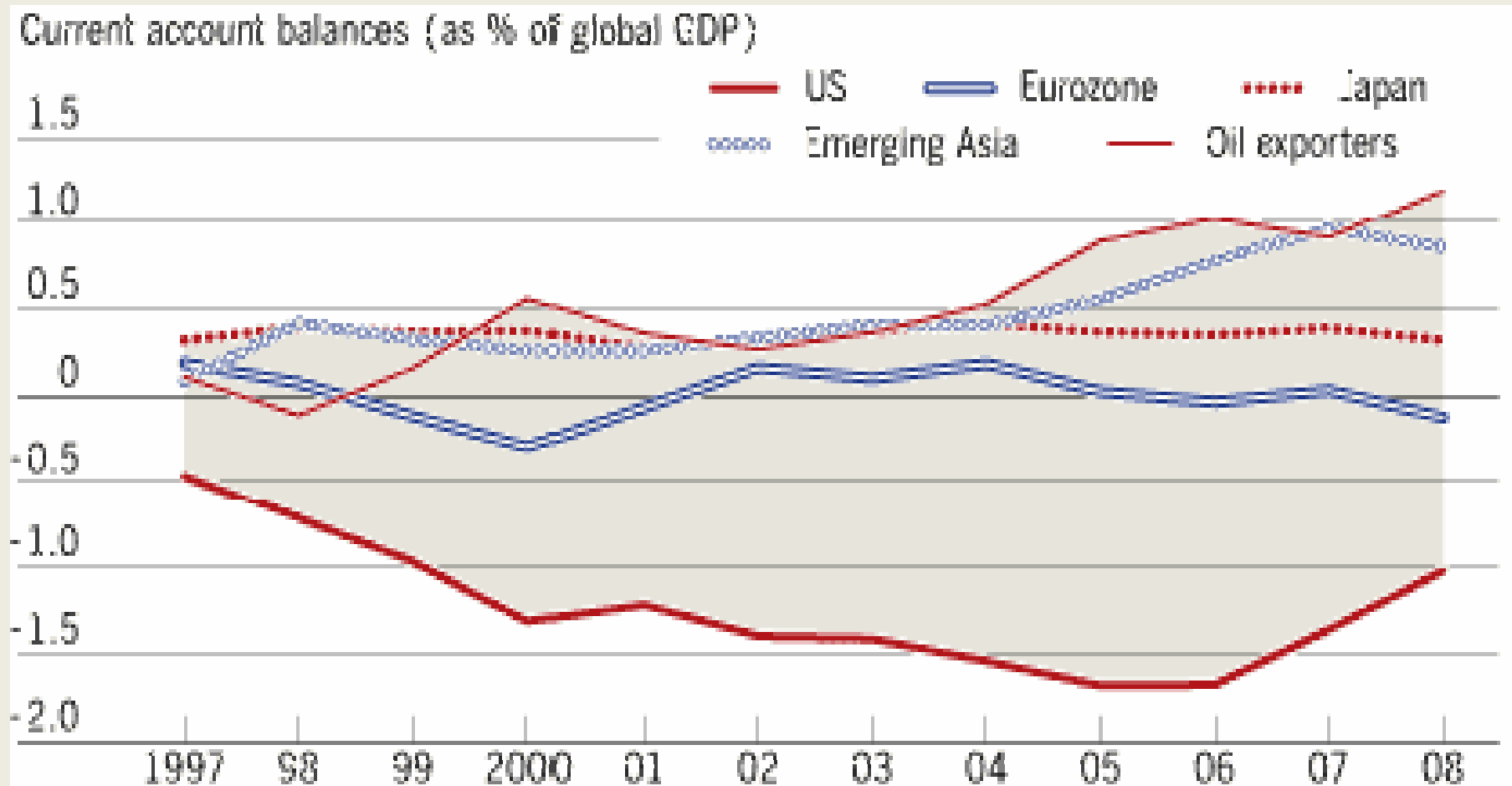


Financial Flows into the U.S.--

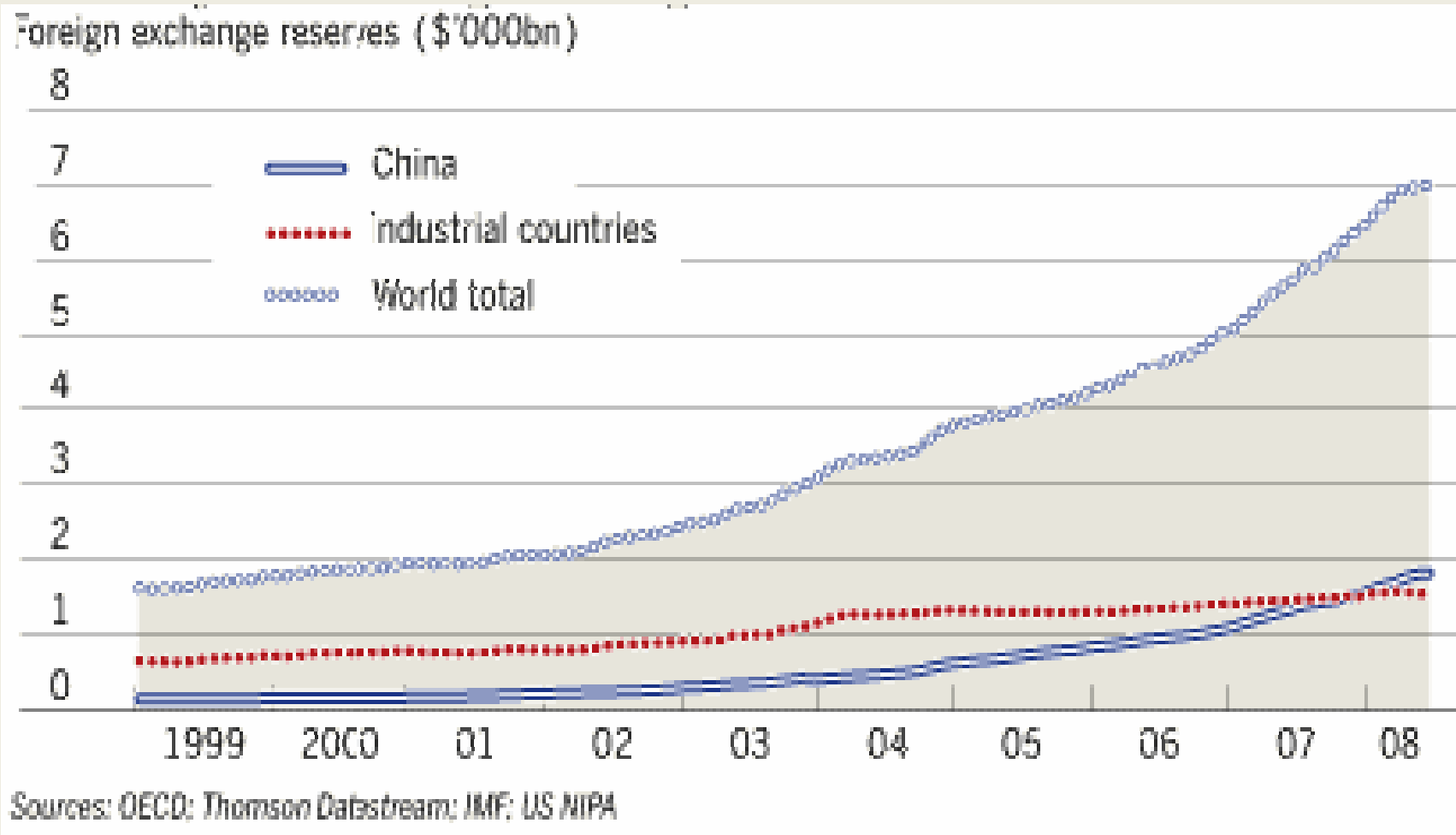
A 2nd main factor in the crisis

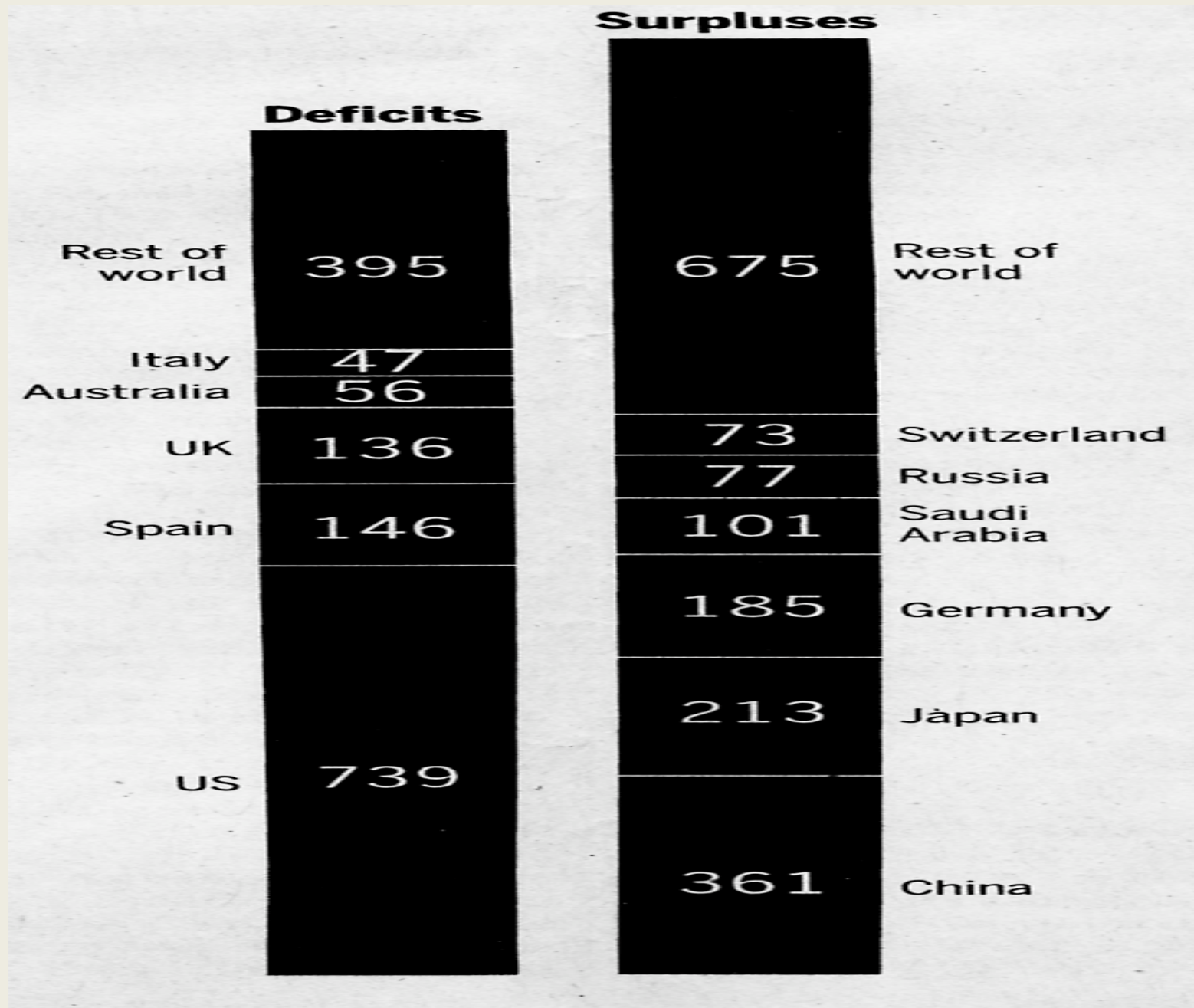
- **Since WW II, Dollar as the “reserve currency” (= safest kind of money for big investments)**
- **From mid-70s, big flow of \$ from oil states, dictated by Nixon admin deal with oil states**
- **From 80s on, big flow of \$ from Asian economies, especially from manufacturing**
- **China, Russia, Germany challenging dollar dominance now**

Huge U.S. current account deficit, but oil states and emerging Asia have surplus



China's foreign exchange reserves bigger than industrial countries'





U. S. Over-accumulation Crisis

- **Low profit rate plus inflow of finance capital = potential for crisis**
- **Low interest rates fuel real estate bubble**
- **KEY FACT: Financial capitalists must accept higher risks in order to get higher profit**
- **KEY PROBLEM: Capitalists cannot manage this risk rationally because of the anarchy of capitalist production**

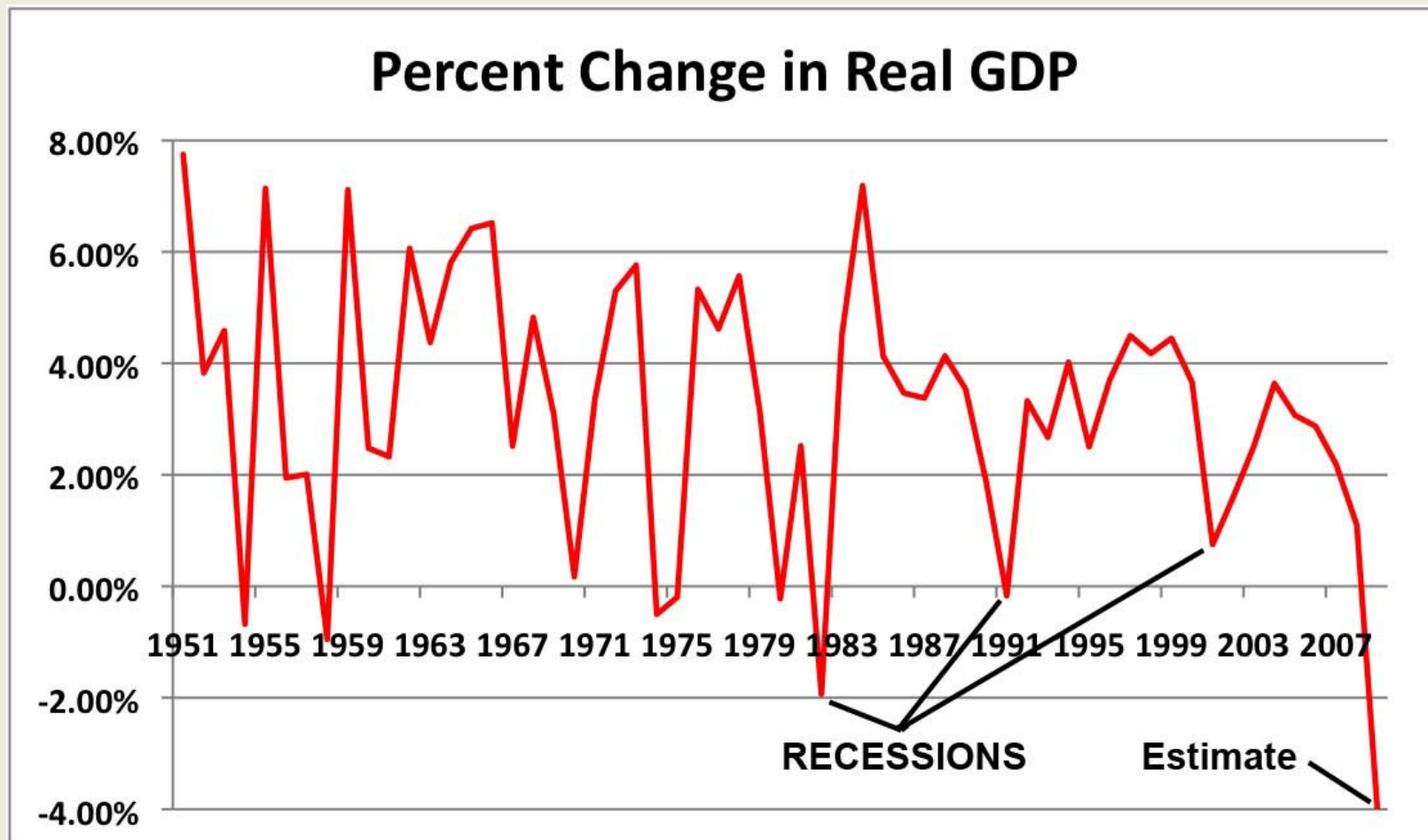
Anarchy of Capitalist Production—a Fundamental Feature of Capitalism

- **Each capitalist has to maximize his profit or be defeated by his competitors**
- **Competitors must sell (or invest) more and more to keep up with the competition**
- **Competing capitalists cannot make a long-term common plan, since they are enemies**
- **Competitors expanding without a common plan inevitably leads to overproduction**

Anarchy of Capitalist Production:

- **RESULT I: *overproduction crises*, when markets cannot absorb the products made (recessions, depressions)**
- **Over two dozen crises since 1825**

Repeated Recessions, depressions are crises of overproduction



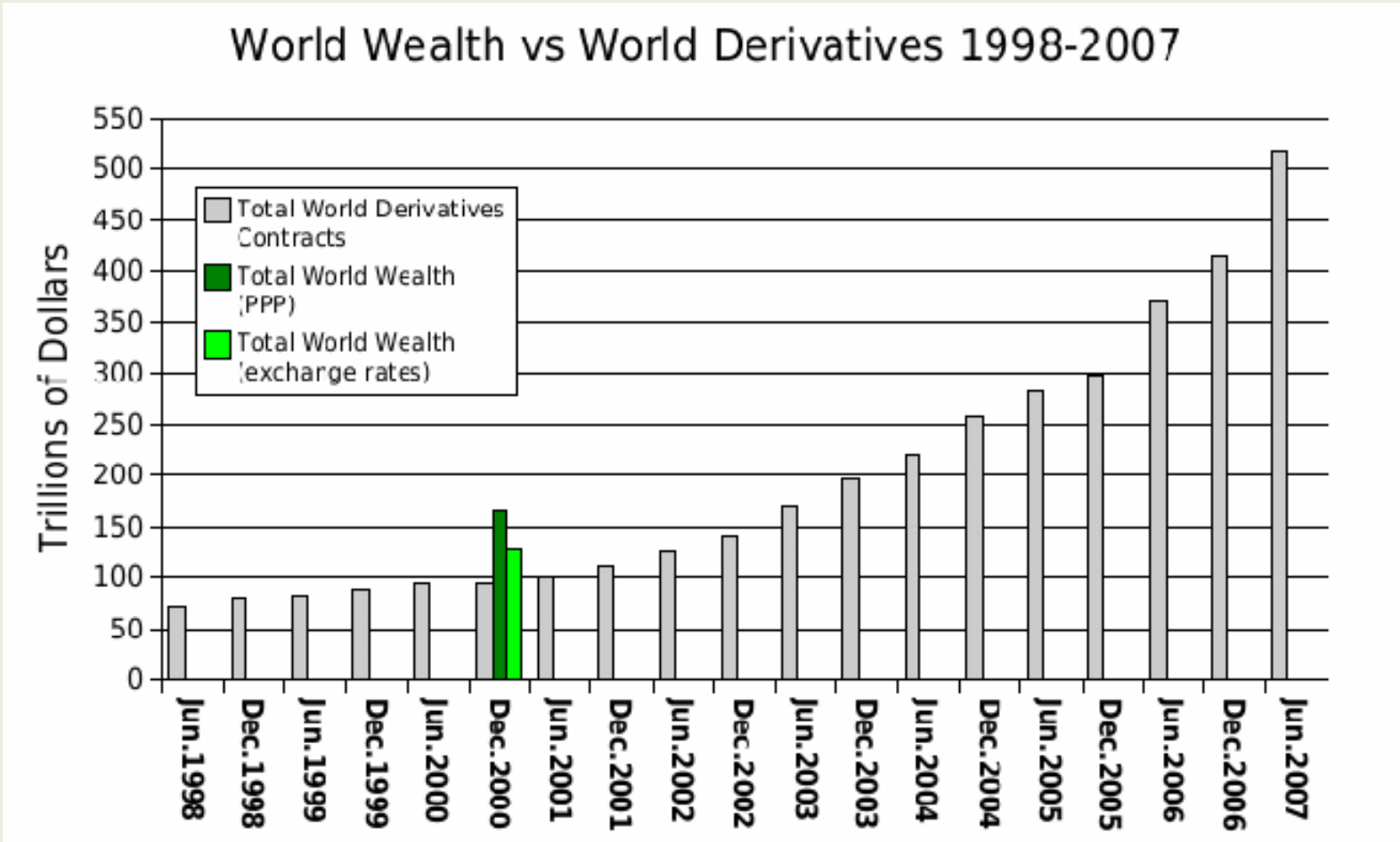
Anarchy of Capitalist Production

Result II: Risk taking

- **Derivatives = Investments that bet on the value of something else: stocks, mortgages, an index, the weather, etc**
- **Derivatives are supposed to *reduce* risk**
- **Farmers sell crops before they grow them**
- **Derivatives can *increase risk* enormously**
- **Betting that a group of mortgages will have few defaults = credit default swap**

Enormous Volume of Derivatives

(Bank of International Settlement Data)



More on Risk and Financial Crisis

- Mortgage-backed securities offer *huge returns* on investment, since the loans can be many times larger than a bank's capital ("leverage")
- Derivatives, especially credit default swaps, backed by very few reserves, are a *huge risk*, a crisis waiting to happen
- Derivatives can *conceal risk*: Mortgage-backed securities and credit default swaps

Fraud and Subprime Mortgages

- **Because of the huge inflow of dollars, interest rates were low in early 2000s**
- **Banks desperately needed ways to make a higher profit and reproduce their capital**
- **Subprime mortgages got them more loans, which they made into securities and got off their balance sheets by selling them**
- **Banks (not just borrowers) committed systematic fraud on these mortgages (“liars loans”)**

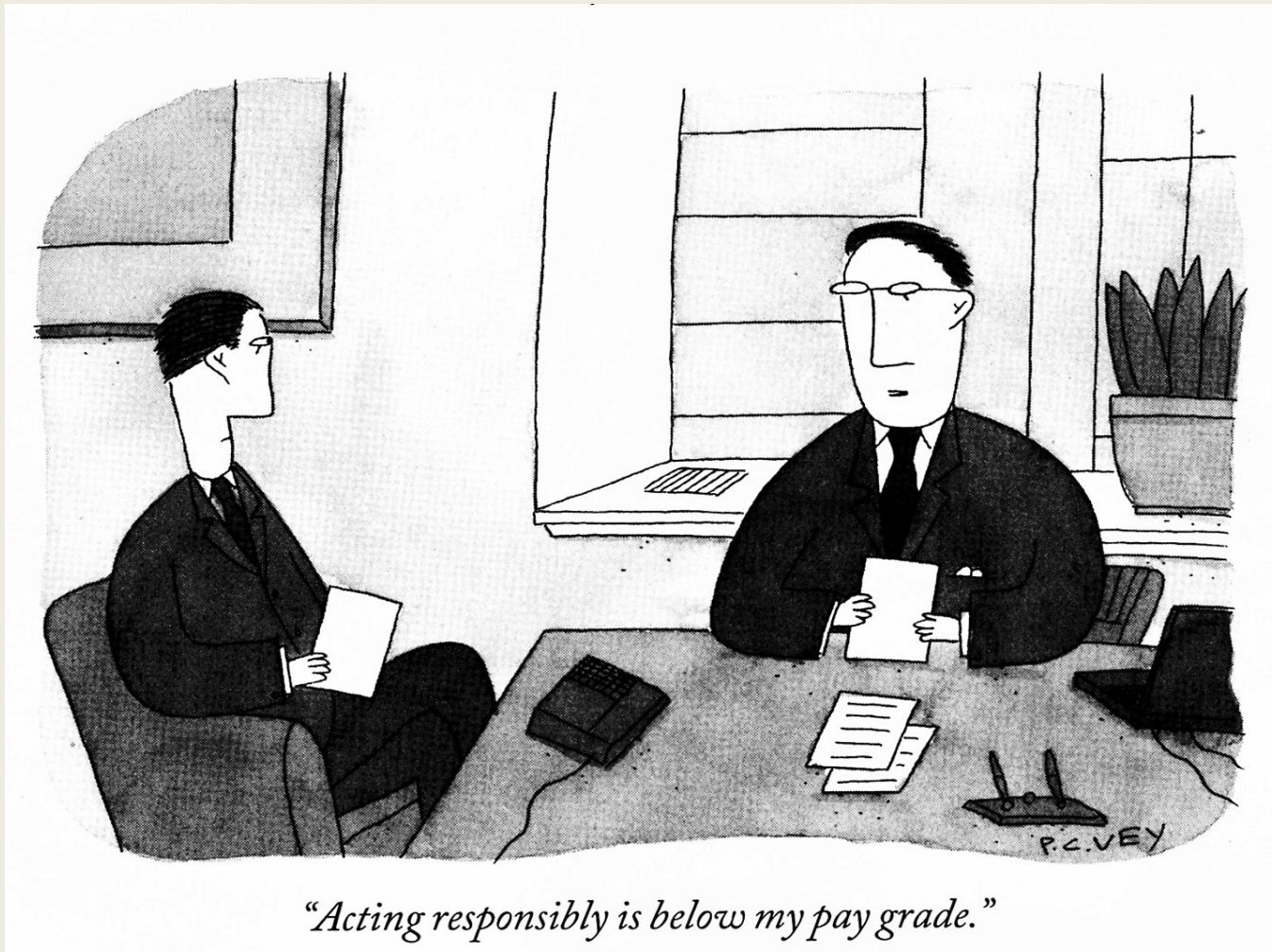
Fraud and Financial Crisis

- **Fraud is a very big risk factor in financial crises:**
- **Junk bond crisis of the '80s, Enron collapse, subprime mortgages**
- **Reason: it is much easier to get people to take risks if they don't know they are taking them**
- **Wall Street loves complex, opaque investments**

Sorrows of the Financial Capitalist

- **They must accept risks, and try to estimate the prices of these risks**
- **The lower the prevailing rate of profit in the real economy, the more risk they must accept**
- **They must persuade others to accept risks, as in mortgage-backed securities in the housing boom, an huge Ponzi scheme**
- **This leads to a strong tendency to “drink the Cool-Aide,” and believe their own propaganda**

Anarchy of capitalist production: Take risks to keep up with your competitors!



Causes of the Housing Bubble

- Low interest rates
- Lack of better investment opportunities
- Eager banks and federal policies
- Illusions about risks of a downturn
- Anarchy of capitalist production
- *The Onion* headline (7/14/08): “Recession-Plagued Nation Demands New Bubble To Invest In”

Can Capitalism Recover?

- **Short answer: “Yes,” but crisis is long and deep, and war is more likely**
- **Without a revolutionary movement to get rid of it, capitalism can keep going indefinitely**
- **Angry, disillusioned people are more willing to listen to the truth about capitalism than before**
- **Neither militant reform nor revolution is an automatic response of the working class, but depends on what we do**

Can Regulation Prevent Crises?

- **Regulation = laws limiting some bad practices or requiring reserves, disclosure, accounting standards, etc**
- **Some re-regulation of the banking system will happen, and extend to other institutions**
- **Nothing alters the fundamental fact of the anarchy of capitalist production**
- **This anarchy is partially and temporarily overcome only during war or under fascism**

The Regulation Cycle

- **Enthusiasm for regulation grows after every crisis**
- **There are always losses from regulation, so enthusiasm doesn't last**
- **Glass-Steagall, passed in 1930s, overturned in 1999, separated banking and investment**
- **G-S was overturned because it held back growth of US banks in competition with foreign banks, which were larger**

Competition versus Regulation

- **After the Enron meltdown, Sarbanes-Oxley regulations designed to make Enron-like fraud more difficult**
- **To escape Sarbanes-Oxley, some companies moved to London, where regulation is looser**
- **Can asset bubbles (like housing) be regulated? Not likely.**
- **How do you recognize a bubble early, and what do you do about it?**

Fundamental Fact: The State is Not Independent, it's Run by Capitalists

- **Regulations are written by the capitalists who will be regulated**
- **The regulators are chosen from the industry regulated**
- **That is why regulation protects the industry regulated, seldom makes it do what it does not want to do**
- **In developed capitalism, finance capital dominates the economy and the government**

Realities of Regulation: Examples

- **Ken Lay, chief Enron criminal, was a big player in Bush's transition team, reportedly with veto power, fought against regulation**
- **Hank Paulson, from Goldman-Sachs, was Secretary of the Treasury under Bush**
- **Robert Rubin, Secretary under Clinton, was also a Goldman-Sachs exec**
- **Tim Geithner, Obama's Secretary, also had Wall Street's blessing**

New, Looser Accounting Standards

- **On April 2, 2009, the Federal Accounting Standards Board decided to let banks value their assets according to a hypothetical “orderly transaction”, not current market value**
- **Raises banks income about 20%**
- **Forced by Congress, responding to the banks**
- **Opposite of tighter regulation**

Keynes Makes Marx Irrelevant?

- **In the '60s, Keynes' ideas on managing the economy were popular with US capitalists**
- **This approach uses tools like big government spending, controls on capital flow, money supply to “tune” the economy**
- **Keynes ideas discredited by “stagflation” of the 1970s—inflation and unemployment**
- **Now Keynesian ideas have been revived**

Keynesian Ideas Do Nothing About:

- **Decline of profitability in manufacturing and other parts of the real economy**
- **Anarchy of capitalist production, and hence asset bubbles and financial crises**

Political and Military Responses

- **Big protests in London**
- **Likely to happen elsewhere (LA teachers)**
- **War for control of oil becomes more important**
- **After compromise at G20 meeting, Obama went to NATO for more troops for Afghanistan**
- **Obama visits Turkey, key Middle East player**

How War “Solves” Economic Crises

- **Resource wars prevent competitors’ access to key materials: oil, metal ores, water**
- **Destruction of rivals economies limits competition and halts global overproduction crises**
- **The ultimate stimulus package: mass mobilization and maximum production**
- **Destroys capital, so resets the falling rate of profit**

Conclusions

- **Crises will never be eliminated from capitalism**
- **Workers' jobs, houses, savings, health, education, children, and pensions are never safe under capitalism**
- **Failures of the U. S. economy accelerate U.S efforts to steal oil all over the world and keep it from rival imperialists (as in Iraq)**

More Conclusions

- **The last big capitalist crisis in the 1930s only ended with fascism and world war**
- **Capitalism offers us: More wars, job losses, wage cuts, entitlement cuts, huge health care costs, greater racism, big school cutbacks**
- **We need to promote a big movements against public service cuts, job losses, escalating wars, and bring revolutionary ideas to them, since these reforms cannot solve the problem**