Financial Hurricane

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The most serious finan-cial crisis since the Great De-pression shows no sign of letting up. The financial edifice of US in danger of crumbling. The US ruling class is confronting what Federal Reserve chairman Ben Bernanke describes as a crisis of "historic proportions"-and is hurriedly cobbling together desperate measures to prevent wholesale collapse. Three of the largest independent investment banks on Wall Street have ceased to exist since April. The government had to assume a major stake in the American International Group (AIG), the world's largest insurer, to prevent it from collapsing. Now the US Treasury is considering taking ownership positions in major US banks.

This crisis is amplifying internationally. Western Europe is facing large bank failures and governments are engineering their own bailouts. The Russian stock market has intermittently suspended operations. Financial markets in Asia have nose-dived. Mexico's economy is wobbling, as its exports shrink.

Two things stand out about this crisis. First, there is the ferocity of its global shocks and the speed with which it has spread. Second, unlike the debt and financial crises of the last 30 years, which were largely centered in the Third World, this crisis initially exploded in the US, the world's leading capitalist economy, and is focused in the financial centers of world capitalism.

US-led finance, which plays a dominant and shaping role in the global capitalist order, has taken a huge body blow. This will have enormous repercussions, not just for the stability of the world capitalist system but for power shifts and rivalries within it.

Many progressive commentators have put the blame for this crisis on fraud and greed, or on lax regulation. All of which are certainly in play. But these explanations do not get to the essence of what is happening, to the cause of the problem. This crisis is the outcome of the fundamental workings of the capitalist system.

The analysis that follows is framed by these core points:

1) There is an essential relationship between the vast enlargement of the financial sector in the US, and the general phenomenon of financia-lization, and the deepening globali-zation of capitalist production of the last 15 years. And central to this dynamic has been the relationship between US imperialism and China.

2) Through the course of this growth and expansion, severe imbalances have built up between the financial system- and its expectation of future profits-and the accumulation of capital, that is, the structures and actual production and reinvestment of profit based on the exploitation of wage-labor.

3) A "dirty little secret" of this crisis is the enormous weight of militarization of the US economy.

4) This crisis is a concentrated expression of the anarchy of capitalist production-the fact that production is not carried out according to any conscious, rational plan at the society-wide level, much less at the international level.

BACKGROUND TO CRISIS

In the early 2000s, in the aftermath of the collapse of high-tech stocks, the US Federal Reserve Bank sought to stimulate lending and growth. It lowered interest rates and pumped funds into the banking system. Banks had access to cheap and plentiful credit. And through deceit and aggressive marketing, they pushed mortgages on people. The Federal Reserve continued to inject low-cost funds into the banking system-helping to prop up loans and to fuel a long-term speculative housing bubble.

Banks sold these mortgages to investment banks. The investment banks in turn bundled these loans together with other loans, created complex financial products, and sold them to large investors-in the US and in other parts of the world, especially Western Europe. These mortgage-backed securities, as they are called, circulated in financial markets and became the basis for other loans. The ultimate collateral for this chain of borrowing and lending was the original mortgage loans. So when housing prices fell, and as growing numbers of mortgage holders found themselves unable to pay back housing loans, much of this original collateral became nearly worthless.

This whole process is an obscene example of how under this capitalist system something as basic as human shelter becomes a financial instrument and object of speculation. This has led to a situation today where 1 in 6 US homeowners owe more on a mortgage than their home is worth; where 1 in every 65 households in California is in some phase of foreclosure; and where a disproportionate number of Black and Latino families who have been victimized by predatory lending have experienced incredible losses of what little wealth they had.

AIG had made enormous profits internationally by selling insurance to investors who held many of these mortgage-backed securities. These investors would be repaid by AIG, in the event that the loans that were bundled into these financial packages they had purchased were defaulted on—could not be paid back. But by mid-September, AIG could neither cover massive loan damage nor borrow sufficient funds on the financial markets to keep itself afloat. AIG was so interconnected with other major financial players that if the company went under, it would likely have taken others down.

In the face of mounting financial crisis, the state intervened. It acted as the representative of capital and as the guardian of the interests of capital. The US ruling class was faced with a twofold danger: mounting losses and bankruptcies in the financial sector; and the choking up of lending channels, which could send the economy into a rapid downward spiral.

The government basically took over AIG. And on September 19, the Treasury Secretary Henry Paulson announced a $700 billion bailout. The essence of the rescue package was that the government would buy the troubled mortgage-backed securities sloshing about in the financial system and through this get lending going again. But the announced bailout did not unblock credit markets or calm stock markets. Nor has it restored international confidence in the US economy.

TAKING A STEP BACK

This crisis broke out in the banking system. Its more immediate trigger was the popping of a speculative real estate bubble, cascading losses in the financial sector, and the inability of stricken financial institutions to raise capital and the unwillingness of others to lend capital.

At a deeper level, this crisis is the outcome of a particular trajectory of world capitalist growth.

There has been a massive *new wave of globalization*. One of the most significant features of world growth and expansion of the last 15 years has been the deepening integration of the world capitalist economy. This is happening both on the level of production and trade—like the parts that go into a computer being manufactured in different parts of the world; and in the case of an iPod being totally manufactured in China. And it is happening on the level of finance—where banks operate globally and are more tightly interlinked with one another through chains of borrowing and lending and even, as in the case of AIG, insuring risks of lending.

This new wave of globalization has involved direct productive and financial investments abroad. It has involved the expansion of outsourc-ing and subcontracting. And central to all of this has been the fuller integration of export producing countries of the Third World into the world capitalist market-and the forging of a globally-integrated, cheap-labor manufacturing economy.

40 percent of the imports coming into the US are accounted for by US transnational corporations-and this does not even include the subcontracting done by companies like Walmart. 30 percent of US corporate profits are generated overseas. China, which has evolved into the high-profit workshop/sweatshop for international capitalism, has been at the epicenter of this recent surge of globalization.

From the standpoint of the needs of profitable globalization, various elements of deregulation—for instance, the lifting of barriers to rapid shifts and transfers of capital—were functional. This is why both Republicans and Democrats have promoted deregulation. Indeed, the Clinton administration in the 1990s played a decisive deregulating role. It negotiated so-called free-trade agreements with Third World countries and helped to loosen strictures on US banking and telecommunications.

The trajectory of capitalist growth of the last 15 years has also involved *heightened financialization*. On this platform of more globalized production and exploitation, the financial services sector in the advanced capitalist countries mushroomed.

On a turbo-charged global playing field of ever-more mobile and massive flows of investment capital-where the stakes of winning and losing are enormous-capital requires all kinds of risk management. Investment banks and other financial institutions provide such financial services to "hedge" against interest rate variations, currency fluctuations, and other sources of volatility and loss. At the same time, financial activities became a greater source of short-term and speculative profits. In an intensely competitive atmosphere for financial market share, investment banks were creating evermore complex and exotic financial products. Global financial assets increased from $12 trillion in 1980 to nearly

$200 trillion in 2007, far outstripping the growth of world output or the expansion of trade.

Growth in the advanced capitalist countries over the last 15 years became increasingly finance-led and credit-driven. The US has been at the core of this process of heightened financialization. By 2005, the manufacturing sector of the US economy had fallen to 12 percent of the US gross domestic product (the production of goods and services), while the financial services sector made up of finance, insurance, and real estate had grown to 20 percent. In 1982, the financial sector's share of total corporate profits was just over 5 percent; in 2007, the financial share of corporate profits had skyrocketed to 40 percent!

CONTRADICTIONS

These interrelated processes of globalization and financialization ultimately led to unsustainable imbalances and instabilities. The dynamics that fueled growth have generated new barriers to profitable accumulation of capital. Strengths have turned into vulnerabilities.

These include:

- Bloating of the financial sector relative to the productive base.
- Huge run-up of debt and US trade and Government deficits in the US necessitating massive and uninterrupted inflows of capital from around the world, with the central banks of Japan and increasingly China holding huge amounts of US Treasury debt.
- Billions upon billions of dollars of paper assets that cannot be transformed into real, productive and material, assets.

US consumption and borrowing stimulating China's growth but China's breakneck manufacturing growth further fueling US trade deficits and intensifying competitive pressures throughout the world economy. Financial institutions attempted to reduce risk and to profit from risk by dispersing more varied financial instruments over a wider field of investors internationally. But this process has drawn investors, these very institutions, and now governments into a vortex of vulnerability and crisis. The heightened globalization of production and markets, the closer intertwining of economies, has created conditions for faster and even more extensive ripple effects of crisis throughout the world.

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A strategic concern of the US ruling class is the international strength of the dollar. The dollar is the world's leading currency for settling transactions, clearing debts, and holding foreign exchange reserves (trade and investment earnings that become part of the reserves of foreign central banks). The dollar has been a linchpin of US global supremacy and of the whole current global economic order.

The dollar is also an investible commodity-major currencies are bought and sold and traded on international currency markets. The value of the dollar rises and falls in relation to other currencies, and in response to international political and economic trends and developments. If foreign central banks and investors were to significantly shift away from dollar holdings, this could set off a global monetary crisis and/or strengthen the position of rival currencies (like the euro) and rival powers as well.

These are uncharted waters for US policymakers: in the scale and complexity of the crisis...in the magnitude of the rescue operations required to prevent financial break-down...and in the rapidity with which this crisis is unfolding. A Harvard research economist put it this way: "like the sorcerer's apprentice, we have created things we do not understand and cannot easily control."

US has limited maneuvering room. America is already the largest debtor country in the world. It is waging costly wars for greater empire in Iraq and Afghanistan.

US has attempted to parlay its superior military strength into a new world order and to lock in its global supremacy for decades to come. Defense and defense-related spending totaled more than $1 trillion in fiscal 2008. And military-related production and research have long been deeply embedded in the US economy. The whole imperialist system rests on the domination of vast swaths of the globe through savage force, with the US military colossus playing a special role. The costs of forcibly preserving and extending the US empire is one of the dirty little secrets of the dynamics of this crisis that scarcely gets talked about.

Here an important dialectic comes into play. "US military dominance," writes Kenneth Rogoff, former chief economist for the International Monetary Fund, "has been one of the linchpins of the dollar." But this military dominance and the wars the US is waging have increasingly come to depend on the steady inflow of foreign capital into the US (to the tune of $3 billion a day). For this to continue requires that the US economy and dollar remain stable. This is a major contradiction for US.

US is facing new competitive challenges and the emergence of potential rival constellations of imperial and big powers-vying for market shares, control over energy resources, and geopolitical position.

EMERGENCY CAPITALISM

People are losing their homes. Retirement savings plans since the middle of 2007 have lost 20 percent of their value with the stock market sinking. Funding for vitally needed social programs and services at state and local levels is being pinched by the financial crisis and economic slowdown. In much of the Third World, food prices soared over the last year, this is partly related to financial speculation, and hunger has spread.

While the futures of millions are in jeopardy, what is the paramount concern of those at the top of the pyramid of economic and political power? It is the protection of a financial system that sits atop a global system of exploitation; it is the rescue of the owners and investor beneficiaries of that system.

This is not "socialism for the rich" or a bailout for the people. It's emergency capitalism for the capitalist class: injections of funds and guarantees, government takeovers, cost-cutting, selective liquidations, restructuring of regulations; and it's more brutal capitalism for everyone else: austerity, more intense international exploitation, and more misery for people throughout the world.

The official story line is that this crisis issues from particular flaws and malpractices that can be corrected: "excessive greed," "Wall Street irresponsibility," "outdated" or " unenforced regulations."

The truth is that this crisis has deep structural causes in the very nature of the system-in the quest for profit, not the satisfaction of human need, and in the anarchic workings of world capitalism. [Source : ☼♏❖□●◆⧫♓□■✍ ♋♒♓♍♋♑□❁ □□□