Newsweek International editor's "Capitalist Manifesto"

A desperate attempt at reassurance

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Fareed Zakaria, editor of *Newsweek International*, has written an essay entitled "The Capitalist Manifesto: Greed is Good (To a point)", which is intended to express relief that the panic engendered by the global financial crisis is easing, and to offer reassurances that, for all its faults, capitalism is still "the most productive economic engine we have yet invented."

The problem with this claim that all is, again, for the best in the best of all possible worlds, is that far from the crisis having ended, it is only just beginning to unfold.

Zakaria begins by drawing comfort from the fact that the financial crises of the past 20 years were all overcome, leading to further economic growth. The stock market crash of 1987 defied predictions of a return to the Great Depression and "turned out to be a blip on the way to an even bigger, longer boom." The 1997 Asian financial crisis did not lead to a global slump. Instead, the Asian economies "rebounded within two years". The collapse of Long Term Capital Management in 1998, described by then US Treasury secretary Robert Rubin as "the worst financial crisis in 50 years", did not result in the end of hedge funds. Rather they have "massively expanded" since then.

How were these earlier crises overcome? As Zakaria notes, US Federal Reserve chairman Alan Greenspan always advanced the same solution: cut interest rates and provide easy money, creating a series of asset bubbles.

When the subprime crisis developed in 2007, Fed chairman Ben Bernanke followed the same procedure. However, on this occasion, interest rate cuts failed to alleviate the crisis. The Fed initiated its injections of liquidity in August 2007, but the situation only worsened. The investment bank Bear Stearns went under in March 2008, followed by the collapse of Lehman Brothers in September and, by the end of 2008, notwithstanding massive injections of liquidity, all five Wall Street investment banks had either collapsed or been forced to restructure. The global financial system was on the brink of a meltdown.

This alone demonstrates that, far from the happy scenario painted by Zakaria—this crisis is just like the others since 1987—the collapse that began in 2007 marked a qualitative turn in an ongoing process.

Zakaria is forced to acknowledge that the global financial system has been "crashing more frequently over the past 30 years than in any comparable period in history". But he insists that the problem is not with the profit system itself. "What we are experiencing is not a crisis of capitalism. It is a crisis of finance, of democracy, of globalization and ultimately of ethics."

In the first place, the separation of capitalism from each of these phenomena is absurd—as if the capitalist mode of production could somehow be lifted out of the historical situation in which it is situated; as if it does not shape the socio-political environment in which it operates, including the prevailing ethics.

Let us examine each of Zakaria's explanations of the crisis in turn. He insists, along with many others, that the fault lies with the operations of the financial system.

"Finance screwed up, or to be more precise, financiers did. In June 2007, when the financial crisis began, Coca-Cola, PepsiCo, IBM, Nike, Wal-Mart and Microsoft were all running their companies with strong balance sheets and sensible business models. Major American corporations were highly profitable, and they were spending prudently, holding on to cash to build a cushion for a downturn."

The separation of finance (the bad side) from the rest of the capitalist economy (the good side) has a long history. It was taken up by Marx in his withering critique of the French petty-bourgeois anarchist Proudhon more than 150 years ago. As Marx explained then, the "bad" side cannot be separated from the "good", especially as it turns out that, more often than not, the "bad" side is the driving force of historical development. And that is the case in the current situation. The development of American capitalism—and the global economy—has been grounded on the vast changes associated with the processes of financialisation that began in the 1980s.

A few figures illustrate what has occurred. In 1980, financial firms accounted for about 5 percent of total corporate profits. By 2006 this had risen to around 40 percent. On a global scale, financial assets in 1980 were roughly equal in value to world gross domestic product. Twenty-five years later they constituted 350 percent of global GDP. At the heart of this transformation has been the accumulation of finance sector debt in the US economy. It rose from 63.8 percent of GDP in 1997 to 113.8 percent in 2007—a result of the banks and financial corporations plunging ever deeper into debt in order to fund their debt-based financial operations.

The rise and rise of financialisation was not simply a policy choice, but a response to a crisis in the capitalist accumulation process that had developed in the late 1960s and 1970s. Faced with a downturn in the rate of profit, American capitalism undertook a major restructuring program from the end of the 1970s onwards. This involved the destruction of large swathes of manufacturing industry, a concerted assault on the social position of the working class, the development of off-shoring and outsourcing to take advantage of cheaper sources of labour, and a turn to financial manipulation, such as hostile takeovers and mergers, as the source of profit.

New mode of accumulation

The transformation of the American economy in the 1980s saw the emergence of a new mode of accumulation, in which profits were made through the appropriation, by financial methods, of already created wealth. Historically, wealth had been accumulated in the US economy through investment, trade and manufacturing. Now the driving force of accumulation became rising asset prices. This has determined the shape of the US economy, and the accumulation of profit by all sections of capital—even for those not immediately connected to finance.

Back in the 1950s and 1960s, manufacturing firms based on assembly-line production were not the largest component of the American economy. But the vast increases in profitability that these methods made possible created the conditions where all sectors of capital could expand. This was a society dominated by what sociologists have called a "Fordist regime" in which, as former GM CEO Charles Wilson famously noted, "what was good for the country was good for General Motors and vice versa."

In the past 25 years, the fundamental role once played by assembly-line manufacturing in the American economy has been assumed by finance capital.

No matter how sound or well-run an individual capitalist firm may be, the accumulation of profit is a social process. Each firm depends for its expansion on the growth of the economy as a whole. And in the US, finance capital has been the driving force.

Any attempt to separate the "bad" side from the "good" collapses upon even a cursory review. Zakaria points to various corporations as part of the "good" side of American capital. One of them is Microsoft. But one of the chief sources of Microsoft's profits has been the sales of the computers and software programs that have powered the finance sector. Consider Nike and Wal-Mart. They have profited by exploiting cheap labour in China and other countries, under conditions of globalised production. But these operations, involving complex financial relationships, would have been impossible without the growth of financial derivates. At the same time, Nike and Wal-Mart could not have remained profitable without the rise in US consumer debt—much of it from housing finance—that has sustained American consumption spending in the face of stagnant or declining real incomes over the past quarter century.

The essential significance of the global financial crisis is that it marks the breakdown of the mode of accumulation that has prevailed for the past 25 years.

Financial assets derive their value, in the final analysis, from their claim upon the production of real wealth. Shares are an obvious example. The share is a claim to a portion of a stream of income generated by a particular company. But this share can be bought and sold, and its value may increase in the market in excess of the value of the underlying asset.

The fact that financial assets have expanded almost four-fold in relation to global production over the past two and a half decades means that all their claims to real wealth cannot be met. This disparity is expressed in the emergence of so-called "toxic assets" on the books of the banks and finance houses—claims to income and wealth that are essentially worthless.

In other words, the crisis is not one of liquidity, i.e., lack of sufficient funds to ensure the functioning of an otherwise healthy system, but of insolvency. Its dimensions are indicated by the fact that to restore the parity that existed in 1980 between the value of financial assets and global GDP would mean wiping out financial asset values equivalent to twice global GDP.

These figures make clear the meaning of the bailout and stimulus packages launched by governments around the world. They have nothing to do with maintaining the jobs and living standards of the working class. Rather, they are aimed at transferring as much as possible of the massive debts and "toxic assets" amassed by the financial corporations and banks to the state.

It is precisely this state rescue operation that has boosted stock markets over the past three months and enabled Zakaria to breathe a sigh of relief. As a recent article in the *Wall Street Journal* noted, one of the main reasons for the more than 30 percent rebound is "disarmingly simple". Financial markets are "awash in government cash" as a result of the biggest combined financial stimulus the world has seen in modern times.

The US government has already pledged $12.7 trillion in support of the financial system, almost equivalent to America's gross domestic product. Since the financial crisis intensified in September 2008, governments worldwide have committed $18 trillion in public funds, equivalent to almost 30 percent of world GDP, to recapitalising the banks. This has led to a blowout in their fiscal position.

In Britain, government debt is expected to soon reach 100 percent of GDP while Japan's government debt is headed for 200 percent by 2011 and government debt in the US is expected to reach 100 percent of GDP by the same time. According to IMF economists, by 2014 public debt to GDP ratios in the G-20 economies, comprising some 85 percent of the global economy, will have increased by 36 percentage points of GDP compared to the levels at the end of 2007.

A new political regime

Government finance, however, cannot go on indefinitely. The debts incurred by the state to finance the banks will be paid through slashing government spending and social services and forcibly impoverishing the working class. The scale of this assault on social conditions and living standards will be directly proportionate to the size of the sums of money involved. According to one estimate in Britain, consumption there will have to be reduced by at least 20 percent from its level in 2006-2007 to make even a start on balancing the government's books.

Zakaria points to the "terrifying" growth of government debt in America, especially when entitlements and pension commitments are included, and remarks that "no-one has tried seriously to close the gap, which can be done only by (1) raising taxes or (2) cutting expenditures."

"This is the disease of modern democracy: the system cannot impose any short-term pain for long-term gain." The political implications are clear: it is impossible to impose the massive spending cuts and rises in revenue needed to wipe off government debt within the present political order. Restructuring the US and other major capitalist economies requires a new, far more repressive regime.

Zakaria goes to extraordinary lengths in his attempt to claim that capitalism is not the cause of the crisis. The real problem, he insists, is not failure, but too much success. The world has been moving to "an extraordinary degree of political stability"; there is no major military competition among the great powers; political violence is on the decline. Given the wars being conducted by the US in Iraq, Pakistan and Afghanistan, such an assertion can only be described as absurd. As for the subsidence of great power rivalry, one need only point to the constant and growing concern in US policy-making circles about the rise of China.

However Zakaria is not going to let facts get in the way of the story he wants to tell. Political stability, he claims, has been accompanied by a reduction in inflation, economic growth and the establishment of a global economic system. It is these "good times" that made people complacent, and, as the cost of capital sank, more foolish. "The world economy had become the equivalent of a race car—faster and more complex than any vehicle anyone had ever seen. But it turned out that no one had driven a car like this before, and no one really knew how. So it crashed."

What of the future? "The real problem," he continues, "is that we're still driving this car. The global economy remains highly complex, interconnected and imbalanced. The Chinese still pile up their surpluses and need to put them somewhere. Washington and Beijing will have to work hard to slowly stabilize their mutual dependence so that the system is not being set up for another crash."

In other words, while the crisis is over, all the conditions that produced it are still present, and nowhere nearer to being resolved.

Lenin once remarked that the power of Marxism is that it is true. Every so often, even conscious opponents of Marxism are forced, by the very logic of objective facts, to point to processes that form the centre of Marxist analysis. This is the case here.

According to Zakaria: "More broadly, the fundamental crisis we face is of globalization itself. We have globalized the economies of nations. Trade, travel and tourism are bringing people together. Technology has created worldwide supply chains, companies and customers. But our politics remains resolutely national. This tension is at the heart of the many crashes of this era—a mismatch between interconnected economies that are producing global problems but no matching political process that can effect global solutions."

The Marxist movement has long identified as one of the central contradictions of world capitalism that between the global development of the productive forces on the one hand, and the nation state system on which the legal and political superstructure is based, on the other. It is this contradiction that renders socialism, based on the development of an internationally planned economy, an historic necessity. Just as the feudal political order had to be overthrown to make possible the growth of the productive forces under capitalism, so today the globalisation of production has made the capitalist nation-state system as reactionary and backward as the feudal principalities and kingdoms two and three centuries ago.

This contradiction erupted in the first decade of the last century in the form of World War I. It has now emerged once again, at an even higher level. It can only be resolved by the working class taking political power on a global scale; otherwise mankind faces being plunged into wars and economic crises potentially more devastating than those that characterised the first five decades of the twentieth century.

Zakaria calls for better international coordination. But the objective logic of the capitalist system itself drives events in the opposite direction. Capitalist production is carried out on a global scale. Its purpose is not to meet human needs, but to accumulate private profit. When accumulation is expanding, the different sections of capital, as Marx noted, operate as a kind of fraternity, dividing up the spoils among themselves. When the system breaks down and it becomes no longer a question of sharing profits but of trying to avoid losses, a violent struggle breaks out. Such a breakdown no longer simply involves intensified competitive struggles in the market, as it did in the nineteenth century, but, with the vast growth of capitalist industry and finance, economic crises inevitably bring the direct involvement of the capitalist state.

This is what occurred last year. After the collapse of Lehman Brothers in September, with the banking and financial system threatened with meltdown, every government around the world responded, not by working for globally coordinated action, but to protect its "own" banking system, leading to immediate conflicts. In the months since, the differences have only widened. The Germans and French are hostile to the American government's bailouts because they fear, rightly, that these will enable US banks to retain their dominant global position. The American government, for its part, opposes calls for greater regulation, because they are directed at US finance. The British government, meanwhile, does not want to introduce tougher regulations fearing that they would endanger London's position, described by *Financial Times* commentator John Plender as "the adventure playground of the global financial system." This brings opposition from the German government, which harboured hopes that the crisis would offer more opportunities for Frankfurt. The various industry interventions, likewise, have sharpened national rivalries. The German government's bailout of Opel, for example, endangers operations in Belgium, even raising questions as to whether rules governing the operation of the single European market might have been breached.

As for co-ordination between the US and China to resolve international monetary imbalances, the Chinese central bank has twice called, within the past three months, for the international financial system to be restructured and the dollar replaced as the world reserve currency. Were that to take place, it would cause a rapid decline in the global position of American capitalism, which has enjoyed enormous advantages from the dollar's role as world money.

Failing international co-operation, Zakaria warns, there will be "more crashes, and eventually there may be a retreat from globalization toward the safety—and slow growth—of protected national economies." The development of just such a situation in the 1930s led directly to World War II. It would have even more devastating consequences today.

In the end, Zakaria concludes that a "moral crisis" may "lie at the heart of our problems". Most of what happened over the past decade was legal but "very few people acted responsibly." However, he continues, none of this happened because "business people have suddenly become more immoral. It is part of the opening up and growing competitiveness of the business world."

Zakaria does not choose to develop this point, because to do so would make it all too clear that this "moral crisis" is itself an expression of the crisis of the capitalist economy.

The very processes associated with the rise of finance capital have made the dividing line between legality and illegality, not to speak of morality and immorality, ever-more blurred.

In a world of multi-million and multi-billion dollar financial transactions involving the use of complex derivatives, where the value of a financial asset can be altered by changing the value of one or other of the variables in the mathematical model on which it is based; where the more complex and obscure a financial derivative is, the greater the profit going to the seller; where vast fortunes can be made from financial gambling, and where a firm that does not employ the latest dubious methods to boost the bottom line faces being gobbled up by an asset stripper financed with junk bonds, what price ethics?

Moreover, the growth of a financial oligarchy, which dominates and controls the entire political system, means that any rational reform of the present order is impossible, even if a solution were available.

The productive forces of the global economy—the complex and powerful racing car, to use Zakaria's analogy—created by the combined intellectual and physical labour of the world's working class, have developed on an immense scale. But they can no longer be left in the hands of a ruling elite that has lost the historical, political and moral right to remain at the wheel. That is why a socialist revolution, and the transfer of political power to the hands of the working class, has become a historical necessity.