inside!

workers solidarity movement

autumn 2010 issue

Irish anarchist review

The Irish Anarchist Review

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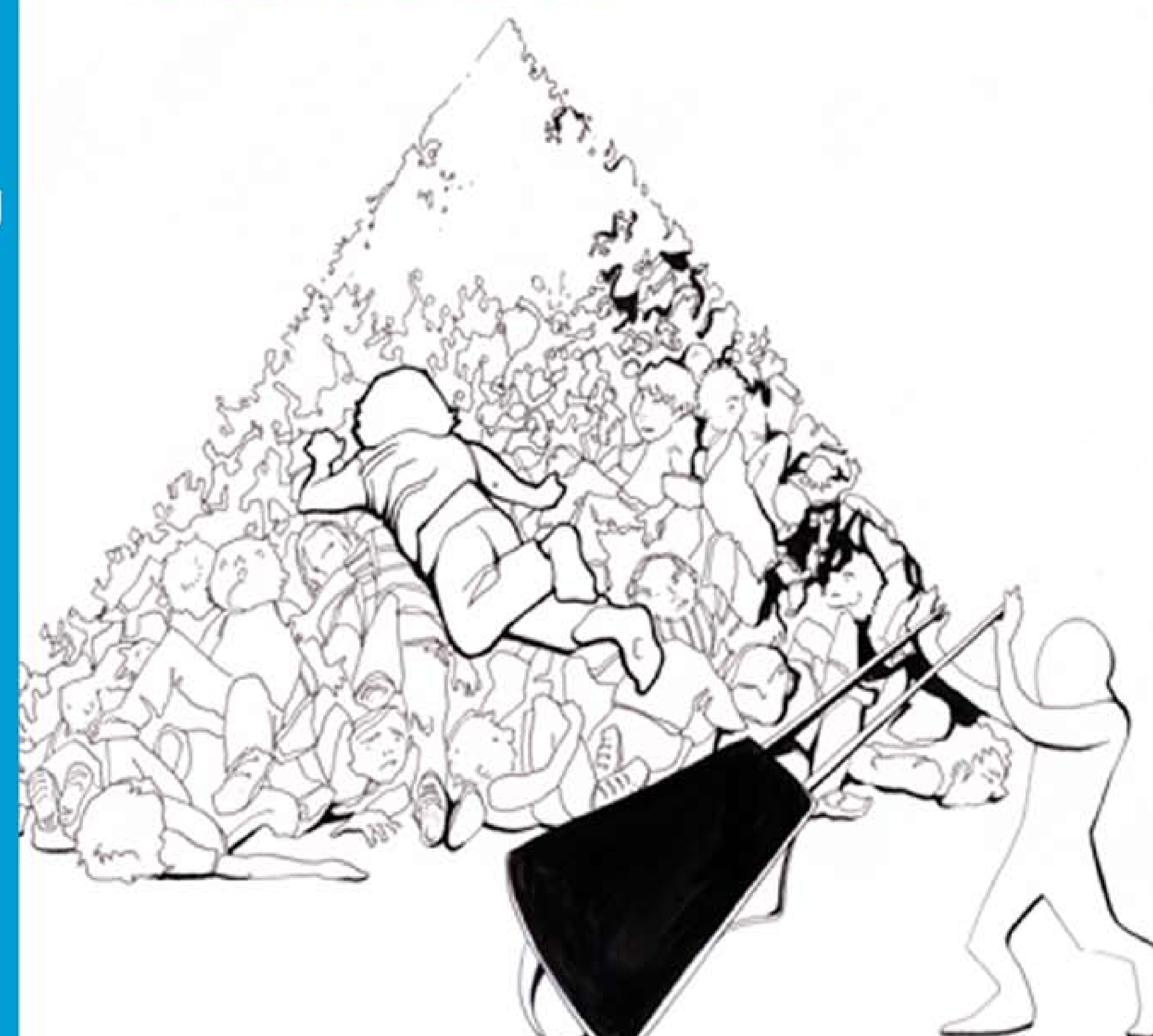

anatomy of a crisis

autumn 2010 issue

welcome to/ ....The Irish Anarchist Review

Welcome to the second issue of **The Irish Anarchist Review**,, the political magazine of the Workers Solidarity Movement. This magazine is dedicated to understanding the contemporary political, economic and social situation that confronts us, and finding ways to advance alternatives.

Our first issue was released in the aftermath of major strikes across the public sector. Despite decades of partnership, a deflated union movement and an intense barrage of media bile, Irish workers showed their willingness to take to picket lines to fight the Government.

Now, however, we can see that the union leadership were not willing to fight - they quickly demobilised strike action to return to the bargaining table, squeezing out a disgraceful deal in Croke Park negotiations. Now, without opposition, the Government calmly talks of four-years of 'hair-shirt' budgets to restore the national finances.

As we noted in the previous issue, the weakness of the Left had much to do with the failure of opposition. It is clear that the Left will need to be much clearer in its strategy if it is to be able to achieve any positions of strength in future. It is in this spirit that we welcome a guest contribution from Alan Davis, arguing for a concerted and serious approach to union and workplace organising. We recognise the continued need for non-sectarian debate among the Left and are open to more contributions.

The surrender of the unions has left the dominant logic of 'sharing the pain' unchallenged. Gregor Kerr's discussion of the housing crisis shows that even in 'the good old days' of the Celtic Tiger, the housing bubble was at its heart a scam, a gamble that enriched the few at the expense of the many.

As Ireland is cast to the mercy of international bond investors and other cavaliers of credit, Paul Bowman assesses the origins of the money market, and its role in contemporary capitalism. He argues against any comfortable return to soft-Keynesian dogma and stresses that the global system is a class-system, it cannot be understood, nor confronted without this analysis.

Our reviews take a more hopeful tone, looking at the continuing usefulness of the historical tradition of anarchism and the increasing evidence for its viability. Both of these will be useful as we seem to face a crisis of ideas and hope in parallel to our economic woes.

While we are confronted with an historic crisis and uncertainty about our future, we would do well to remember that another world is possible, but it will not come of its own accord. We need to understand the present, we need to understand the futures open to us, and we must find the way to the one we want.

WORDS : DARRAGH MCAOIDH

about the wsm/

The Workers Solidarity Movement was founded in Dublin, Ireland in 1984 following discussions by a number of local anarchist groups on the need for a national anarchist organisation. At that time with unemployment and inequality on the rise, there seemed every reason to argue for anarchism and for a revolutionary change in Irish society. This has not changed.

Like most socialists we share a fundamental belief that capitalism is the problem. We believe that as a system it must be ended, that the wealth of society should be commonly owned and that its resources should be used to serve the needs of humanity as a whole and not those of a small greedy minority. But, just as importantly, we see this struggle against capitalism as also being a struggle for freedom. We believe that socialism and freedom must go together, that we cannot have one without the other.

Anarchism has always stood for individual freedom. But it also stands for democracy. We believe in democratising the workplace and in workers taking control of all industry. We believe that this is the only real alternative to capitalism with its on going reliance on hierarchy and oppression and its depletion of the world's resources.

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Special thanks to James R for cover design

Bubbles, Booms and Busts/

The years from 1995 to 2007 saw record levels of housing construction in Ireland. Construction output went up, land and house prices mushroomed and it seemed as if there was a never-ending bandwagon on which everyone was going to get rich by simply waiting for their pile of bricks to increase in value.

WORDS : GREGOR KERR

A whole new lexicon of terms and vocabulary entered the everyday parlance – terms such as 'starter home', 'property ladder', 'first time buyer'; Newspeak phrases such as 'affordable housing' were bandied about. Houses and housing estates were advertised for sale by estate agents and property developers with colourful banner headlines and slogans such as 'live the dream', 'live the lifestyle' – it was almost explicitly stated that even the dreary Irish weather could be bypassed by buying an apartment or house in the latest development.

It seemed as if the dream would go on forever. But in mid 2007, disaster struck. With the onset of the worldwide recession, Ireland's very own property bubble burst with a huge bang and left only destruction behind it. The dream turned to a nightmare for many people and the vocabulary was now dominated by terms such as 'negative equity', 'ghost estates' and 'price collapse'.

And it wasn't just those directly effected who felt the chill wind. As the construction boom shuddered to an abrupt halt, an economy hugely dependent on construction employment saw large numbers of people thrown onto the unemployment queues. The taxation system, dependent for years on property transaction taxes such as stamp duty (a tax on house purchases) to offset the reduction of income taxes in line with neoliberal 'low-tax' politics, suddenly found itself grossly underfunded.

HOMELESSNESS

Amazingly, in the midst of the past construction frenzy, homelessness had increased, the numbers of families living in temporary accommodation shot up and the numbers on local authority housing waiting lists went out of control. At the same time, the private rented sector went through a boom of its own. But without proper standards or regulation, thousands of families found themselves forced to pay astronomical rents for poor standard accommodation.

Landlords in the private rented sector were major beneficiaries of state aid through the Supplementary Welfare Allowance which saw, and continues to see, vast amounts of taxpayers' money handed over to wealthy landlords, many of whom were able to use it to build up large banks of properties – a classic case of welfare for the rich. Bearing no connection whatsoever to the reality of people's lives and incomes, average rents in Dublin increased by a staggering 53% in the

3 years between 1998 and 2001.

By 2005, the State was paying a total of €350million per annum to private landlords in rent subsidies and a further €20million was being paid to the owners of Bed & Breakfasts for emergency accommodation.[1]

“The number of people who were homeless doubled during the Celtic Tiger years (from 2,500 in 1996 to over 5,000 in 2008) as they were squeezed out of the private rental market. Those on low incomes found that they could afford only dingy bed-sits, unfit for human habitation, tiny, damp, mouse-ridden, with little heating …. illegal sub-standard accommodation, paid for by the State! Exploitative landlords became millionaires, with tax-payers’ money, by providing appalling accommodation to those who had no other choice. While City Council slums were being demolished, new slums in the private rented sector were being created.”

The numbers in need of housing have continued to rise, with Focus Ireland estimating that there are currently 5,000 people homeless and almost 100,000 people on local authority housing waiting lists.

REZONING LOTTERY

Property developers had become the new elite as farm land changed hands for lottery-type prices. All that was necessary was to have the land rezoned from agricultural use to ‘development’. And with such vast sums of money to be made from rezoning, it was no surprise that local councillors who had the power to rezone were much sought after and sought much palm-greasing.

Many ‘ordinary people’ bought into the dream. People queued overnight to purchase apartments and houses in new developments. ‘Units’ were purchased off the plans by people who never had any intention of completing the purchase, but knew that all they had to do was put down the deposit and when the houses/apartments were actually built they’d be able to sell them on at a profit.

The frenzy even spread outside of the borders of the country. Eastern Europe became the new frontier and Irish people snapped up ‘investment properties’ in Bulgaria, Poland and elsewhere.

As a metaphor for all that can go wrong with the gamble that is modern capitalism, the Irish property boom and collapse provides a perfect description. As a lesson in the manner in which such financial gambling impacts severely on the lives and living standards of ordinary people while making multi-millionaires out of a small number of people, it stands unparalleled. And, above all, it showed us how large numbers of people can be sold a lie, how they can buy into the idea of certain riches.

In one of the most bizarre outcomes, local authorities found themselves with stocks of ‘social and affordable housing’, bought from developers before completion, for which the ‘affordable’ price was now higher than the collapsed market price.

HOME OWNERSHIP

To fully understand what happened in those crazy years, it’s necessary to go back a number of decades and to try to understand why home ownership in Ireland is so important, and why, uniquely in Europe, the policy of home ownership rather than long-term renting became part of the Irish psyche.

In the early 1900s, housing in Ireland’s capital city, Dublin, was renowned for its poor standard. Dublin’s slum housing provided the backdrop for the great lockout of 1913 which saw the fledgling trade union movement take on the might of Dublin’s employer class, with the employers led by William Martin Murphy, himself a notorious slum landlord.

This housing situation continued into the early years of the new Irish ‘Free State’ in the 1920s and 1930s. In the 1940s some small effort was made to address the problem but in reality it was the 1960s before any real effort at slum clearance got under way.

There was by then a real housing crisis in Ireland as a result of landlords being allowed to charge uncontrolled rents for unregulated and hugely sub-standard properties, and a complete lack of an adequate social housing building programme. This led to the formation of the Dublin Housing Action Committee which agitated for reform and took the direct action of squatting in empty property and encouraging homeless families to force the provision of housing onto the political agenda.

In the first edition of its publication, The Squatter [3], published in June 1969, the D.H.A.C. called on homeless families to squat empty property:
“The D.H.A.C. would like to see people squatting in some of the empty, surplus property owned by the foreign bums and parasites who have come in here to tear our city to shreds in order to build gaudy office blocks and expensive hotels. We say that the idle, surplus property of any big speculating landlord should be squatted in. People come before profits, and the worker’s natural right to proper accommodation comes before the legal rights of Landlords.”
Similar campaigning groups were formed at the time in Cork, Derry and Dun Laoghaire.

SOCIAL HOUSING

Things were so bad on the housing front that eventually the government had to act and a huge programme of local authority house building got underway, leading to the development of new suburbs such as Ballymun, Clondalkin and Tallaght. While there were serious deficiencies in the manner in which this development proceeded, as vast estates were developed with no shops, public transport or employment prospects, at least it was seen that social housing was a necessary and important component of the delivery of housing.

This never came however from any ideological perspective, and the Irish political establishment remained firmly wedded to the concept of home ownership as opposed to renting/social housing. Nonetheless in the 1970s and 1980s, local authorities were a hugely important deliverer of housing, and in 1975, 33% of all housing output was constructed by local authorities. By 1985 though, this figure had shrunk to 27%.

From the time of the 1966 Housing Act, however, local

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[1] TASC: “Out of Reach: Inequalities in the Irish Housing System” by P.J. Drudy and Michael Punch, 2005
[2] Jesuit Centre for Faith & Justice “The Irish Housing System Vision, Values, Reality,” Foreword by Fr. Peter McVerry, May 2009
[3] Available at: http://cedarlounge.wordpress.com/2008/06/16/the-left-archive-squatter-broadsheet-of-the-dublin-housing-action-committee-june-1969/
[4] Combat Poverty Agency “Housing Poverty and Wealth in Ireland”, 2004, P. 21

authorities were actively promoting the privatisation of social housing through the medium of tenant purchase schemes which offered subsidies and incentives to local authority tenants to purchase their homes from the local authorities – a policy which had the obvious consequence of reducing the overall availability of social housing.

So while local authority house building programmes went ahead at relatively high levels throughout the 1970s and 1980s, the rate at which houses were being sold meant that the actual numbers of public or social houses in the national housing stock remained static at about 100,000 units. Private housing output also grew during this period with the consequence that social housing fell as a percentage of the total housing stock from 18.4% in 1961 to 9.7% by 1991.

TENANT PURCHASE

The late 1980s saw massive cutbacks in the numbers of houses being built by the local authorities. Government cutbacks in local authority funding meant that local authority housing output fell to below 10% of total output by the end of the 1980s. In addition, a renewed vigour was added to the policy of privatisation of existing social housing.

Dublin Corporation, along with other local authorities around the country, introduced a new tenant purchase scheme in 1985 which over the course of the following decade had the effect of devastating the availability of social housing "Purchase prices for local authority housing were typically extremely favourable to tenants. The tenant purchase scheme implemented by Dublin Corporation in the late 1980s, for example, entailed discounts on the market value of housing of up to 60 per cent…..
The consequence for Irish social housing was that by the early 1990s, of the 330,000 dwellings built by local authorities over the previous century, some 220,000 had been sold to tenants…." [4]

In 1971 there were 726,400 housing units in the country, 69% of which were owner-occupied. By the early years of the new century the stock of total housing units had risen to 1.22 million with 82% owner occupancy, and the boom in output was still in full flow.

STATE SUBSIDY

Mainstream political and social discourse around housing policy in Ireland is usually predicated on the theory that there is something uniquely Irish about our desire for home ownership, and that unlike continental Europeans we're not really "into" either social housing or long-term renting. Some commentators put this down to folk memories of the Famine and evictions by absentee landlords.

What is almost completely missing from this superficial analysis of housing policy is the fact that it was state subsidies and interventions that resulted in the surge in ownership rates in the last 30 years of the twentieth century. Because of the government's ideological commitment to 'ownership', local authority tenants were essentially able to buy houses for about 40% of the cost of building them. But when this same drive for 'ownership' continued into the years of the boom it did so in a completely different economic climate.

Now the only subsidies which the government provided were to the builders and developers who availed of tax breaks and write-offs to build massive numbers of houses for sale at exorbitant prices to a population who had bought the myth of 'ownership', but were doing so in a society and in an economy where the private sector had total control and profit was king. This is a fact that is of crucial importance in understanding the extent of the debt crisis which the desire to get on ' the housing ladder' has caused for ordinary people during the years of the 'boom'.

MIND-BLOWING FIGURES

The figures for the numbers of houses built in Ireland during the boom years (1995 – 2007) are truly mind-blowing. Just under 750,000 housing units were completed in this period with 2006 being the peak year when over 93,000 homes were completed.

Two factors contributed to an increased demand for housing. Firstly, the years 1996 to 2006 saw a dramatic demographic change with the population increasing by about 20%, or 800,000 people. For a place whose most famous export had always been its people, this level of immigration into the country was truly unprecedented.

This period also saw a reduction in average household size from 3.2 in '96 to 2.8 in '06. The combined effect of these two factors was to bring about an increase of over 30% in the "prices bore no relation to average wages and forced workers to take on debt that was and is going to cripple them for decades to come."

number of households. Even with this however, the number of houses built bore little relation to the need:

"…house completions per 1,000 of population in 2006 were 50 per cent higher than in 2002, 137 per cent higher than in 1996 and 292 percent higher than in 1991"[5]

The 2006 Census showed that there were 216,533 empty housing unites in the country (excluding the 49,789 houses which were described as holiday homes)[6]. Estimates as to the current number of vacant houses vary with an article on the website 'Ireland after NAMA' assessing it to be 302,625[7].

DEMAND AND SUPPLY

Whatever the precise figure, it is clear that there was absolutely no connection between demand and supply. The normal rules of capitalism would surely have dictated that prices should have plummeted, but the opposite was in fact the case – as more and more housing units were pumped out onto the market, prices went through the sky. The housing market became a frenzy of people camping out overnight to get the chance to buy in new developments and people paying prices that a few years previously were not even dreamt of. Average new house prices increased by 344% between 1994 and 2007, with prices in Dublin increasing by 408%.

These prices bore no relation to average wages and forced workers to take on debt that was and is going to cripple them for decades to come. The table below, taken from an article on the website "Iopositerish Left Review", illustrates starkly the huge divergence between average house prices and average wages in the years of the property bubble.[8]

International standards and 'best practice' has always seen the ratio of average house price to average income, known as the "house affordability ratio" as being between 2.5 and 4 to 1. As can be seen from the above graph, this ratio deviated hugely from the norm during the bubble years. Indeed, even as property prices started their crazy upward movement, in 1997 the ratio was already at 5:1. And over the course of the following 10 years the ratio shot up to over 11:1. The price of putting a roof over one's family's head had truly lost all connection with any level of reality.

These prices were only made possible because banks and building societies put together finance packages that were not dreamt of before. 100% mortgages became the norm, the link between a person's income (which obviously dictated ability to re-pay) and the amounts s/he was being lent was stretched beyond breaking, and, most frighteningly of all for housebuyers, 25 to 30 year mortgages became the norm.

CONSEQUENCES

This has serious consequences for people. Not only does the interest paid clock up hugely the longer the term of the mortgage, but the proportion of a person's lifetime earnings paid for their house has mushroomed compared to previous generations. Now, as prices plummet, people find themselves paying these massive mortgages for properties worth a fraction of the money they have to pay to the mortgage company or bank.

As an aside, an aspect of house prices that is never commented on is that nobody other than the very wealthy buys a house or apartment for the sale price. Those of us who have to rely on mortgages to be able to buy end up paying the sale price plus whatever interest the mortgage company can

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squeeze out of us. And as the banking crisis has developed, one of the ways in which the banks hope to redress their liquidity problem is through increasing the mortgage rates they charge their customers, despite the fact that the rates at which they borrow has remained relatively static.

I've already referred to the fact that the connection between house prices and what was considered 'affordable' had lost all link with reality. Neither was there any connection between either house building costs or the consumer price index (C.P.I.). Between 1994 and 2005 house prices rose four times faster than house building costs and seven times faster than the C.P.I.

TRIGGERS

So what were the triggers which contributed to the property bubble? Which of them could be put down to international trends and which were uniquely Irish?

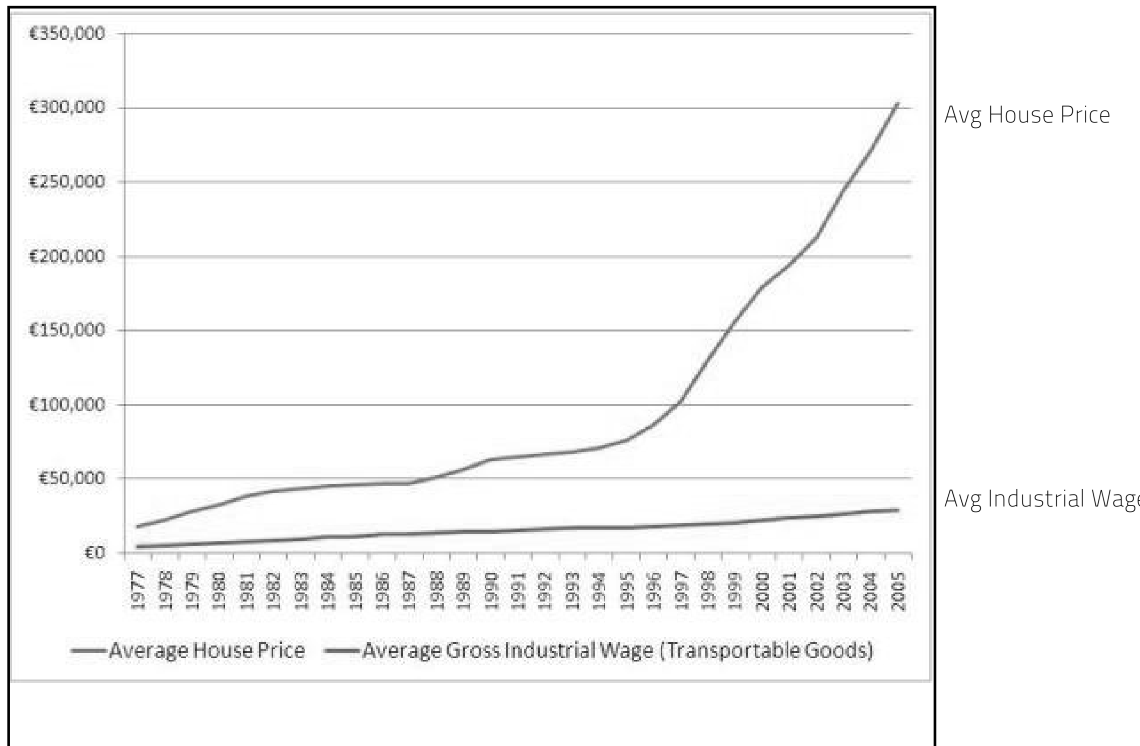
Firstly, land prices, especially in Dublin, went through the sky. Between 1995 and 1998, average development land prices went up by approximately 200%. The portion of house prices accounted for by land cost went up from 21% to 36% during this period. This happened principally because a small number of developers had built up huge land banks over previous decades and their near-monopoly position allowed them to release land as they wished and charge as they wanted.

As far back as 1974, the government-appointed Kenny Report had recommended that all land designated for urban development should be compulsorily acquired by local authorities for a controlled price. But this was never implemented and by 2003, just 25 individuals or companies owned 50% of the building land in Fingal. "With this kind of power, the landowners were able to push up the prices they got from builders. Before the boom, land made up about 10 to 15 per cent of the cost of a house. At the height of the boom, it made up a breathtaking 40 to 50 per cent. Given the huge absolute rise in house prices, this generated vast profits for those who controlled the land."[9]

TAX INCENTIVES

Probably the greatest driving force behind the building frenzy was the array of tax incentives which the government made available to property developers. The 1981 Finance Act introduced what were called "Section 23" incentives which provided tax relief for the capital expenditure incurred in the construction, refurbishment or conversion of rented residential accommodation. The 1986 Urban Renewal Act ensured that "Section 23" incentives were concentrated in urban areas. And in subsequent years, a succession of urban renewal, rural renewal, seaside area and town renewal schemes were introduced.

"Section 23 allowed investors to write off all but the site costs of an apartment or town house against their total rental income in the first year, including rents from other properties owned, with any unused tax relief being carried forward indefinitely. After a slow start, Section 23 eventually became one of the main drivers of development, with investors often snapping up the lion's share of new housing schemes. And, as if this wasn't enough to keep the developers happy, further tax breaks were made available over the years for multi-storey car parks, holiday homes in jaded seaside resorts, hotels anywhere and everywhere, and student accommodation. In most cases, these incentives meant that the capital cost of qualifying new developments could be written off against an investor's tax liability over a 10-year period. What's more, anyone leasing office or retail space in a designated area got tax allowances equivalent to double their annual rent bill and didn't have to pay a penny in commercial rates for ten years."[10]



These tax incentives proved very costly to the State; a review carried out by Goodbody Economic Consultants in February 2006 concluded that they cost the Exchequer almost €2 billion in tax foregone – another example of welfare for the wealthy. This equated to a handout of over €40,000 per residential unit – handed to the developer by the state, added to the price paid by the purchaser.

This level of tax incentivisation of investment meant that up to 90% of the tax-subsidised properties were purchased as investment, freezing out first-time buyers and resulting in windfall profits for landowners.

GAMBLE

By virtue of space, this article can only touch briefly on what proved to be a period of massive gambling in the history of modern Irish and European capitalism. It was a gamble that paid off massively for a small number of people and cost the majority of us huge losses. When Lehman Brothers collapsed as a result of the gamble that was and is international capitalism, the Irish property bubble exploded spectacularly.

Irish capitalism has never had a housing policy. Rather than housing being seen as a way of providing homes and shelter for the citizenry, it was instead seen to be a way of making money. The U.S. economy had its sub-prime mortgages, the Irish economy had its tax incentives and land rezoning – two sides of the same coin which resulted in economic misery which will last for generations.

[5] Jesuit Centre for faith & Justice op.cit. P. 3
[6] see http://beyond2020.cso.ie/Census/TableViewer/tableView.aspx?ReportId=76536
[7] http://irelandafternama.wordpress.com/2010/01/18/an-estimate-of-vacant-housing-in-ireland/
[8] see http://www.irishleftreview.org/2010/06/08/irish-housing-wages-1977-2006-portrait-scam/
[9] O'Toole, Fintan "Ship of Fools. How Stupidity and Corruption Sank the Celtic Tiger" P. 104
[10] McDonald, Frank & Sheridan Kathy, "The Builders", P. 5

What are they talking About?

Financial 'experts' and economists seem to speak a different language to the rest of us. They rely on us not understanding what they're on about. They know that if the gamble which constitutes the supposedly all-powerful 'markets' is revealed to us we will see just how crazy a system capitalism actually is.

WORDS:
SEAN MURPHY

But the truth is revolutionary and it is important that we look behind their jargon. Here we explain just a few of the most commonly heard terms

CREDIT DEFAULT SWAP (CDS)

At its most basic a CDS is basically an insurance policy taken out against a loan default.
For Example: Bank A is owed $100 million by Bank B at an interest rate of 5%, giving A an income of $5million per year from B. Bank A goes to Bank C and buys 'protection' against the possibility of Bank B defaulting on the loan, for $500,000 per year.
This is a Credit Default Swap (CDS). Good business for all it seems – A retains $4.5 million per year of the interest and C has an income of $500,000 per annum for doing basically nothing. As long as B is able to repay the loan at the end of the 10-year term all are happy. But what happens if B defaults? Now Bank C owes the $100 million to A. But that's the gamble it was willing to take. And more than likely C has 'hedged its bets' by selling on the risk to another 'insurer'.

WHAT'S A 'NAKED' CREDIT DEFAULT SWAP?
This moves the CDS from 'insurance' to 'gamble'.
Take the example above and now enter Bank D. Even though it has had nothing to do with the initial transaction between A and B, Bank D can also buy a CDS on that transaction from B, a "Naked Credit Default Swap". Again it seems like good business for Bank C – another $500,000 per year for doing nothing. Bank D is taking a punt on the hope of B defaulting.

CDSs are usually taken out for between 1 and 10 years, with the average being 5 years. In this example, D is taking the gamble of paying $500,000 per year for 5 years to C in the hope that B will default on his loan to A in which event C will owe the amount of B's debt ($100million) to D.

Now imagine the scenario whereby Bank C has sold 100 CDSs to different financial speculators on this transaction. As long as everything is going well and Bank B pays back the original loan to A as agreed, Bank C appears to have a booming business – an income of $50 million per year for doing little or nothing.

But what happens if B defaults on the loan? Now C finds itself owing $100 million to A from the original CDS, and $100 million to each of the 100 holders of the 'naked CDSs' – a bill of a whopping $10,000 million. Suddenly the $50 million per annum income doesn't seem quite so much.

CDSs have existed since the early 1990s but it was the passing of the Commodity Futures Modernisation Act (CFMA) by the Clinton government in 2000 that legalised the concept of being able to take out "insurance" on a transaction that you were not party to. By the end of 2007 there were $62.2 trillion worth of CDSs in the market, and well over half of these were pure speculation by 'financiers' who did not hold the original debt.

This was casino capitalism at its most blatant. And it was totally unregulated.

COLLATERALISED DEBT OBLIGATION (CDO)

CDOs basically allow credit risk to be sold or passed on from one financial institution to another. The essential principle is that a package of asset-backed securities (e.g. home loans/mortgages, commercial real estate loans etc.) is bundled together and sold on in several tranches. The originator of the mortgages or loans is spreading their risk and the purchasers of the various tranches are making an investment in the expected return. In the middle is usually an investment bank which puts the package together, sells it on for a commission and earns a fee for 'managing' the 'investment'.

Of course the whole thing is predicated on the assets backing the loans holding their value and the mortgagees or borrowers repaying the original loans.

But - Take any one of the many sub-prime mortgage lenders which sprung up in the U.S. during the 1990s. Their basic modus operandi was to sell mortgages as

fast as they could with little thought for whether the mortgagees were in a position to repay the loans. This was most often achieved through use of Adjustable Rate Mortgages (ARMs). In order to sign people up these ARMs were offered at an initial rate of just 1 or 2 %. But this rate would then be adjusted upwards within 1 to 3 years, jumping to as high as maybe 8 or 9%.

Because they were going to sell the debt on almost immediately, the mortgage company didn't care whether the loans were ever going to be paid back. As quick as they could sell them, they packaged together a bundle (say a thousand) of these mortgages and sold the bundle on to one of the bigger Wall Street banks.

The bank would then bundle up the bundles, splice them up and sell them on as investments. But the banks, pension funds or hedge funds buying these investments were doing so on the basis that the original borrower was going to repay the loan plus interest thereby giving an 8 – 9% return. But when the property bubble burst and when holders of sub-prime mortgages began to default on their loans, a lot of holders of CDOs found their investments were actually worthless.

And when a mortgage went unpaid in California, it could be a hedge fund based in Hong Kong that held the worthless deeds to the property.

CDOs were another invention of the 1990s regulation-free markets. The first one was issued in 1987. By the end of 2006 more than €2 trillion was tied up in CDOs.

COLLATERALISED LOAN OBLIGATION (CLO)

A CLO is a type of CDO. Instead of being mainly based on home loans, CLOs are mainly based on business loans – often loans associated with company takeovers or leveraged buyouts. Leveraged Buyout (LBO) companies – also known as private equity firms are one of the predators of the business world.

The LBO company borrows a large sum of money (probably several billion dollars) from a Wall Street bank in order to buy out a business e.g. a retail chain or a hotel chain. The collateral offered is the business being bought. The plan is usually to 'rationalise' the business (which usually involves sacking loads of workers, cutting wages and working conditions etc.) and sell it on at a profit and thus repay the original loan.

Just as described above the Wall Street bank bundles up groups of such loans, splices them and sells them on as investments. It was a 'market' that exploded as the financial boom was about to go bust. In his book on the collapse of Lehman Brothers Bank "A Colossal Failure of Common Sense", former Lehman vice president Larry McDonald recounts how "In a land as innately avaricious as Wall Street, the kind of cold-blooded corporate raiding involved in LBOs is simply too big a temptation for the kind of grotesque personal greed that has slithered through Wall Street for more than a century…..in summer 2005….LBOs had exploded on a scale beyond anyone's imagination…..Across the industry, stock sales and mergers and takeovers amounted to $117 billion…..The value of takeovers over three months in mid-2005 was up 41 percent on the previous year. The leveraged-buyout specialists estimated $50 billion worth of takeovers in the same three months, with a year-end figure likely to be around $180 billion." (p. 141)

But when the house of cards came tumbling down, it left devastation in its wake.

COMMERCIAL PAPER MARKET

Commercial Paper is a short-term loan (less than 9 months) used by banks and large corporations to meet their short-term debt obligations. It is a way in which large banks with 'blue chip' credit rating lend to each other. Because it is unregulated the Commercial Paper Market is the quickest and easiest way for them to raise fast loans.

Commercial Paper is essentially a promissory note, and as such has been around since the 19th Century. But in the 1990s and early years of the noughties Commercial Paper began to be used by the big banks as a means by which they would borrow short-term money and invest it in longer-term mortgage-backed securities which paid a higher yield. When it came to time to re-pay the short-term paper loan, they would simply take another one from a different bank and use this to keep the 'investment' going.

The amount of money outstanding in the U.S. Commercial Paper market mushroomed in the period 2001-2007 from $1.25 trillion to over $2.25 trillion. With much of this dependent on the U.S. housing market we all know now what was around the corner!

SHORT SELLING

Short Selling refers to the practice of selling assets (shares or bonds) that have been borrowed from a broker with the intention of buying back identical assets at a later date in order to pay them back to the broker. The seller is taking a gamble that the share price will fall so that he will make a profit on the transaction. The actual owner of the shares need not even be aware that her shares have been lent, sold and returned.

Union Resistance and the Leadership of Ideas /

We are delighted to publish this article in response to an article published in Irish Anarchist Review 1. To promote debate and discussion among anarchists and the left on the common problems we face, such letters and articles are always welcome.

WORDS : ALAN DAVIS
INTERNATIONAL BOLSHEVIK TENDENCY

Andrew Flood's article "Capitalist crisis and union resistance in Ireland" (IAR 1) calls for a "debate on where we should put our energy". This is a contribution to that debate.

Andrew outlines the framework of the economic crisis and the balance of forces as the Irish workers' movement attempts to respond to attacks by the bosses and their state. While the exact details of the government's December budget are currently unclear, doubtless it will once again involve a massive attack on the living standards of working people.

The recent Croke Park sell-out shows that the trade-union leaders have no perspective of abandoning their "social partnership" policy of collaboration with the government and bosses. Working people cannot look to these bureaucrats to defend us. It is the responsibility of revolutionaries to help organise rank-and-file opposition to the attacks and this depends on organising political opposition to the pro-capitalist ideology of the official union leadership.

Andrew provides a self-critical and plausible assessment of where revolutionaries might effectively concentrate limited resources. But the goal should not be to act merely as the best organisers of trade-union and community struggles or simply push workers towards greater militancy. As the WSM position paper on trade-union work argues:

"9.2 Our most immediate aim in any strike is to win a victory. But it is not our sole aim. We are political militants and not just good trade unionists, we argue our politics. We seek to win support for our politics, we seek to win members to our organisation."

Those who fail to actively advance revolutionary politics within the unions can only end up as syndicalists and, ultimately, reformists. Unfortunately, the one-sided emphasis of Andrew's article on technical organisational issues points in that direction.

Revolutionaries aim to provide the militant layers of the workers' movement with what the WSM calls a "road map" to the revolutionary transformation of society. Workers need a militant programme that links defence against immediate attacks to a strategic perspective of the seizure of power by the working class, through organs such as workers' councils. At every step revolutionaries seek to develop the capacity of the working class to assert its power – from simple picket-line militancy, to the assertion of workers' control over production in particular enterprises, and ultimately to the expropriation of the means of production and the establishment of the hegemony of institutions of proletarian political-military power.

vPresenting a clear revolutionary road map requires maintaining political independence from non-revolutionary tendencies in the workers' movement (whether they call themselves socialist or libertarian) combined with a non-sectarian policy of participation in campaigns on commonly agreed issues along with other activists within the workers' movement irrespective of their overall political programmes.

Internationalism must stand at the heart of a revolutionary perspective. This is not an abstract or moral question; it must be integral to our fight here and now. Ireland's economy is dominated by multinationals, and our struggles cannot be separated from those of workers in Britain and across Europe. The power of the multinationals can lead to illusions in the conception of "we the Irish people". This petty nationalism stands in contradiction to one of the cornerstones of the road map to revolution – political independence of the working class from all wings of the capitalists. To the extent that a movement of significant size is built against the attacks, it can be expected that we will have to confront bourgeois populist ideas like Gerry Adams' call for a "progressive and democratic movement for our country – one that aims to meet the needs of all citizens" (Sinn Fein's Ard Fheis 2009).

The bosses aim to use nationalism to reduce wages and conditions by setting workers of different nationalities against each other, by promoting nationalist and/or racist ideas. We must make no concessions to this. The answer of revolutionary militants in the workers' movement must be to uphold the equality of Irish-born and immigrant workers on the basis of full citizenship rights for all, including jobs and benefits. European-wide trade unions need to be built as a step towards conscious co-ordination of the workers' movement across national boundaries. Without an internationalist perspective it will be impossible to successfully beat back the immediate attacks, let alone carry out the revolutionary seizure of power.

Mass unemployment is likely to be a feature of the Irish economy for the foreseeable future and the hardship faced by those affected will only deepen as a result of expected attacks on social welfare and further increases in indirect taxation. We need to convince employed workers to use their industrial strength to defend our brothers and sisters who are reliant on social welfare payments, and to fight for an effective answer to unemployment, redistributing the total hours of work required among those able to work, with no loss in pay. The workers' movement also needs to lead the fight against evictions and repossessions, building a movement able to seize empty houses all over the country to house the homeless, as a first step to quality affordable social housing for all.

We are facing a generalised attack on working people and we need a generalised response – which, in situations of rising class struggle, can take the form of a general strike. A successful general strike would need to use serious methods, such as implementing the key principle "picket lines mean don't cross!" It would be necessary to elect strike committees in every workplace, whether unionised or not, with effective co-ordination through meetings of delegated representatives at local, regional and national levels. Valuable lessons about building workers' councils could be learnt in the process. Such methods of self-organisation will take place in opposition to betrayals being carried out by the existing leadership of the workers' movement, but what is essential in the long run is a political struggle to defeat the pro-capitalist ideology of the bureaucrats by winning the most advanced elements of the working class to a programme of revolutionary class struggle.

The seemingly endless "re-capitalisation" of the banks has led to what the government is calling an "outflow of funds", as the rich transfer public subsidies to tax havens around the world. We need to win the workers' movement to an understanding that the only effective solution to such dodges is through the expropriation (without compensation) of the entire capitalist class.

A revolutionary transformation of society is impossible without dismantling the bourgeois state – the cops, courts and armed forces as well as the prison and private security systems. The recognition that the capitalist state is not a neutral instrument informs the strategic perspective of the seizure of power and also impacts on our immediate struggles. The use of private security in an attempt to stop the initial Waterford Glass occupation; the police raid on Thomas Cooke workers; and the actions of private and public police thugs in Erris are all concrete examples of why we need to organise effective working-class self-defence bodies. Revolutionaries must provide a clear alternative to ideas like "community control of the police" or the notion that there is some moral imperative that prohibits workers and the oppressed from taking whatever steps are necessary against the violence of the bosses and their hired thugs.

Unity within the workers' movement is imperative to effectively struggle against the capitalists – but there are different kinds of unity. Revolutionaries participate in united-front campaigns and defensive struggles in the trade unions on the basis of immediate concrete demands capable of mobilising broad participation. Unity around such limited objectives will necessarily be at a lower level of political agreement than that of a revolutionary organisation. However, revolutionaries also need to be able to work with militants who aren't yet ready to join the revolutionary organisation and, through common struggle, have an opportunity to win them to broader understanding of the issues posed.

Building programmatically based "affinity groups" in the workplace around common agreement over the key elements of the road map to working-class power should be an important arena of work for a revolutionary organisation. Such groups would struggle for the implementation of workers' democracy against the bureaucratic control of the trade-union leaders – not just because it is the most effective way to build a fighting movement against the immediate attacks, but because it is consistent with, and lays the basis for, the future building of workers' councils.

Andrew is quite right that "we should have ambitions way beyond trying to build what amount to small affinity groups of like-minded workers in a couple of workplaces" but revolutionaries must also have a sober analysis of our political responsibilities and activity. Mass proletarian insurrection will only become reality if revolutionary ideas gain ascendency in the working class. The chief means for undertaking this work today is through programmatically based "affinity groups" in the trade unions linked to the revolutionary organisation.

"We are facing a generalised attack... and we need a generalised response"

the 10/10 event/
origins of an economic meltdown

The purpose of this text is to try and tell the story of our current economic situation, how we got here, and what we can expect from the near future, so as to better understand the tasks facing us.

WORDS : PAUL BOWMAN

This is neither an academic text on history, nor yet, god forbid, a treatise on macroeconomics. So in the interests of telling a listenable story we will use the old storytelling technique of jumping directly into the middle and exploring outwards in flashback and flash-forward vignettes to build the big picture. But where is the middle?

For this we pick an event. By an event we mean something that is a transforming moment of intensity that divides the flow of time into a before and an after. Despite its evident artificiality as a plot device, our event has a time and a place. The time is Friday the 10th of October (hence 10/10) 2008. The place is simultaneously the specific location of the 16th floor of the glass fronted office block at 360 Madison Avenue, New York, and all parts of the world connected to the global financial system - which is now pretty much everywhere. In that sense the 10/10 event is one of the first truly global events, as we can appreciate from the world-wide impact of its fallout.

But let's return to the specific place; the 16th floor of 360 Madison, the headquarters of an organisation called the International Swaps and Derivatives Association (ISDA). This is a private body established by the main banks and other dealers in derivatives to sort out standards for these instruments, and above all, to lobby against any regulation of this new and rapidly-growing sector of the financial industry by the various national legislatures. In this they had been, until the 10/10 event, singularly successful. As the poster child for financial self-regulation, they also had authority for arranging the resolution of Credit Default Swaps in the aftermath of so-called "credit events" that triggered their payout.

On the 10 October 2008, the particular credit event that the ISDA was trying to resolve was the collapse of Lehman Brothers on the 15th of the previous month. This was the day chosen for the auction of the shares which would determine the payout for all CDS drawn up on Lehman.

To simplify, if Lehman bonds (finance-speak for IOUs) were auctioned off for 10% of their face value, then CDS would pay out at 90% of the notional amounts covered. If they were auctioned for 80% of face value then the CDS would pay out correspondingly less. The uncertainty associated with this process was aggravated by two things.

First of all, like all derivatives, the amount of CDS sold is not limited to the actual underlying amount of Lehman bonds outstanding. Second, the CDS market is almost exclusively an "over-the-counter" market - that is to say there is no central exchange that records who sold what to who and how many of them.

The result was a complete blindness of how many CDS there were out there and who was actually holding the liability to pay out at the uncertain rate to be determined at the auction - and whether or not the sellers would be able to meet this liabilities or would themselves be pushed into collapse, possibly even creating a chain reaction of total financial collapse.

The result, in the days leading up to the 10th October, was a steady rising tide of panic which progressively froze up the crucial interbank lending or money market (of which more later) until, on the day itself, the equivalent of a total cardiac arrest in the central circulatory system of global finance occurred.

The obvious question arises, why choose this date, rather than the date of Lehman's fall, on the 15th of the preceding month? Lehman's fall, that Monday, in turn triggered the insolvency of AIG, which, had it been allowed to fall, would have rendered all the world's major banks insolvent, as AIG's miniscule, London-based subsidiary, AIG Financial Products, had sold CDS to them all, allowing them to zero-rate huge swathes of their "risk-adjusted assets" (i.e. loans) for capital adequacy purposes. Hence why the US government was forced into bailing out AIG to avoid the insolvency of the world banking system. This in turn triggered the Reserve Primary

Fund, "breaking the buck", starting a run on the Shadow banking system - as we will translate into English later on.

The answer is that although the events of the 15-16th September pulled the trigger, the 10th October is the impact of the bullet itself. But in order to explain all this, we need to jump outwards from the 10/10 event, first backwards in time and across the wide ocean.

Flash. A river delta, jungle, olive-green Huey Cobra helicopters flying through the sunrise, Jim Morrison sings the End... It's the Vietnam War, in the early 1970s. This is the birthplace of the globalisation and financialisation that has defined our era.

THE CONTAINER REVOLUTION

The word 'globalisation' is bandied around a lot these days, but regardless of all the different meanings people have attributed to it, we can find a material core. This is the logistical innovation that has revolutionised international trade - containerization. The 'intermodal freight container', to give it its full title, is an ubiquitous part of our landscape today; whether on the back of trucks we drive past on the motorway, in stacks in industrial parks or as temporary structures at various sites. They are so common that we have practically filtered them out as natural features of the landscape; we hardly notice them anymore.

However the container is a relatively new introduction, only beginning its first tentative foray into international shipping in 1966. The driving visionary behind the container was a man called Malcolm McLean. Originally a truck operator from North Carolina, he had invested heavily in a new container system that could massively reduce the loading times for moving freight between truck, rail and ship. In 1968 his nascent project was on the verge of financial collapse when the Vietnam War rescued him.

As the official US line was that American involvement in Vietnam was drawing down and to be ended in 1968, the reversal of this policy meant that the resultant rush to get war materiel into Vietnam created chaos. The various different US armed forces collectively chartered more or less every freight ship they could find, loaded them with a massive array of freight and sent them across the Pacific to Vietnam. Whereupon they arrived and promptly sat offshore in a huge shoal of freighters that the virtually non-existent port facilities of Cam Ranh Bay, Da Nang were ill-equipped to handle.

Freight was forced to wait over three months before unloading was possible. In face of the resultant chaos, the US Army took a radical step and outsourced logistics and the construction of port facilities to private firms. McLean's container system secured him the contract to construct a new container port at Cam Ranh and ship Army supplies from the USA to Vietnam.

Not only did this secure the financial supply to secure and expand containerisation, but McLean decided that rather than shipping empty containers back to the US, they could make money on the return leg by taking a short detour via Japan and filling up with cheap transistor radios and other consumer items for the US market. Thus began the trans-Pacific manufactures conveyor belt which continues to this day and has been instrumental in raising China from an impoverished feudal peasant country to today's industrial workshop of the world.

McLean's Sealand container shipping company was eventually acquired by Danish shipping company Maersk and lives on in the giant Maersk container shipping that dominates freight shipping at the heart of globalised supply lines today.

CRY HAVOC AND LET SLIP THE DOLLARS OF WAR!

Under the Bretton Woods system of world money governance established after world war two, the US dollar was to be convertible to gold (against the advice of John Maynard Keynes, one of the principle architects of the system) and the rest of the capitalist "free" world's currencies were to be pegged against the dollar.

This made the dollar the preferred reserve currency for the rest of the world. It also presented the USSR with a problem in the aftermath of their invasion of Hungary in 1956 - how to prevent their cache of US dollars from being seized by US authorities? The answer was to keep them in banks outside of the US, an unusual operation at a time when banks could legally only hold deposits in the currency of the country that licensed and regulated them.

Pretty soon the banks acting as Soviet agents, holding their dollar reserves, started to contact banks in the City of London making discreet enquiries - does anybody fancy borrowing some dollars at competitive rates, no questions asked? Is the pope Catholic? Thus, the Eurodollar market was born. The Euro- prefix referring not to the location of the market (although it remains mostly centred in London, to this day, albeit the main players are American or other non-UK banks) but the Telex code of the original Soviet agent bank.

Born out of the contradictions of international trade in the Cold War, this market in "stateless" US dollars really began to explode in the late 60s and early 70s under the inflationary pressures of US spending on the Vietnam War.

As the US used the Bretton Woods system of capital controls (limits on the flow of money between countries, of which more later) and bank regulation to limit the interest rates US banks could pay on domestic deposits, these same banks moved to the freedom of the unregulated Eurodollar market in London, where they could set interest charges more in line with inflation.

OIL SHOCK

Eventually the pressures of the growing pool of US dollars outside of US Treasury and Federal Reserve control led to their suspension of dollar convertibility to gold in 1971. In 1973, after the US admission of defeat in Vietnam and the oil crisis occasioned by the Yom Kippur War, the last pretences of a fixed currency regime were abandoned and the US dollar was "floated" - the Bretton Woods system of world money management had collapsed under the pressure of the Cold War that had originally inspired its creation.

STAGFLATION

The collapse of the Bretton Woods system of fixed exchange rates and the subsequent oil shock led to chaos in the international system and a severe recession in the US and other Western countries in the mid-70s, with rising unemployment accompanied by rising inflation, a condition known as stagflation, that was in total contradiction to the assumptions of the then dominant paradigm of economic orthodoxy.

But before we deal with the collapse of Bretton Woods and the explosion of the Foreign Exchange market, we need to notice another significant financialisation vector produced by the Vietnam War's dollar bubble.

MONEY FUNDS AND REPOS

In 1971, the Reserve Primary Fund was launched. A new kind of mutual fund, it was the first of what became known as the money market funds. The idea of the fund was to provide wealthy US investors with a way of escaping the state regulations that then limied the maximum interest banks could pay on deposits.

The fund invested in treasury bills and other "risk-free" highly liquid "nearly money" instruments. The "Net Asset Value" (NAV) of the fund's shares were to be adjusted to stay at $1 and all earning from using these liquid assets in the emerging repurchase agreement, or "repo" market were paid out as interest on investor deposits.

The source of the extra interest, over regulatory limits, was both involvement in the Eurodollar section of the interbank lending market, and the repo market - itself a way for banks to evade the interest limits.

In a repurchase agreement the two parties agree to exchange a "nearly money" instrument such as a treasury bill for a wad of cash, making an agreement for the seller of the bills to repurchase them at a later date, whether next day or next week, at a higher price. As this was technically not a loan, being more in the way of a pawn shop operation, it allowed traders to make higher margins than the legal loan rate.

TRILEMMA

In order to understand what was being broken with the incremental fracturing of the Bretton Woods system, and the significance of the final step, we need to take a very short detour into abstract economic theory, namely the so-called macroeconomic trilemma.

This states that you can have, at most, two out of three of the following: 1) stable international exchange rates, 2) free flow of international capital, 3) control of monetary (interest rates) and fiscal (tax and spend) levers of national economic policy, to allow economic policy goals like full employment.

Now the trilemma is not to be taken as gospel truth, still less a law of physics. It is the product of an abstract economic model whose assumptions are open to question, to say the least. But it is a useful way of looking at the difference between the Bretton Woods system, the Gold Standard that preceded it and the Neoliberal model that has succeeded it.

COLONIALISM AND ITS DISCONTENTS

In brief, the Gold Standard had fixed exchange rates and free flow of capital which created problems with avoiding the internal depression/recession effects of trade imbalances. The solution was found in the colonial New Imperialism of the late 19th century, the capture of external territories to be suborned into a captive "outside" that recessions can be outsourced to in the interests of keeping the "inside" workers on-board.

But that colonial inside/outside structure was progressively broken down from the turn of the century until the outbreak of the First World War by a pincer movement of resistance from both the "inside" and "outside". Inside the industrialised coloniser nations the resurgent working class resistance known as the Syndicalist Revolt saw revitalised industrial unions force up days lost to strike up to 10 times the pre-1910 levels, along with real wage gains for the first time in a generation. Simultaneously resistance reared up in a multitude of anti-colonial rebellions from the Boers of South Africa, to the Boxers in China, the Black Hand in the Balkans, the Irish Volunteers and many others trapped on the "outside" of the colonial relationship.

The unbalanced settlement after WW1 and the attempt to restore the Gold Standard lead to the Great Depression of the 1930s, WW2 and the establishment of the Bretton Woods system in its wake, both to avoid the mistakes of the Versailles Treaty and the ward off the alarming expansion of Soviet territory and the further threat posed by the Maoist victory in China.

BRETTON WOODS

Bretton Woods is most closely associated with its chief architect, John Maynard Keynes. However, as a result of a negotiation from a position of extreme weakness on the part of the dying British Empire that Keynes sought to rescue, and the interests of the ascendant USA, it was necessarily a compromise between Keynes' designs and American interests.

As a result, Keynes' initial plan to base global money management on a new global monetary unit - the bancor - based not on gold alone but a basket of raw material commodities and an international trade balance clearing system designed to prevent large international trade imbalances, was abandoned in favour of a semi-gold based system of fixed exchange rates based around the dollar.

Having returned to pillar 1) of the trilemma, then the only way to allow national governments the freedom to invest in rebuilding the Western economies shattered by the war, and move to full employment, was to bar 2), the free movement of international capital. This was done through a series of controls - known as capital controls - which prevented the large scale movement of money between national areas, except by explicit government agreement.

In practice, in the initial post war period, the imperatives of the Cold War held sway; it was not so much the Marshall Plan, but the threat of the Soviets T-34s rolling westwards to the Atlantic, that prompted massive American investment into the ruined economies of Western Europe and the bomb-cratered Japan. Henry Morgenthau, Keynes' American opposite number, said that the security and the economic aspects of the new Bretton Woods order, worked together like the blades of a scissor.

Nevertheless, as Giovanni Arrighi has pointed out, this was the first time that the control over the creation of world money had been taken into the hands of state power in the pursuit of state objectives. This was in stark contrast to the the Gold Standard era where commercial interests were at liberty to create world money in the pursuit of their own profits alone.

CAPITAL CONTROLS

It was this aspect of the Bretton Woods system, that was the last to fall. In the wake of the collapse of the fixed exchange rate regime and stagflation, one of Margaret Thatcher's first acts as a newly elected Prime Minister in 1979, was to drop currency controls, by refusing to renew the emergency acts to control money flows that had been in place since the war.

While there are other aspects to the Neoliberal revolution initiated by Thatcher and Reagan, such as supply side economics, monetarism and other ideological fig-leaves for ripping up full employment goals, smashing unions and attacking welfare and social services, the far less visible lifting of capital controls was the most structurally significant measure.

NEO-COLONIALISM AND ITS DISCONTENTS

But, stepping back from the level of macroeconomic abstraction, we can see in the turmoil of the 70s and stagflation, an echo of the double-pincer movement of resistance that had brought about the collapse of the Gold Standard prior to WW1.

Bretton Woods and the passage from European colonialism to US neo-colonial dominance had seen the progressive breakup of the colonial bond between the old European imperialist powers and their Third World territories. However, this process was not initiated from the centre, but by resistance from the peoples of the colonial territories and, more threateningly to US interests, these forces of anti-colonial resistance were usually unwilling to simply transfer their one-sided trading arrangements over to the new American boss, stepping in as a replacement to the old colonial exploiter. It was these kinds of tensions that had initially got the US embroiled in Vietnam.

Internally, there had been rising union militancy from the late 60s onward, which exploded into open industrial warfare with the inflation shock of the oil crisis. So once again you had this double front of internal and external resistance that buried the Bretton Woods order in a similar way to how the Gold System had earlier been brought down.

THATCHER, THATCHER, WALL SNATCHER

However, neoliberalism's lifting of capital controls did not simply mean a return to the days of the Gold Standard's free flow of capital. The lifting of capital controls, much as it brought about the ruination of third world economies and first world union power, effected something historically more irreversible, it removed, for the first time, the wall that had separated the world into "inside" and "outside" along the border lines of nation states.

At first this was not immediately apparent, as the neoliberal onslaught was part of a counter-offensive by Western capital that meant that outside of the US and Western European core, the "free world" became a virtual prison camp, with military dictatorships established in much of Latin America, Africa and Asia. From Chile to Indonesia, democratically elected governments were overthrown by "anti-Communist" military dictatorships.

The neo-colonial era gave way to the post-colonial era of the "Washington Consensus". Whereas relative underdevelopment and dependency had been maintained after the formal independence of neo-colonialism by the barrier of capital controls, now the role of reproducing subjugation passed to the "aid" policies of the old institutions of Bretton Woods, the World Bank and IMF, now using new ideologically-driven agendas of forcing government cuts on Third World regimes in return for "development" loans to line the pockets of corrupt military regimes selling their peoples into a new regime of international slavery.

DERIVATIVES

The end of international currency stability lead to another aspect of financialisation - the rise of financial derivatives as means of providing drag anchors to floating currencies adrift in the financial ocean of the new globalised world order.

The story of derivatives is a significant part of our current situation, but it is an involved one and has already been addressed elsewhere (see Financial Weapons of Mass Destruction in Red & Black Revolution 14, available at anarkismo.net/article/9850) so we will not go into it in detail here.

FROM INTERBANK TO MONEY MARKET

But it's the rise of the global money market, which is the result of these trends of globalisation, financialisation and neoliberalism that is at the heart of the story of what occurred in the 10/10 event.

We have already mentioned the rise of the Eurodollar market and the repo market and the money funds that came out of the attempts by the US to defend dollar gold convertibility. To this we need to add, in the aftermath of the 1973 oil hike by OPEC, the addition of a huge flood of so-called "Petrodollars" from the earnings of OPEC countries. Together this pool of stateless liquidity transformed the interbank lending market into something more - the money market.

These two terms are still often used interchangeably and indeed, the major players in this market are still the banks. However, to confuse the two terms is to obscure a vital historical development that has transformed our current global situation.

The money market is the interbank lending market, plus this pool of international liquid wealth that rich investors and major companies have direct access to via the institutions of the shadow banking system, but is neither regulated or controlled directly by states or indirectly, by the regulated banks they have some measure of control over.

The term "Shadow Banking system" is a neologism of 2007, coined in order to explain the new financial landscape underlying the then unfolding crisis. It has its beginnings in the money market funds we saw originating in 1971, but also includes hedge funds and other non-bank financial institutions, the special purpose vehicles set up to implement new securitised debt assets created with derivatives and a whole zoo of other players.

The best way to understand the operation of the shadow banking system, and the significance it has for our current, post 10/10 situation, is to introduce a really horrible word: disintermediation.

DISINTER-WHAT?

In any economy there are at any one time people who are producing and people who are not (due to childhood, retirement, temporary illness, training, pregnancy, etc.), and produce must flow from one to the other. In a capitalist commodity society, this means also that money must flow from surplus agents to deficit agents.

The arrangement of collecting money from one (in return for interest payments) and dispensing it to the other (on various repayment terms), is carried out by financial intermediaries like banks. Banks are in the intermediation business where they make money from borrowing short term (e.g. from customers deposits) and lending long-term (e.g. mortgages).

The credit these banking intermediaries give to individual customers or companies is called retail debt. However they are also constantly lending to each other to cover short-term needs, and this interbank lending market is also known as the wholesale debt market.

However, as we have seen, from the 1970s onwards both money funds, hedge funds and large corporations realised that they could cut out the middleman - the intermediary bank - and access the wholesale market directly, saving costs.

For big corporations they did this by issuing IOUs, called bonds if for over a year or corporate paper or bills if for less than a year, straight into that wholesale market. Similarly for big savers, whether super-rich individuals, or institutional savers like pension funds and the sovereign wealth funds of oil exporting countries, they could access better interest rates than a retail bank deposit through money market funds, as already mentioned.

This is disintermediation and it is how the shadow banking system has transformed the inter-

"existing debts can be spun off from bank and mortgage lenders books and transformed into tradable debt instruments — more chips for the casino table" bank lending market into today's money market upon which the banks themselves have come to depend. Here we have a significant reversal - once upon a time the banks were the central mediators, the central circulatory system of the global monetary flow. But now, what was simply the net effect of their own activity has taken on an autonomous existence of its own and, to an increasing extent, controls the banks rather than being controlled by them.

This dependency can be measured by, if not reduced to, something called the funding gap - that is the gap between the customer deposits of the banks, their self-funding, and the money they need to back the loan book that they have.

The BBC's Robert Peston remarked that as recently as 2000, the funding gap for UK banks was nil, by the time the wholesale money market froze up in the late Summer of 2007, the UK bank funding gap was £740 billion or 40% of their loan book - i.e. this was money that they needed to source from the non-bank sector of the money market to roll over their short time liabilities on a regular basis.

CAN'T STOP ME MAO

But before tumbling from the start of the crisis in 2007 to the 10/10 event itself, we need to flash back to the 1970s one last time, to secure the final jigsaw piece to complete our story background.

In 1976 the billion plus inhabitants of Vietnam's giant northern neighbour breathed a collective sigh of relief on the news that the "great helmsman" Mao had breathed his last. Following a brief but vicious power struggle, the "capitalist roader" Deng Xiaoping gained ascendancy and, as the UK and USA took their neoliberal turn under Thatcher and Reagan, decided that now would be a good time for China to abandon its isolationist policy and open borders to the trans-Pacific trade opened by McLean's container-ships.

"Socialism does not mean shared poverty" Deng proclaimed, opening China to global capitalist trade. Although the amount of foreign direct investment capital allowed to flow into China was minimal, neoliberalism's lifting of capital controls allowed the flow of Western capital into both Japan and the surrounding "Asian Tiger" countries of South Korea, Taiwan, Hong Kong and Singapore, benefiting China's development.

Thanks to the logistical revolution effected by containerisation, the electronic and machine parts made in tiger economies could be shipped to the location of the cheapest available labour for assembly, prior to shipping to the US at no extra cost - the location of the cheapest labour was in the Special Economic Zones China opened up in Shenzen next door to Hong Kong.

STROBING THROUGH THE YEARS

Now that the foundation pieces of our jigsaw are in place, we can fast forward through the 1980s, through a series of vignettes.

Flash. A man in a white shirt with a bag in his left hand stands in front of a column of four tanks. Tiananmen Square, 1989, June 4th (or the 35th May as Chinese internet users have to call it, to avoid CP net cops), the Chinese Communist Party crushes dissent with the utmost brutality.

Flash. Night-time, the mob pour towards the nervous border guards behind the barrier, the guard in the pill box cannot raise anyone on the phone, under the press of people the guard raises the barrier, the crowd pours through into the other half of their city. Berlin, 1989, November the 9th. The Russian Communist Party does not follow the lead of their Chinese counterparts. The clumsy attempts at top-down market reform by Gorbachev are less successful than Deng's bottom-up gradualistic measures, and the USSR disintegrates in confusion and an opportunistic scramble for state property. The end result, a new oligarchy in private possession of Soviet means of production and natural resources and a state crippled by debt.

Flash. A white European man with crossed arms stands in dominance over a bowed, cringing Asian despot as the latter signs away the economic independence of the fourth largest nation in the world. It's the 1988/89 crisis known in the West as the "Asian financial crisis" and in Asia, bitterly, as the "IMF Crisis".

That picture of Michel Camdessus of the IMF lording it over Suharto, for 30 years the undisputed military dictator of Indonesia and "friend of the West" is the iconic image of the apogee of the "Washington Consensus" rule of the non-Western world through the vehicle of the Bretton Woods institutions. It is also the "never again" image for Asian economic leaders.

The knock-on effect of that crisis leads Russia to default on the debt saddled on it by the drink-sodden Boris Yeltsin. This in turn causes the collapse of New York hedge fund Long Term Capital Management. As the LTCM hedging strategy had been designed by the guys who got the fake Nobel Prize for coming up with the main maths used to price derivatives (the Black-Scholes equations), pretty much every main financial player in Wall Street had been cribbing their moves. Hence LTCM gets the bailout denied to Asian victims of the crisis, much to the increased fury of their capitalist and governing classes. The latter peg their currency against the dollar at an aggressively low rate and build up large foreign currency reserves in a bid to be never taken by the same financial smash and grab tactics again.

This in turn aggravates further the massive trans-Pacific trade imbalance that has built up between coastal Asia and the USA. As most of the regions manufactures pass through China for the manufacturing stage, as previously discussed, this appears as a bilateral imbalance between the US and China, but is, in the full picture, a regional affair.

In order to run a current account surplus with America (i.e. running a surplus of exports over imports), China and other regional economies have to simultaneously export capital to the US, as well, in order for Americans to buy the next round of Chinese imports. Remember that this is only possible since the Neoliberal dropping of capital controls and is aided by China being able to access the money market directly, thanks to disintermediation.

Because of problems finding productive investment in the US (the competition of cheap Chinese imports being one), this influx of investment dollars results in a massive credit bubble in the US. However, rather than resulting in generalised inflation, the only prices that rise are of fixed assets that cannot be container-shipped from the East, or outsourced to call-centres or computer halls in Bangalore. In other words, real estate. Through the trade surplus, the US is importing disinflation in manufactures and services, meaning the only price inflation is seen in property prices and the stock market. A form of partial inflation that was up until now, commonly mistaken for economic growth. Especially in countries like Ireland, the UK and USA, where workers have moved from rental housing to mortgages.

The illusion of owning a property whose value is increasing creates what's called the wealth effect - the illusion of increasing wealth - so long as the bubble continues to inflate. In fact, even the most simple reality check should reveal that having the price of a basic necessity like housing increasing faster than average wages, is in reality making the mass of average workers poorer, not richer.

Flash. A sunny morning. The second airliner flies into the undamaged tower producing a fireball straight out of a Hollywood disaster movie. New York, 2001, 9/11. Coming in the wake of the beginnings of a shaky recovery from the internet tech-bubble burst of 2000, the US Fed decides to drop dollar interest rates.

Flash. Night-time. Over a still-lit cityscape with cars driving in the street, explosions and fireballs the like of which Hollywood has never dreamed, light up the sky live on CNN. "Shock and Awe", Baghdad, 2003, March 19th. To pay for the invasion the Fed meeting following the invasion of Iraq drops dollar interest rates to an unprecedented 1%. They are to stay there for two years as the initial sprint victory is transformed into a drawn out insurgency with ever spiralling costs.

Just like Vietnam, America's new foreign military adventure is swelling the global supply of the world's reserve currency. But this time, thanks to the trans-Pacific conveyor belt, inflation is not felt in the price of imported consumer goods, but the property market inflates like bubble gum.

SECURITISATION

Here the shadow banking moves out of the shadows and takes main stage. As previously mentioned, the Chinese dollar reserves are poured back into the US money market, but in one aspect, the name of the money market is misleading.

Just as there's no exchange for foreign exchange, so what's traded in the money market is not actually money, but highly liquid debt instruments, like treasury bills and blue chip commercial paper, that can be used as collateral as if they were money. Like going to a casino, you can't normally play with cash itself, you need to exchange your cash for chips to take to the table. Similarly, to enter the money market you need a supply of money market instruments, similarly in the longer term bond market.

Also the regulated banks, still major players, are looking for a way to free existing loans from their loan books (against which they must hold reserve capital, limiting how much they can loan) so they can make new deals.

The answer, thanks to the magic of derivatives, specifically credit derivatives, is securitisation. Through securitisation existing debts can be spun off from bank and mortgage lenders books and transformed into tradable debt instruments - more chips for the casino table.

It was the demand for these instruments by financial traders that led the explosion of the mortgaged backed securities and the now infamous CDOs, not actual demands for mortgages from house hunters. So long, of course, as Treasury interest rates remained at 1% and housing prices continued to rise.

By 2007, as US Treasury Secretary Tim Geithner said in a 2008 speech, the combined assets (i.e. loans) of the shadow banking system actually outweighed the $10 trillion on the balance sheet of the regulated banking system.

Flash. July 2007, Société Générale quietly announces that it is closing two of its Hedge Funds as they are unable to calculate the Net Asset Value (NAV) of the underlying assets - a collection of CDOs. Other people start to ask whether any of the funds they have invested in contain CDOs and if so, how much are they worth? The questions are many but the answers are few.

By the time traders get back from their Summer holidays at the beginning of September (by no coincidence the most popular month for financial crashes or panics), the bank previously feted by the UK financial establishment for its daring and un-stuffy attitude to relying massively on the money market for funding, Northern Rock, falls to a bank run. Thus begins the drawn out credit crunch crisis that results in the fall of Lehman a year later.

TWO YEARS ON

Now is a good time to take stock of where we are in the aftermath of the immediate crisis signalled by the 10/10 event. At the time many promises were made by US, UK and European governments to plug the gaping holes in regulation that had allowed the wheels to fall off.

Two years on we can say that in fact next to nothing has really been achieved. Despite the law recently passed by the Obama administration in the US, no real limits to the use of credit derivatives, and the problems they bring of unlimited leverage and "too interconnected to fail", have really been put in place.

European efforts driven by the French and Germans, always more sceptical of the Anglo-American model of unrestrained financial innovation, are being quietly but effectively blocked by a UK still keen to protect the City of London's dominant role in derivatives and eurocurrency trading (even if most of the big traders there are American or other non-UK firms).

Above all, the continuing march of disintermediation and the shadow banking system, while certainly having suffered a temporary setback in relative asset volumes, still finds the way ahead open for further expansion tomorrow. The only new regulations still on the table is the Basel III increase in the capital reserve requirements for regulated banks, which has no effect on the shadow banking system.

Although the amount of liquidity held in the shadow banking system has fallen from $22,000 bn in 2008 to $17,000 at the most recent estimates, it still remains comparable to the liquidity held in the regulated banking sector.

In the initial panic following the money market heart attack on 10/10, US, UK and other EU governments tore up the neoliberal rulebook and rushed to provide state support for the banking and financial system. Both these costs and the

"the never again image for Asian economic leaders."

"the Chinese Communist Party crushes dissent with the utmost brutality"

"budget deficits must be reduced or states will suffer A Terrible Fate Worse Than Death"

loss of tax and spiralling welfare costs from galloping unemployment have left these states with large fiscal deficits (the gap between a state's yearly income and spending)

No sooner had the initial panic passed, however, and the neoliberal orthodoxy re-asserted itself by saying that budget deficits must be reduced or states will suffer A Terrible Fate Worse Than Death at the hands of the money markets. In May of this year, Greece endeared itself to neoliberal preachers of austerity by being forced into the hands of the receivers (a.k.a the IMF and European authorities) by a combination of fiscal incompetence, corruption and fraudulent bookkeeping.

Even within the twisted framework of conventional economics, the agenda of the advocates of austerity does not make sense. It's not just that the inflation that they have been threatening us with since early 2009 has failed to appear. Its that the conventional distinction between structural deficits and cyclical deficits is completely ignored.

As previously mentioned, its normal for state budgets to go into deficit during the bust phase of the boom and bust cycle (or the "business cycle" as economists coyly euphemise it). This is cyclical deficit, which is normally distinguished from structural deficit - the amount of mismatch between income and spending even in the growth phase of the cycle.

Today all of the current deficits are being treated as if they were structural imbalances, with no reference to the depth of the current crisis. The German representatives are pushing for the allowable rate of budget deficit, expressed as % of GDP, to be reduced from 3% to 0.3%, regardless of what stage of the boom and bust cycle countries are at.

Although the German ruling class' psychosis around anything that might possibly cause inflation may be an historical special case, the general picture of the neoliberal right seizing the crisis as opportunity to attack state provision of social services and the social wage is not.

And yet, the current budget deficits in countries as diverse as Ireland, the UK and US, are not only due to the cyclical effects of loss of tax income (both PAYE and VAT) from the unemployed and the increased outgoings of welfare payments, but the greatest corporate welfare payments ever made. The bail-outs of the insolvent banks that meant the taxpayer, via the state, has been landed with the bad debts of the capitalist class investors in both legal and shadow banking systems. The cuts to public services we are now faced with are to pay for turning the losses of the rich into winnings.

In response to the obvious question - why can't the rich be made to shoulder their own losses? - we are told that if we did that the banks would go broke and capital flight would bankrupt the country. Essentially, the threat is that unless the majority of working people stomach massive cuts in their income to bail out the rich, the latter will take their ball home and we won't have a banking or financial system so capitalism will collapse. That the fundamental implausibility of this threat by the capitalist class to destroy capitalism has not been challenged anywhere in the media is a testament to the latter's intellectual bankruptcy.

Ranged against the sleek apostles of austerity we find the so-called Keynesian opposition of trade union bureaucrats and social democrat intelligentsia. So-called because, whereas Keynes saw that the problems of his age were due to a broken international monetary system, today's sub-Keynesians have no proposals to fix this system at this level, and no real analysis of the changes of the last four decades.

If this article has any purpose it is to argue the case that globalisation is not a slogan or a conspiracy of neoliberal policy, but a material development of the productive forces. And that financialisation is more than an outbreak of regulatory laxness, but a transformation of the global relations of production that shape the capitalist world system.

But the sub-Keynesians are not the only ones who want to turn the clock back. The rise of China as the world's leading industrial power has

worried even the most pro-neoliberal imperialists in the US and EU. Again, unable to really comprehend the changes that they themselves have brought about, they now focus on the new front of the "currency wars" as the great white hope to put China back in its box and shore up the teetering edifice of Western power.

The biggest error of all is the shared assumption between both the neoliberal champions of austerity and the sub-Keynesian defenders of deficit stimulus that there is a single unified "general interest" in the nation-state, much as they disagree what it is.

Although this notion of "general interest" was always a chimera in the class society of capitalism, the current direction of the divided interests of the capitalist and working classes in the West has also been affected by the changes in the world system.

Disintermediation has divided not only individuals but also corporations into two vastly unequal categories.

On the one side are the "mediated", whose only access to credit is via banks that currently have no interest in issuing new credit to "retail" customers. In this category also fall the small and medium enterprise businesses that, while not setting the world alight with the size of their profits, happen to create most jobs for the workforce.

On the other side are the disintermediated, "direct access" large capitalist corporations and super-wealthy who care not about the lack of credit coming out of banks at the moment as they are still able to access the global financial money and capital markets directly.

This poses the possibility of a kind of tourniquet effect, of a relative recovery of capitalist profitability within the "inner circle" of the disintermediated, alongside a persistent high unemployment, lack of credit for SME and general stagnation for the greatest number.

In such a world the disintermediated have no particular fear of a generalised decay in the national societies of which they are nominally apart, as it does not threaten their ability to make profits from the global capitalist machine. Debt-deflation spirals actually increase the wealth of those who are net capital holders. Those who have amassed great fortunes in the neoliberal decades, expect to continue making money during the decade of austerity their well-fed lackeys are promising us.

But if the "general interest" is a myth as far as the "austerity now" brigade are concerned, it is no less so for the working class. The vision of an alternative that the sub-Keynesians hold out, is an illusion. They have no official explanation of why their alternative, supposedly in everyone's interest, is not the governing one. In private they may admit that it's because the governing orthodoxy is in the narrow class interests of the capitalist class. In that case then, how can an alternative be posed except that to admit itself as the antagonistic interest of the working class?

Further, where can the agency and the power be found to impose one class agenda over another, if not through the class struggle? Yet the very union bureaucrats who are advancing the sub-Keynesian agenda are the same people who deliberately sabotaged any class struggle or development of real worker's challenge to the austerity agenda, for fear of losing control over their membership and thus their bargaining chips with the bosses.

It is true that the austerity agenda is an attack on the working class and must be resisted. But it must be resisted from a position that knows that no "deal" in the general interest is possible. It must be fought on the basis of developing class power, both inside and outside of the formal wage relation, given the weakening effect of long-term unemployment on industrial bargaining power. Above all it must be fought on the basis of class antagonism and autonomy and the reaching out across national borders. That is where we are today.

Science for a Fair Society

WORDS:
GAVIN GLEASON

We all want a better world, but is it possible? The recently published *The Spirit Level* joins a growing body of evidence for the viability of a better world.

Since very early times, humans have wondered about how best to live together. What we now call political philosophy began millenia ago. There have been many schools of political philosophy, many of which have given tacit support and justification to the present social order. This type have always been popular with rulers, the nobility and the rich and so have enjoyed a great deal of financial, and even legal support.

However, there are also those who have sought to question whether the status quo is indeed the best manner in which humans might live together.

In 300 CE Bao Jingyan wrote a treatise entitled "Neither Lord Nor Subject" [1].

"As soon as the relationship between lord and subject is established, hearts become daily more filled with evil designs, until the manacled criminals sullenly doing forced labour in the mud and the dust are full of mutinous thoughts, the Sovereign trembles with anxious fear in his ancestral temple, and the people simmer with revolt in the midst of their poverty and distress; and to try to stop them revolting by means of rules and regulations, or control them by means of penalties and punishments, is like trying to dam a river in full flood with a handful of earth, or keeping the torrents of water back with one finger."

This idea that our social structure itself is responsible for many of the conflicts that we experience has enjoyed resurgence periodically throughout history. Indeed, people are still investigating these questions.

Science has provided us with powerful tools which allow us to systematically investigate phenomena in the natural world. Psychology and Sociology have turned these tools towards the investigation of ourselves and how we relate to each other. We are now in a better position to investigate these question than at any time in history.

EQUALITY AND A HEALTHY SOCIETY

Equality has been an important feature of political thought in Europe since the Enlightenment period and gained widespread popularity during and after the French revolution.

The republican revolutions of Europe removed the greater portion of the systems of nobility and privilege that separate people into various distinct legal classes. Feudalism is largely a thing of the past, and has been replaced with legal equality. Over the course of the 20th century, legal equality has been extended to include nearly everyone (though citizenship is still restricted on grounds of foreign birth or sometimes even more restrictive rules about origin).

However, there are still large material inequalities. In fact, income and wealth inequality in the US and UK has been on the rise for the last three decades.

But why should we care? Is inequality something we should worry about, or is it a good thing? Brian Griffiths, former adviser to Margaret Thatcher and an adviser for Goldman Sachs, opined at a panel discussion in 2009 that, "We have to tolerate the inequality as a way to achieve greater prosperity and opportunity for all". [2]

This is a bold thesis, and one which does not stand up to scrutiny. Recently, Richard Wilkinson and Kate Pickett have gained some notoriety for their book, The Spirit Level[3] detailing their investigations into the impact of inequality.

Their findings come as a fairly staggering indictment of the above statement; increasing equality actually leads to huge global benefits. These benefits are so widespread that even some of the richest people in society gain from the increase in equality.

Based on the strength of the correlations between equality and improvement in social welfare a decrease of inequality by half in the UK would lead to a huge list of improvements:
- Murder rates would halve
- Mental illness would reduce by two thirds
- Obesity would halve
- Imprisonment would reduce by 80%
- Teen births would reduce by 80%
- Levels of trust would increase by 85%

Although the study has been attacked on the basis that it has derived the correlations by looking at different European countries with different social structures, comparing apples and oranges , the results are so robust that extending the study to look at the various US states in terms of the economic inequality by state showed essentially the same features. It is rare that statistical studies on the scale of society are re-targeted to a new data set this way and retain so much predictive power.

CORROSION OF DEMOCRACY

It has been known since the time of the Athenian city-state that large accumulations of wealth can have corrosive effects on democracy. Indeed this underlies the reasoning behind having a system of lots for many official positions, so as to avoid the influence that would-be oligarchs could have on the society [4].

The ever increasing inequality in the UK and the US has led to an erosion of what democratic principles existed. Thomas Ferguson undertook to study the impact of money on elections in the US in his book

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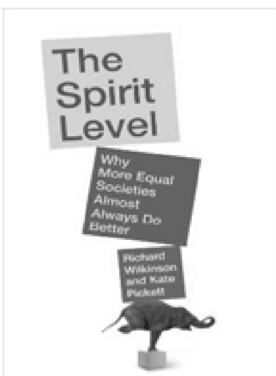

Title: The Spirit Level: Why more equal societies almost always do better
ISBN: 9780141921150
Publisher: Allen Lane
Available online from
PENGUIN.CO.UK
Cost £9.99

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"Golden Rule" [5]. In his investigations he found that in 9 out of 10 US elections, the outcome could be predicted by campaign spending.

Of course the impact of campaign contributions would be much less of a problem in a system in which individuals were much closer to material equality. The extraordinary inequality present in the US and UK means that a very few people will have tremendous influence on who gets elected.

While this means that those politicians who are most favourable to moneyed interests are much more likely to be elected, it does not necessarily prove that the money turns into policy decisions. Figuerdo Edwards' investigation into this question showed a very strong correlation between money and policy decision. The study evaluates regulation with regards to telecommunications companies [6]. In his research he found a strong correlation between campaign contributions by telecom companies and favourable policy decisions made in proportion to the contributions given.

Democracy becomes little more than a farce when policy is driven by the tyranny of the dollar and the only function of elections is to provide a veneer of respectability. A properly functioning democracy requires a substantially more even distribution of resources.

MOTIVATION

Those who claim the need for inequality often claim that without the material incentives given by unbounded income possibility, people would cease working harder when they reached the top. In addition those who are at the very bottom wouldn't bother working at all if they weren't in permanent threat of poverty.

This wisdom is indeed widely accepted, but does it stand up to systematic investigation? Dan Pink wrote a popular survey of literature on the subject of motivation entitled Drive [7]. He shows that a large body of research over the course of many decades has shown that material incentives often do not result in improvements in performance. Indeed, in a large number of cases they have the opposite effect.

The tendency for an outside incentive to reduce the capacity to solve a problem is known as the overjustification effect. Perhaps the earliest demonstration of the effect was with children in the 3-5 year old range who were offered a ribbon for drawing with felt-tipped pens. A second group was given an unexpected reward of a ribbon. A third group was a control group and was given no reward. Later, in a free-play setting the children who had been given a reward for the pens were less likely to play with the pens further [8]. The most widely accepted conclusion is that expected rewards undermine intrinsic motivation.

Sam Glucksberg performed a similar experiment testing the ability to solve cognitive tasks on adults with monetary incentives. He found that, again, the extrinsic rewards actually diminish the capacity to solve the problem. Since that time the effect has become very well established [7].

So what serves as intrinsic motivation? As it turns out non-tangible rewards, such as verbal praise, do not appear to undermine intrinsic motivation, but can act to reinforce it [9].

If monetary incentives do not increase the ability to solve complicated problems then the question must be asked: why is that they we are paying huge amounts of money to CEOs, bankers and others who are supposed to be dealing with the complex problems of organising society?

HAPPINESS

The connection between material wealth and well being has been the subject of argument for a long time. It has often been claimed that material wealth does not lead to happiness.

Daniel Kahneman and Angus Deaton performed a study of 450,000 responses to the Gallup-Healthways Well-Being Index [10]. Their finding was that, indeed money does improve self reported emotional well being up to an annual income of approximately $75,000.

Not only is inequality depriving a substantial number of people of emotional well-being, it is also of no benefit to the rich who horde it. In 2004 the mean income in the US was $60,528 [11], this is about 40% larger than the median income [12]. A 40% increase in income to most Americans would, according to this study, lead to a very substantial improvement in emotional well-being. This is without even accounting for the fact that there are even greater disparities in wealth than there are in income.

CONCLUSION

Many of these ideas have been folklore among socialists for over a century. Of course, folklore is not a sufficient basis for a fair and egalitarian society. However, it appears that the intuition behind this folklore stands up to scientific scrutiny, while the widely expressed myths of the usefulness of inequality do not. None of these investigations will ensure that we can construct a society that is at once focused on improving the conditions of humanity and based on a very realist, scientific and rational approach to the problems of humanity. However, they do lend powerful evidence that such a world is possible.

Black Flame and the anarchist tradition

This new history of anarchism provides a thorough and approachable examination of the tradition's key ideas, debates and strategies, placing them in the context of the social struggles in which they arose.

WORDS: DARRAGH MCAOIDH

Anarchism is not blessed with the most attractive of brand names. While dictionaries and news media alike have successfully associated it with disorder and chaos, the anarchist political pantheon itself seems to share these traits; anarchism is label to both capitalists and communists, radical individualists and revolutionary socialists.

What can 'anarcho-capitalists' such as Murray Rothbard have in common with revolutionaries such as Mikhail Bakunin and Piotr Kropotkin? Even the latter, among the most important of the movement's theorists, himself claimed that anarchism's political pedigree stretched back as far as Ancient Greek philosopher Xeno and Lao Tzu, the originator of Taoism. If one tries to and accommodate such a diversity of personas under this single term, the word loses all meaning.

It is understandable then, that the first task attempted in Black Flame is to define the tradition more clearly. The authors place it clearly and distinctly within the confines of revolutionary socialist thought from the 1860s onward, excluding the non-socialist elements often ascribed to anarchism. "'Class struggle' anarchism, sometimes called revolutionary or communist anarchism, is not a type of anarchism; in our view, it is the only anarchism."

The purpose of this act of definition is quite straightforward; having clearly defined what anarchism is, the authors can then explore its key elements and internal divisions, and outline a history that is coherent without being uniform. As the first instalment of a two-volume study, Black Flame focuses on the ideas of anarchism, and uses the historical background to clarify debates and strategy, leaving in-depth historical study to the sequel.

ANARCHISM VS. MARXISM

By sacrificing political breadth, Schmidt and van der Walt find intellectual depth, and the work undertakes a thorough exploration of the debates and questions that shaped anarchism, tracking the movement's engagement with other socialist currents, its internal debates, and its crucial points of development. They argue, contrary to some other radical writers, that despite familial connections between anarchism and Marxism, the differences are too deep for the two to be synthesised.

The anarchist critique of Marx and Marxism is highlighted, emphasising the critical appropriation of elements of Marxian economics (Kropotkin notably challenged the Labour Theory of Value), while forcefully dismissing his conceptions of historical and political change.

The determinism of Marx's vision of progress through historical changes was attacked by Bakunin as both irrational and nationalistic, as seen in the former's advocacy of German and British imperialism as necessary preconditions for world revolution. Politically, Marx's conception of the Communist Party as the true representative of the working class, with the planned route to socialism passing via state rule was seen as meaning that Marx's dictatorship of the proletariat would become the dictatorship of the Party.

DISTINCTIONS WITHIN ANARCHISM

While these political distinctions from Marx and Marxism are shared by all anarchists, the level of strategy is itself the basis for distinctions within anarchism, between what the authors call 'mass anarchism', or strategy aimed at building and radicalising mass movements to create change, and insurrectionist anarchism, which emphasises violent action as the path to revolution.

The violent assassinations and 'propaganda by the deed' of the late 19th and early 20th century marked the ascendancy of the insurrectionist strand, and anarchists were responsible for the murders of monarchs, industrialists and presidents throughout this period.

However, this tendency soon declined dramatically as militants realised its ineffectiveness; they had invited repression without advancing their influence. As Malatesta commented, "these attentats, with the people insufficiently prepared for them, are sterile, and often, by provoking reactions which one is unable to control, produce much sorrow, and harm the

Title: Black Flame: The Revolutionary Class Politics of Anarchism and Syndicalism
Author: Lucien van der Walt and Michael Schmidt
ISBN: 9781904859161
Publisher: AK Press
Available online from
akpress.org
Cost $22.95

very cause they were intended to serve."

Other former advocates of insurrectionary strategy such as Kropotkin, Johann Most and Alexander Berkman turned instead to building a popular movement, deciding that "the key strategy was to implant anarchism within popular social movements in order to radicalise them, spread anarchist ideas and aims, and foster a culture of self-management and direct action". They would find in the emergent syndicalist movement the manifestation of their principles, "anarchism made practical".

ANARCHISM AND SYNDICALISM

The strategic turn to a gradual development of class strength is, for Schmidt and van der Walt, a turn back to the original lines of anarchist thought. Syndicalism, they stress, had been advocated by Bakunin and his followers in the First International, having argued that the International should strive to be an international labour federation not, as Marx wished, a grouping of political parties.

Again, there is opposing trends in history writing with which to engage. Some historians have attributed syndicalism to Sorel, a romantic French writer, while others have claimed it for Marxism. The authors point out that the former was entirely unconnected to the contemporary syndicalist movement, while Marx and Engels themselves had attributed syndicalism to Anarchism, lamenting the 'Bakuninist' belief that the "general strike is the lever employed by which the social revolution is started."

This continuing emphasis, the authors argue, indicates that syndicalism should be understood as an element of the broad anarchist tradition, and thus that syndicalists can be claimed as part of this tradition. While this assertion may have surprised Marxist syndicalists such as James Connolly or Daniel De Leon, the broad argument for syndicalism as the progeny of anarchism is well-made.
Anarchist activism and influence within the union movement reached its peak between the 1890s and 1920s, and there was much debate about how this involvement could best be turned to building a revolutionary movement. A common emphasis the authors find is "the project of creating a revolutionary counterculture within the popular classes."

COUNTER-POWER AND COUNTER-CULTURE

The unions were the most powerful arm of the workers movement, but they would not themselves, however democratic, lead the way to revolution. Instead anarchists must work within and outside such structures, to spread their ideas and build a revolutionary counter-culture among workers and peasants, an "oppositional counterpublic". Syndicalist unions would be capable of pursuing both reforms to improve daily life, but it would take conscious work from revolutionaries to ensure that they were also spaces for politicisation and education.

The authors find that the most powerful movements were those which spanned across many different spheres, and that libertarian "schools, centres, media, and theatre" all played a role in the politicisation and empowerment of the popular classes.

The Spanish anarchist Buenaventura Durruti wrote that "we carry a new world in our hearts". The new world was not confined there, but could be found in the daily lives of millions, in the practices and institutions of working class counterpower.

A GLOBAL MOVEMENT

Although Spain is the most well known site of anarchist power, it was no exception. The Marxist historian Eric Hobsbawm had explained away the power of the Spanish anarchist movement as due to an irregularity in 'Spanish character'. Instead we see that anarchism was present and prominent throughout the world, from the Pacific Rim to the Southern Cone, with anarchists at the forefront of strong class movements wherever they were.

Indeed, the point is made that anarchism's period of strength, from 1880 to the 1920s coincided with the globalisation of the world economy, and it was the free movement of labour that was the source of much of its power. Militants were often expelled from home countries only to organise in the colonies, and anarchists and syndicalists were the first to create multi-racial unions in Africa and the Americas, advancing class unity and organisation.

In the current phase of globalisation, then, the authors hope that such strength can be found again, that the current crisis of progressive politics can give way to "a multiracial and international movement with a profound feminist impulse, a movement with an important place in union, worker, and rural struggles, prizing reason over superstition, justice over hierarchy, self-management over state power, international solidarity over nationalism, a universal human community over parochialism and separatism".

For all those on the left, this book will provide a valuable introduction to, and explication of, anarchist thought, with a powerful assertion of its historical and intellectual depth as well as its continuing relevance to the project of human emancipation. For anarchists, this will be a remarkable synthesis of movement history, a spur for additional research and study. But most of all, it is a powerful assertion of the value of our tradition, as a guide in strategic debate and a continuing source of inspiration.