Meltdown!

A socialist view of the capitalist crisis

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Published by Resistance Books
Australia
2009

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Note

Throughout this pamphlet dollars ($) refers to US dollars unless otherwise stated.

ISBN 978-1-876646-16-5

Published by Resistance Books, 23 Abercrombie St, Chippendale NSW 2008, Australia

Printed by El Faro Printing, 79 King St, Newtown NSW 2042, Australia

Don't Pay for a Failed System

By Tony Iltis

"Meltdown" is a word that one hears a lot on the news these days.

Despite the $700 billion government bailout of banks in the US, similar (albeit smaller) bailouts in Europe, and various forms of state intervention in the finance industry on both sides of the Atlantic, sharemarkets worldwide are in free fall. Comparisons with the Great Depression of the 1930s are common. Homelessness and unemployment are rising and are set to increase dramatically.

MeAnwhile, more quietly but even more relentlessly, another meltdown is occurring: that of the polar icecaps. According to the Western world's establishment politicians and corporate media, the way to avert catastrophic climate change lies in setting up elaborate emissions trading schemes and carbon markets: that is, relying on precisely the mechanisms that have created the economic meltdown!

Superficially, the crisis has created a dramatic reversal in the orthodoxy of Western economic policy. After decades of preaching the virtues of deregulation of financial markets, privatisation of public assets and the superiority of the "hidden hand of the market" over government involvement in the economy, Western governments are now spending gargantuan amounts of public money intervening in the economy.

Following the US government's nationalisation of the mortgage institutions Freddie Mac and Fannie Mae and insurance giant AIG, and its unpopular $700 billion bailout of the banks, British PM Gordon Brown announced a £50 billion ($89 billion) bailout for British banks, including partial nationalisations, with a further £450 billion being earmarked should the banks need more.

Likewise in Germany, France, Belgium, the Netherlands, Ireland and

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From *Green Left Weekly*, October 11, 2008 (http://www.greenleft.org.au). *Tony Iltis* is a regular contributor to *GLW*; he is also a member of the Democratic Socialist Perspective, a Marxist affiliate of the Socialist Alliance.

Luxembourg, massive state interventions and partial nationalisations are on the agenda.

In Iceland, where a globally oriented finance industry dwarfs domestic economic activity, the three largest banks have been taken over by a government desperately trying to stop the country becoming bankrupt. Iceland's stock exchange has closed.

There has also been mutual recrimination between the governments of Iceland and Britain. The British government has condemned Iceland for not guaranteeing the deposits of British individuals and institutions in Iceland's banks, including about £2 billion from British local councils. Iceland, for its part, has charged that the British seizure of Icelandic bank assets (using anti-terrorism laws!) has contributed to the crisis.

Iceland is currently negotiating a 4 billion euro bailout from Russia.

'Hidden hand' still reigns

However, the failure of this expensive government intervention to halt the global collapse of sharemarkets — and remove the spectre of a massive downturn in production, fuelling unemployment and poverty — reflects that the old orthodoxy has not, in fact, been overturned. The thrust of the "emergency" economic interventions has been to pump money into the finance industry in the hope that this will encourage the banks to restart the flow of credit to productive industry. The "hidden hand of the market" still reigns.

At the heart of the crisis is speculation on debt. With US wages remaining static since 1973, while the cost of living has risen considerably, consumer spending (and therefore corporate profits) have been maintained by a credit-fuelled economy.

Furthermore, deregulated financial markets created a huge industry based on repackaging and reselling debts, creating incomprehensible investment options ("collateralised debt obligations", "credit default swaps"). In the US these "products" grew to a value of $64 trillion — five times the annual output of the US economy.

There are nationalisations and there are nationalisations. Under the various bailouts, the assets that governments are taking over are the so-called "toxic assets" — precisely those economic "products" that have proved to be worthless.

A more rational response would be to simply put the banks under state ownership.

For their former owners, who have made countless billions, compensation should not even be considered — criminal charges would be more

appropriate.

What $700 billion could achieve

It is worth considering what the $700 billion spent on bailing out the US banks could have been spent on. Less than $200 billion would end poverty in the US.

The widespread hostility of the US working class to the bailout reflects that while money can be found to protect billionaires' profits from "toxic assets", no assistance has been forthcoming for those who've lost their homes through "toxic" variable interest rate mortgages.

Earlier this year, US President George Bush vetoed legislation to give medical coverage to 9 million poor children in the US, on the grounds that such expenditure, less than $6 billion, was "useless"!

Seven hundred billion dollars is twice the combined debt of the world's poorest 49 countries. Underpinning world poverty is the fact for every dollar spent on Western aid to the Third World, $25 are paid back as debt servicing. Currently, global inequality condemns 11 million children to death each year due to lack of healthcare, sanitation, food and water. Ten billion dollars — a 70th of the bailout — would be sufficient to save these lives.

Six billion dollars would provide basic education for the whole world, while $9 billion would provide water and sanitation, $12 billion reproductive health for all women and $13 billion adequate nutrition and healthcare.

Along with increasing inequality within nations, the doctrine of neoliberalism (reliance on the "hidden hand of the market") has more than doubled the wealth gap between rich and poor countries.

Much trumpeted debt relief and aid programs (such as the "Millenium Development Goals") make any assistance dependent on poor countries following International Monetary Fund (IMF) diktats to privatise and deregulate their economies for the benefit of Western corporations.

Privatising and commodifying basic services such as water and sanitation, and the removal of food and fuel subsidies, literally means misery and death for millions.

The IMF's offer of similar "assistance" to Western countries in response to the current financial crisis should be treated with trepidation by workers and poor people in these countries.

War spending

While the $700 billion bailout dwarfs Western social expenditure and international development aid, it is itself dwarfed by spending on the military.

Since the 2003 invasion of Iraq, the US has spent $3 trillion on the war alone. The $1.339 trillion annual global military expenditure is, as much as the bailouts, assistance to the corporate elite.

Not only do corporations make direct profits through the arms trade, and increasingly privatised military infrastructure, military force ensures Western corporations' access to the world's resources and the labour of its people.

With excuses for the Iraq war (weapons of mass destruction and involvement in the 9/11 attacks) long discredited, it is difficult to disguise that the real reason for the invasion was to corner the fossil fuel market. The centrality of fossil fuels to the Western-imposed global economic system raises the question of the other meltdown: global warming.

Both crises have the same source: the profit-driven capitalist economy. Even when the economy was apparently booming, it was incongruous that finding solutions to the climate crisis was tasked to economists, such as Sir Nicholas Stern in Britain and Professor Ross Garnaut in Australia.

It should now be considered insane for the market to solve the problem of climate change when it has proved spectacularly incapable of solving the problems of the market! It is necessary to redefine what is meant by "the economy".

Mainstream economists have claimed that speculators trading incomprehensible financial products based on debt are creating wealth. The financial meltdown has proved these claims fraudulent.

Wealth is actually created by people working to make goods and services. The corporate rulers of the world take this wealth rather than create it.

With a large increase in unemployment looming due to the financial collapse it is worth remembering that the solutions needed to avert catastrophic climate change are labour intensive: for example, wholesale conversion of entire economies to renewable energy, sustainable agriculture and public transport instead of private car-based transport.

More than 150 years ago Karl Marx and Frederick Engels, explaining that the working class, as the creators of wealth, could, if they took control of society, create a world without poverty, inequality or oppression, said, "We have a world to win".

Today it could be added that we also have a world to lose.■

A Guide to the Wall Street Meltdown

Lee Sustar

Many people are understandably frustrated when they try to make sense of the world financial crisis based on what they read in mainstream newspapers.

These papers typically fence off business news into a special section dominated by jargon. Until the economic crisis broke, television news anchors rarely mentioned the economy except to give stock market reports or figures on economic growth.

Then there are specialised business newspapers, like the *Wall Street Journal*, that are off-putting to working people, and intentionally so. Their audience is a select group of executives and investors who write and speak in code.

And when it comes to the financial jargon you read in the press, that's even more impenetrable. Is the entire world economy really in crisis because investors poured money into something called "mortgage-backed securities"?

Capitalism

More than a century ago, Karl Marx put forward the first scientific understanding of the dynamics of capitalism. The driving force of the system, he argued, was blind competition between rival capitalists.

Instead of organising their business around the priority of meeting human needs, capitalists seek to maximise profits by paying workers for only part of the value that they produce, and keeping the surplus for themselves for profits, which are then used to finance investments to further expand production.

By the second half of the 19th century, capitalist enterprises had become too big to rely simply on their own profits to finance expansion. Traditional loans from banks weren't sufficient either.

But if a given company didn't expand, it would lose out to its

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From *Socialist Worker* (US), October 11, 2008 (http://socialistworker.org).

competitors.

The capitalist solution was to raise money by selling ownership shares in companies, as well as borrowing money by selling bonds (a promise to repay investors what they put in, plus interest).

Stocks, bonds and other financial instruments — collectively known as securities — had given rise, by the start of the 20th century, to an enormous credit system, complete with stock exchanges and other financial markets.

As Marx wrote in Volume 3 of *Capital*, credit greatly expands the "scale of production, and enterprises which would be impossible for individual capitalists". This accelerated the development of capitalism — by eliminating the need for all transactions to directly involve the exchange of money, which sped up the rate at which commodities could circulate in the economy, something that was essential for the growth of a world market.

The expansion of what later Marxists called "finance capital" created what Marx called "money capitalists" — investors who have no direct relationship to the actual production of goods.

Finance capital played a decisive role in the creation of modern corporations a century ago by organising the mergers that led to monopolisation of entire industries.

The credit system, according to Marx, "reproduces a new financial aristocracy, a new kind of parasite in the guise of company promoters, speculators and merely nominal directors; an entire system of swindling and cheating with respect to the promotion of companies, issue of shares and share dealing. It is private production unchecked by private ownership."

It is this type of speculation and gambling on the financial markets that set the stage for today's economic crisis.

'Free market' deregulation

For the past three decades, US and other capitalist governments have pursued deregulation of banks and financial markets. This was a central part of the pro-market, neoliberal economic program — and it freed Wall Street from regulations that date from the Great Depression that followed the financial crash of 1929.

Deregulation resulted in the creation of a "shadow banking system" that handles $10 trillion of financial activities — equal in size to the traditional, regulated banking system.

Much of the shadow banking system revolves around so-called "hedge funds", which allows pools of private investors to speculate on various trends in the economy — movements in the value of national currencies, interest rates

and more.

Many hedge funds specialise in trading "derivatives" — that is, financial instruments that are "derived" from the value of an underlying stock, bond or other security.

The managers of these funds are often mathematicians, who use computer models to calculate these debts and execute billions of dollars in financial trades with the flick of a few keys.

For a long time, it seemed as if nothing could go seriously wrong, as the Wall Street banks pulled in enormous profits in these new, unregulated markets.

One crisis was averted in 1998 when a hedge fund, Long Term Capital Management, made a bad bet on derivatives related to the Russian currency, the ruble, and went bankrupt. The US Federal Reserve had to line up several big Wall Street banks to bail out the fund and avoid a freeze-up of the credit system that might have taken place if a chain reaction followed Long Term Capital's collapse.

Almost exactly 10 years later, however, the credit markets are once more freezing up. Again, the reason is a series of bad bets by traders of derivatives. Only this time, almost every big US and European bank is involved, with potentially devastating consequences for the world economy.

Here's where the housing bubble comes in.

Wages and debt

Workers' wages in the US have been stagnant since 1973, with family income increasing only because of the increased numbers of women in the workforce and people working longer hours.

But in the economic expansion that began in 2001, family income actually declined — the first time this has happened since the World War II.

Today, 26.4% of US workers work for poverty wages, and during the 2000s economic expansion workers' productivity grew by 11%, while real wage gains (after inflation is taken into account) amounted to nothing.

At the other end of the spectrum, the richest 1% saw its overall share of annual earnings almost double from 7.3% in 1979 to 13.6% in 2006. The top 0.1% did even better — their annual earnings increased 324% from 1979 to 2006.

This accumulation of wealth by the very rich underpinned the growth of hedge funds and other forms of financial speculation.

As a result of this inequality, workers had to go into debt to maintain their standard of living. The US population has $2.6 trillion in consumer debt, up 22% just since 2000.

Millions of people borrowed by taking out a second mortgages on their homes — a figure equal to $1.1 trillion by early 2008. By the end of 2007, mortgage debt was $10.5 trillion, more than twice that in 2000.

Loans with low introductory "teaser" interest rates enticed workers to keep borrowing. People figured they could avoid paying the higher rates that were due to kick in later by simply refinancing.

They were encouraged to believe that it would become possible to borrow on better terms in the future because the value of their homes was bound to increase.

Mortgage lenders saw this as a "can't-lose" proposition. They were able to sell the huge volume of loans to Wall Street banks, which bundled them into bonds known as mortgage-backed securities. These securities could then be sold off to other banks and investors around the world.

The holders of these securities were supposed to get a steady stream of revenue as homeowners made their monthly mortgage payments.

The scheme was bound to run into trouble at some point — when the market was flooded with too many houses or a recession cut into homeowners' ability to make mortgage payments. But the problem was greatly magnified by the role of the shadow banking system.

INEVITABLE CRISIS

It worked like this: Traders created a totally unregulated market in derivatives based on the value of mortgage-backed securities. The most important of these were "credit default swaps" — a form of insurance for those who invested in mortgage-backed securities.

If the mortgage-backed securities declined in value, the company that sold the credit default swap was obliged to cover those losses.

By early 2008, the value of credit default swaps was an estimated $62 trillion — nearly five times the annual output of the US economy.

Once the US housing market went into free fall, the companies that sold these credit default swaps, like the insurance giant AIG, were on the hook — but they don't have the money to cover the losses. That's why the supposedly free-market conservative Bush administration stepped in to nationalise AIG.

But the bad debt is everywhere — and it goes far beyond housing. Governments in the US and Europe have been forced to nationalise banks to avoid a chain reaction that could take down the entire financial system.

And now the Bush administration has gotten Congressional approval to spend $700 billion of US taxpayer money to buy up bad debts from US banks — a colossal robbery of workers by the minority of wealthy parasites who

presided over this catastrophe.

It's impossible to predict the depth or length of the unfolding economic crisis. But one thing is already clear: the neoliberal, free-market ideologues have been exposed as apologists for a system that will be ruthless in its attempts to make workers bear the costs of this crisis.

Those who argue for a socialist perspective will find an audience open to alternatives to this chaotic system.■

Monopoly Finance Capital & the Crisis

[The following interview with *Monthly Review* editor John Bellamy Foster was conducted by the Norwegian daily *Klassekampen,* October 15, 2008.]

Klassekampen: **Is the credit crisis a symptom of overaccumulation of capital? It seems to me that investments worldwide, but especially in the United States, were funneled into the traditionally "safe" housing market following the bursting of the dotcom bubble. This over-investment in turn generated a new bubble, thus causing today's havoc. Is this correct?**

JBF: Yes, I agree that this is due to what might be called an overaccumulation of capital in a number of senses: an overbuilding of productive capacity (physical capital) in relation to a demand constrained by monopoly within what economists call the "real" (as opposed to financial) economy; an over-amassing of profits and wealth at the top of society; and a hypertrophy of financial claims to wealth. In terms of the financial crisis itself, there has been a massive, highly leveraged expansion of money claims to wealth, creating a huge debt overhang, and forcing, at this moment, a massive devaluation of capital. All of this is related, however, to the breakdown of the capital formation process, accumulation proper, in an increasingly stagnant real economy. These are contradictions of what I have called the phase of "Monopoly-Finance Capital" (*Monthly Review*, December 2006).

The bursting of the dot.com or New Economy bubble in 2000 resulted in what has been dubbed "the great bubble transfer" whereby the bursting of the New Economy bubble compelled the US Federal Reserve to lower the main interest rate it controls (the Federal Funds rate), leading to a new and more massive bubble based in home mortgages, the dangers of which were apparent early on (see "The Household Debt Bubble," *Monthly Review*, May

From *MRzine* (US), http://mrzine.monthlyreview.org.

2006). This involved an enormous expansion of consumer debt despite the fact that real wages had been stagnant in the United States since the 1970s creating an unstable situation. It also involved the need on the part of capital to book ever increasing profits from finance, achieved through securitisation of every form of what had previously been individual debts — especially home mortgages. This in turn led to the extension of mortgage financing to riskier and riskier customers under the theory that new "risk management" techniques had devised the means (hailed — bizarrely — by some as the equivalent of the great technological advances in the real economy) with which to separate the weaker from the stronger debts within the new securities. These new debt securities were then "insured" against default by such means as credit-debt swaps, supposedly reducing risk still further. This was the ideology behind the housing bubble. (See "The Financialisation of Capital and the Crisis", *Monthly Review*, April 2008.)

To what can capital turn now? Will it generate another bubble in even "safer" areas, such as natural resources? Food? I must admit that western financial capital does not seem to be very geographically expansive at the moment, but could this change?

I don't think capital has anywhere to turn in the immediate situation, that is, there is no hope for restarting accumulation right now. One hears all the time about the creation of new bubbles, and certainly since financialisation is how capital in the monopoly-finance phase has sought to combat stagnation, this is a natural enough question to ask. But it is often treated as though bubbles, i.e. major speculative episodes within the more ongoing financialisation process, can be based on anything whatsoever. Historically, however, such speculative bubbles in the advanced capitalist economies are based in the stock market and real estate. Neither is likely to be expansive at present. We are in a period in which a massive wiping out of value is taking place, which will eventually, as in all such occasions in the history of capitalism, create the basis for renewed accumulation. But the process has to work its way out first. Right now we can say that there is a crisis of financialisation on top of stagnation, pulling the economy doubly down. A speculative bubble in natural resources or food is hard to imagine since these are known to be the most volatile areas in which to invest; right now commodity prices are dropping rapidly in response to world recession, increasing fears of deflation, and placing third world economies especially in danger.

The system has geographically expanded throughout its history and in recent decades, but is coming up against limits in this regard today. Just think

of the massive depeasantisation of the world that we have seen in the past few decades, perhaps the greatest movement of peoples in all of human history, in effect a whole new set of enclosures on a global scale. China's enhanced role in the world economy, indeed the only significant sustained source of growth in the global economy for more than a decade, on balance seems not to have increased the stability of the system — if anything the reverse. Geographically, and in terms of imperialism, we are up against the kind of absolute limits of capitalist expansion pointed to by Rosa Luxemburg. This also has an ecological aspect to it. The best analysis I know of this problem is an article by Jason Moore entitled "Ecology and the Agrarian Question in World-Historical perspective," which we are publishing in the November 2008 issue of *Monthly Review*, though the work of Harvey and Wallerstein in this area is also crucial.

Our very own Svein Gjedrem, chief of the Norwegian central bank, has confirmed that this crisis is the worst since the thirties. Just a year before he and other experts reassured us that the subprime crisis was "an American phenomenon" and would "quickly pass." Why does modern economics fail to predict such cataclysmic events?

The fact that we are confronted with the worst financial and economic crisis in the advanced capitalist world since the 1930s is an empirical fact that no informed individual at this point doubts. The failure to predict in the era of monopoly-finance capital and financialisation has to do with a number of factors, including the psychology of all speculative booms throughout the history of the system. As Marx observed in *Capital*, "Business is always thoroughly sound, and the campaign in full swing, until the sudden intervention of the collapse" (Vol. 3, chapter 30).

With respect to economic theory, one can point to the deficiencies of orthodox or neoclassical capitalist economics, which has no way of understanding these things within its fundamental model. Basically, it assumes a kind of non-relation between what it calls the "real economy" and the money or financial economy. The belief is that what goes on in the realm of credit/finance is meant to service the real economy, providing it with needed financing (and financial services generally). But beyond that what happens in this realm (the amassing of money claims to wealth) has no actual connection to the underlying economy, and operates by its own principles. Nor, for that matter, do orthodox economists normally deal with the real economy in any meaningful historical sense. The fact that finance was lifting the whole economy was of course known at some level, but the underlying stagnation tendencies in the latter, apparent since the 1970s, were conveniently ignored as long as profits kept on going up. Part of

the problem is that mainstream economics has long left behind its relatively rational stage (abandoning even Keynes) and adopted a whole series of inane doctrines such as monetarism, supply-side economics, rational expectations theory, new classical economics, etc. When this crisis hit, the dominant perspective of central bankers in the United States, led by Federal Reserve Board Chairman Ben Bernanke (an academic economist who had specialised in monetarist interpretations of the Great Depression), was that it was simply a problem of liquidity and that you could drop money from helicopters, if need be (a notion of Milton Friedman's, promoted by Bernanke, earning the latter the nickname "Helicopter Ben").

Needless to say, the sheer stupidity exhibited by a theory premised on assuming equilibrium within the context of an irrational system of competitive, unregulated, and indeed institutionalised greed is at all times hard to fathom. Neoclassical economics has long ceased (at least in its theoretical assumptions) to be *political* economy, and its practitioners have therefore long dispatched any notion of class, power, etc. from their analysis, replacing these with largely meaningless abstractions. Indeed, this is so much the case that in business circles neoclassical economics is often viewed as useless in any real-world terms, including the making of money. Nor do they grasp dialectical connections, having adopted timeless mechanical models. In contrast, the weaknesses of orthodox economics in all of these respects represent the strengths of Marxian political economy.

Marx's analysis is that under capitalism, the productive forces are shackled by the productive system. Today, viable businesses are going bankrupt because of lack of credit from the financial sector. Is this a sign of increasing conflict between productive and unproductive forces? When the workers have to pay for the bailout of aggressive banks, is this a form of "primitive accumulation"? Has the financial system outplayed its role in furthering production?

The crisis is a clear illustration of the point that productive forces are shackled by the existing relations of production (i.e., class, property relations). In the present case, the combination of stagnation in the real economy and the imperative of ever increased accumulation of capital, demanded by the capitalist relations of production, led to accelerating concentration of profit in the financial sector. In recent years in the United States, over 40% of all profit in the *entire* economy was concentrated in monopolised finance. But these booked profits were ultimately based on the assurance of future payments by workers ever more squeezed in the stagnating real economy. Then the payments on subprime

debt faltered, and as a result of the completely opaque securitisation process, no one knew which debts were bad and which were good. At the same time, the illusion that derivatives constituted "insurance" against default completely evaporated — indeed it turned out to be the equivalent of adjoining house owners insuring each other against fire when the whole neighbourhood burns down. Credit markets froze because the banks and other financial institutions were ceasing to lend since the borrowers could not be counted on to pay them back. The banks themselves were insolvent, their capital had disappeared, and they could not pay their current debts, were they forced to do so.

Under these circumstances, no matter how many hundreds of billions of dollars in liquidity were poured into the financial sector, nothing happened. All those with money, including the banks, were hoarding. The US was printing dollars like mad and flooding the financial sector with liquidity, but rather than loaning out money capital the banks were stuffing it in their vaults, or more precisely using it to purchase Treasury bills, creating a kind of revolving door that negated the attempts of the government. Faced with an insolvency crisis, and the prospect not of making money but of being presented with claims they owed but could not pay, the banks did exactly what Keynes had said they would do under such circumstances: they simply hoarded cash. At present, the authorities have prevented a complete meltdown (in the US version of a plan adopted with some variation by all the advanced capitalist countries) by injecting capital directly into banks in return for preferred stock (a partial nationalisation of banks), guaranteeing new debt of banks, and increasing deposit insurance. In the United States alone this is estimated potentially to cost *$2.25 trillion* — far beyond the $700 billion bailout of a couple of weeks ago (*New York Times*, October 15, 2008). This is a desperate attempt to stop the financial avalanche.

This is all part of the present financial crisis. But, as you point out, the problem goes much deeper, and there has not yet been any serious attempt anywhere to deal with the real economy, and the relation between it and speculative finance. In broad terms, it makes sense to speak not so much of a conflict between productive and unproductive capital as between production and finance, in a context of what we now understand as a dialectic of stagnation and financialisation. The classic statement of the problem can be found in Harry Magdoff and Paul Sweezy's essay "Production and Finance" in their book *Stagnation and the Financial Explosion*, published in 1986. More recently, you can look at my essay, "The Financialisation of Capitalism" (*Monthly Review*, April 2007).

I don't think it is much help to call the bailing out of banks by workers

through taxpayer funds "primitive accumulation." The latter concept has a very specific meaning in classical economics and Marxian theory, related to the laying of the foundations for a capitalist system of self-perpetuating accumulation. Rather, the forcing of wage earners to carry the responsibility for more debt, which is used to justify further cutbacks in government programs that benefit the vast majority of people at the bottom, should be seen more straightforwardly as a means of increasing the rate of exploitation through the medium of the state, and of redistributing income and wealth from the poor to the rich. Capital has innumerable ways, including of course unemployment, for transferring the costs of a crisis onto the backs of workers and all of these techniques will be used. Marx once ironically said (in *Capital)* that the only part of the national wealth that belonged to everyone in the society, including the working class, was the national debt. The national debt, serviced mainly by those at the bottom of society, then becomes the means of supporting the national wealth in private hands. As for bailing out capital, this is the first rule of capitalism in every crisis. There is nothing new about this, only the scale of the problem.

In asking whether the financial system has "outplayed its role in furthering the system," you are getting to the crux of the matter. The essential problem, focusing particularly on the US situation, is this. There has been a creeping economic stagnation since the 1970s. Growth rates have been gradually slowing over the decades (with of course cyclical ups and downs within the larger trend). Looking decade by decade, utilisation of plant and equipment (productive capacity) has been dropping, the number of jobs (particularly good jobs) has been disappearing, real wages have been stuck, household debt has been rising, net investment has faltered, income and wealth inequality has been increasing. In the United States today the top 1% of wealth holders own twice as much as the bottom 80% (if we were talking about financial wealth, i.e. excluding equity in owner-occupied housing, it would be four times).

Under these circumstances, characterised by rising rates of exploitation, what has mainly kept the system going is the financial explosion, which through the "wealth effect" (a term used for the fact that people tend to consume part of any increase in equity, whether in homes or stocks, especially if they think the market goes only one way — up) has been the main force spurring the economy. There are other factors, of course. Thus *actual* US spending on the military in 2007 was $1 trillion, helping to put a floor under the economy ("The US Imperial Triangle and Military Spending," *Monthly Review*, October 2008). But the financial explosion was the main means of lifting the system. That appears to be all over for the time being, with what will likely be an extended crisis of financialisation; and that means that stagnation tendencies, never far below the

surface, are resurfacing in a big way. US consumption (which accounts around 70% of US GDP and is critical to world demand) is plummeting, and with it nearly everything else.

We should not spend time worrying about the capitalist class. The real pain is going to fall on the working class in the advanced capitalist countries, and even more so those in the poorer and "emerging" countries. We (meaning the left) should be devoting our efforts to helping those whose needs are greatest at the bottom of the economic pyramid, rather than seeking to fix a broken system (even if it could be fixed). Ultimately, it is a political and a class question. It is a new historical moment, when the working class everywhere, especially in the advanced capitalist states, may at last be compelled by circumstances to begin to fight back — and in ways that go against the logic of a predatory system that is tearing down the whole world and the world's people with it.■

Decline & Fall of Neoliberal Globalisation

By Phil Hearse

[This article is the introduction to a new book to be published soon by UK publisher Socialist Resistance Books (http://resistancebooks.blogspot.com) on the credit crunch and the global slump. Authors include John Bellamy Foster, Andy Kilmister, Sean Thompson, François Chesnais, François Sabado, Claudio Katz, Paul LeBlanc, Ernest Mandel and Robert Brenner.]

The new millennium was heralded in November 1999 by giant demonstrations outside the meeting of the World Trade Organisation in Seattle, which dramatised protests against the super-exploitation imposed on workers in the First and Third Worlds by neoliberal globalisation. In the eight years since then the real character of neoliberalism — of ultra-mobile capital, outsourcing, privatisation and vastly increasing inequality — has become very clear.

As the present economic crisis broke the UN announced that the number of people undernourished in the world had crossed the one billion mark. Two billion people — one third of the world's population — live on no more than a few dollars a day. A similar number have no access to proper sanitation or clean water. These figures in themselves would be enough to proclaim a huge crisis of human civilisation.

But on top of that we have had since the start of the new century rampant imperialist militarism in Iraq and Afghanistan, responsible for hundreds of thousands of deaths and of course a tremendous worsening of the ecological crisis — so much so that many experts believe that within a few decades global warming will inflict huge damage on numerous countries. As things stand it seems that average world temperatures will rise by between 2% and 4% in the next 50 years. The 2006 Stern report pointed out that world temperatures were on course to rise by two to three degrees in 50 years, rainfall could be

From *Marxsite*, http://www.marxsite.com.

catastrophically reduced in some of the world's poorest countries, while others grapple with floods from melting glaciers. The result could be the largest migration of refugees in history. The climate crisis will combine with the crisis of capital.

Now, to add insult to injury in the world's woes comes the credit crunch itself the precursor of a giant economic slump, not just inevitable but actually underway. It is thus very timely the Socialist Resistance Books should now be publishing this volume that attempts to only to describe the present crisis, but to understand its causes and debate socialist solutions.

CAUSES OF THE CRISIS

In the mainstream media and among right-wing politicians the truth of this slump is simply not being discussed. Thus the irresponsible lending of bankers is blamed and bankers pilloried — as was Lehman Brothers boss Richard Fuld in front of a Congressional subcommittee in October 2008. It seems that Fuld himself is likely to be prosecuted by US authorities.

Otherwise, the cause is put down irresponsible consumption by a whole generation who have, allegedly, been partying and living comfortable well-pensioned lives for decades and who must now pay the price for their recklessness — and indeed pass that price on to generations to come.

Of course the banks lent recklessly. But the elephant in the room is never addressed — the fact that the present slump was deeply embedded in the DNA of neoliberal globalisation at birth and is an inevitable consequence of central features of the neoliberal "regime of accumulation". How so?

The basic facts of the matter are blindingly simple to comprehend, unlike the thousands of column inches of mumbo-jumbo on the crisis that appear in the mainstream press. Neoliberal globalisation has an inbuilt tendency towards *deflation* (an accentuation of basic features of the capitalist system). This has been caused by historic defeats of the international workers' movement, financialisation and above all international outsourcing and relocation to sites of cheap labour. This has undermined union bargaining power, held down wage levels and repressed workers' purchasing power — contrary to numerous myths and often appearances.

So the only way to ensure continuous economic growth and ever-greater capital accumulation was to pump endless credit into the system in the form of historically high levels of household and company debt. It is the enormous mountain of debt that has underpinned the lifestyles of the comfortable middle classes and indeed regularly employed workers.

The scale of this debt mountain is stupendous. In 1997 the debt held by individuals in the UK was £570 billion. Ten years later it was £1,511.7 billion, an increase of 165%. In the same period personal debt in the United States grew from £5,547.1 billion to $14, 375 billion. In the UK personal sector debt increased from 102% of personal income to 173% of personal income; in the US the figure went from 93% to 139%. These are staggering figures.

The worsening of the underlying relative decline in workers' purchasing power has especially been the case since privatisation of the public utilities. Gas, electricity and water (together with oil) have become cash cows for multinational corporations and the banks who lend them money, hoovering up vast swathes of the disposable income of workers and the middle class. This, together with high prices generally (especially in the UK), meant that even apparently affluent families have been unable to save money; their only real assets have been their houses, themselves financed by colossal borrowing; the collapse of the housing market is now doing away with even the illusion of affluence for millions.

That such huge levels of debt could be tolerated and its fragility not immediately obvious has been due to the enormous inflation of the value of assets, mainly housing. The millions borrowing on credit cards or directly from banks borrowed (whether they realised it or not) against the guarantee of their house or apartment. There is growing evidence that this housing bubble was welcomed or even actively sponsored by governments, not least in the US and UK, precisely because of the "wealth effect" that it created. But that wealth effect has now been shattered by the realisation that much of that debt is irrecoverable and that many of the banks' loans (put down in their balance sheets as "assets") are worthless.

Neoliberal globalisation has been a system of smoke and mirrors where the basic instability and unsustainability of the whole system has been covered up by the credit bubble. Now the bubble has burst, the consequences will be terrible for countless millions.

Debt-fuelled growth boosts inequality

This turn of events really undermines the arguments of those who, like ex-British Prime Minister John Major, who say "We're all middle class now", or indeed people on the left who regard the whole of the working class in the North as a privileged layer on a world scale. When American workers are losing their jobs at a rate of half a million a month — in a country with a very limited welfare system — the realities of wealth and power in Western capitalism are about to be demonstrated with some force.

But the debt-fuelled engines of globalised neoliberalism did enable a certain level of consumption and comfort for most Western workers, that is for sure. Nonetheless it has been a system deepening inequality for at least two decades as the share of wages and salaries in national economies has everywhere stagnated or declined and as the wealthy became fabulously wealthy and went into conspicuous consumption overdrive.

A section of the working class not in regular employment — especially, but not only, single mothers in part-time jobs and older industrial workers whose companies have closed and who will never work again — has been pushed out of any substantial share in consumption. These are the millions living in what the British call "sink estates", housing projects with huge levels of unemployment, poverty, drug abuse and crime.

Even for the regularly employed workers the last two decades have not been a period of unalloyed hedonism. The brake on the share of wages in the national economy has meant that the idyll of the 1950s — the nuclear family with just one wage earner — has largely disappeared. In most families, especially those with children, a second job has been essential to maintain living standards.

Work has become longer and harder everywhere, as "flexibility" and the target-driven regimes imposed from the teachings of the American human resource departments have worsened the experience of work and made many jobs virtually undoable, at least to the standards expected by employers. One small but topical example is the demand of the British Post Office that postal delivery workers maintain a regular four mph walking rate, literally impossible with heavy sacks, hills to climb, stairs to go up in apartment blocks and biting dogs to be evaded. If imposed it will result in postal workers delivering mail in their own time, which is really what happens in countless jobs — a reduction in the proportion of paid time for workers who take work home and who stay late. In the slump this will only get worse.

The consequence of the decline in the share of GDP going to wages and salaries has, of course, been a tremendous over-accumulation of capital, especially in the financial sector. But much of this is now revealed as worthless, fictitious capital, and is being daily destroyed in the stock markets and by asset write-downs as this is being written.

The essence of neoliberal globalisation has been therefore a cheap labour regime. Contrary to those who thought that technological advance would produce a "leisure" economy, modern capitalism is a structure for producing an ever greater number of commodities through the incorporation into international capital circuits of ever greater number of labourers on a world scale. The crazed

demand for ever greater profits from multinational corporations and finance capital — which like a vast protection racket demands its cut from every sphere of economic activity — has spawned a huge increase in the production of commodities, industrial goods as well as services. That's why China and other Asian countries have supplied huge amounts of cheap labour; indeed China really is the workshop of the world.

But this huge mountain of commodities is utterly irrational and unsustainable. Modern capitalism creates an avalanche of new "needs" and new commodities and is ransacking the earth's resources to produce them. Out of the crisis the left has to articulate an alternative which breaks with the imperative towards ever greater numbers of commodities, and focuses instead on human need.

Consequences of the slump

The consequences of the present crisis are difficult to predict in detail precisely because the duration of the slump cannot be foretold. But virtually every commentator from left and right agrees that this will last a long time. It is difficult to see how a new long wave of economic growth in capitalism can be generated. Billionaire former financial speculator George Soros says the crisis is the end of 60 years of capitalist expansion. If he is right, then capitalism faces a huge task of going through the slump and generating new engines of growth.

Some consequences are very easy to foresee however, and they are of frightening proportions. First, obviously, unemployment will mushroom putting huge strains on welfare systems, and in countries without substantial unemployment insurance, it will lead to immiseration with huge numbers losing their houses and a sharp rise in homelessness. We are about to see the return of the soup kitchen in advanced countries for the first time in 70 years.

Second, government spending will be savagely hit with inevitable cutbacks across the board and big redundancies among public sector workers, especially in those countries like Britain where state finances have been mortgaged in the tens of billions of dollars spend to refloat the banks.

Pensions will be hit, with some pension funds just collapsing and many more losing some of their value. Many people are going to have a much poorer old age than they imagined — especially as most workers in their 50s now may be unemployed and will never work again.

Young people will be hit in myriad ways. As recently pointed out by Jenni Russell (*Guardian*, December 13, 2008) the economic return of a university education — at least in Britain but probably in many other advanced countries — is now in question. It has been calculated that the overall economic gain for

many in less prestigious universities in the UK could be as little as £20,000 over a lifetime — easily offset by the three years not working and not saving for a private pension, as many will now be forced to do. But many young people are just not going to find jobs, whether they went to university or not. Youth unemployment is going to skyrocket.

As poverty increases in the advanced countries, all the social problems associated with it — violence, crime, drug abuse and other antisocial behaviour — is going to sharply increase. If you want to see a model for it, go to some of the pit villages where the coal mines were closed down by Thatcher's Tory government in the 1980s — places like Grimethorpe, Hemsworth and South Kirby. These villages have never recovered; they are drab and poor, crime and drug abuse is rampant, and large numbers of young people just leave. The problem is that you can't leave a whole economy, except to emigrate. And then, where would you go to avoid a worldwide slump? There may seem to be some better options, but nowhere is safe from the monster at the door.

Even for many of those in work the future is going to become much more difficult; many low-paid workers are going to have to find a second or even a third job to make ends meet. Work regimes will become tougher in many firms when employers know there are thousands of unemployed out there willing to take jobs with lower pay and worse conditions.

If the crisis now seems most acute in Britain and the USA and other advanced countries, its effects on the Third World are going to be tremendous. In the first place economic growth in China and India will slow down rapidly with hundreds of thousands losing their jobs. Debts levels in many Third World countries are likely to rise, and Western governments will become even less committed to helping the poorer countries though international aid.

Many in the United States may be breathing a sigh of relief because of the election of Barrack Obama as president, which will do wonders for America's international image, but really the credit crunch and the slump, which started in the US after all, is going to be a hard knock against that country's dominant international position. As explained in the article by Francois Sabado, the period since the turn of the century has been a disaster for American capitalism; first the catastrophe in Iraq and of the Bush government in general, and now an economic collapse that has completely undermined neoliberalism's "Washington Consensus".

The New American Century that the likes of Bush, Cheney, Wolfowitz and Rumsfeld thought they were creating is turning out to be anything but. Of course the United States remains the world's largest economy and easily most

powerful country militarily. But its dominance is now visibly declining in a way that seemed improbable seven or eight years ago. Certainly the economic crisis — like its predecessors — will rearrange the international division of labour and with it the world political pecking order, but in ways that cannot yet be exactly foretold.

Ideological and political consequences: repoliticisation

The economic crisis combined with looming ecological disaster is the biggest ideological blow to capitalism since World War II. Marx's theory of crisis has been utterly confirmed, especially the notion of the trend towards the over-accumulation of capital and thus towards a secular decline in the rate of profit.

Francis Fukuyama's notion of the "end of history" looks plain stupid now, and as Neil Clark points out in his recent article "Socialism's Comeback" (*New Statesman*, December 4), the same author's prediction of the end of socialism looks a bit stupid too. Not only in Latin America but in many places in Europe the left appears to be on the up. But so far this is mainly small shoots, relatively small parties with some electoral purchase, although in Germany and the Netherlands left-wing parties (the Left Party and the Socialist Party respectively) are especially significant. Nor should we ignore the spectacular emergence of the New Anti-Capitalist Party in France which has enormous potential to challenge the right-wing "Socialist" Party from the left.

The worker and student upsurge that broke out in Greece in December 2008 is a harbinger of things to come. It is absolutely impossible to have the degree of economic crisis now on the agenda, with such terrible social consequences, without enormous outbreaks of social discontent. This creates enormous opportunities for the left, but to really capitalise politically it is necessary to create the broadest unity of socialist and anti-capitalist forces that can stop the political fruits of economic slump falling into the hands of the right and even the ultra-right.

In the process of reinforcing the strength of the workers' movement, and the political and ecological left, a giant battle of ideas is now opening up. A glance at the blogosphere shows how this is true. Economic crisis is leading to a significant repoliticisation as normally apathetic and non-political people are forced to stare the crisis in the face. Many young people who never bothered with politics can now be brought into the ambit of the left and brought to see that the mindless celebrity culture of commodity society is empty and devoid of human values.

The ideologues of capitalism are on the defensive. But the Marxist

explanation of the crisis has to be hammered home. Who caused this crisis? Why did it occur? What is it in capitalism that leads to the globalisation of poverty while a tiny elite become mega-wealthy? And what are possible alternatives?

The global justice movement greeted the new millennium by chanting "another world is possible". Fortunately this is true. But only if we fight for it.■

Making the World's Poor Pay: The Economic Crisis & the Global South

By Adam Hanieh

The current global economic crisis has all the earmarks of an epoch-defining event. Mainstream economists — not usually known for their exaggerated language — now openly employ phrases like "systemic meltdown" and "peering into the abyss". On October 29, 2008 for example, Martin Wolf, one of the top financial commentators of the *Financial Times*, warned that the crisis portends "mass bankruptcy", "soaring unemployment" and a "catastrophe" that threatens "the legitimacy of the open market economy itself … the danger remains huge and time is short".

There is little doubt that this crisis is already having a devastating impact on heavily indebted American households. But one of the striking characteristics of analysis to date — by both the left and the mainstream media — is the almost exclusive focus on the wealthy countries of North America, Europe and East Asia. From foreclosures in California to the bankruptcy of Iceland, the impact of financial collapse is rarely examined beyond the advanced capitalist core.

The pattern of capitalist crisis over the last fifty years should alert us to the dangers of this approach. Throughout its history, capitalism has functioned through geographical displacement of crisis — attempting to offload the worst impacts onto those outside the core. This article presents a short survey of what this crisis might mean for the Global South.

World trade drops

This crisis hits a world economy that — for the first time in history — is truly global. Of course exports and the control of raw materials have always

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been important to capitalism. But up until the 1970s most capitalist production was organised nationally. Throughout the 1980s and 1990s both production and consumption began to be organised at the international scale. Today, all markets are dominated by a handful of large companies operating internationally through interconnected chains of production, subcontracting and marketing. Almost every product we consume has involved the labour of thousands of people scattered across the globe — from the production of raw material inputs, research and development (R&D), assembly, transport, marketing and financing. At one level this interconnectedness of production expresses the fact that human beings have become one social organism. At the same time, it continually runs up against a system organised for the pursuit of individual, private profit.

This interconnectedness has taken a very particular form over the last couple of decades. The world market has been structured around the consumption of the US (and, to a lesser extent, European) consumer. Goods produced in low-wage production zones such as China and India — using raw materials mostly sourced from other countries in the South — are exported to the US where they ended up in the ever expanding homes of an overly indebted consumer. Control of this global chain of production and consumption rests in the hands of large US, European and Japanese conglomerates.

This structure helped to fracture and roll-back national development projects across the globe. Coupled with the debt crisis of the 1980s, export-oriented models of development were imposed by the International Monetary Fund and other financial institutions on most countries in the South. Many of the elites of these countries bought into this development model as they gained ownership stakes in newly privatised companies and access to markets in the Global North.

The ever-expanding consumption of the US market was predicated on a massive rise in indebtedness. US consumers were encouraged to take on vast levels of debt (through credit cards, mortgages, "zero-down" financing, etc.) in order to maintain the consumption levels that underpinned global demand. The dollars that enabled this growth in debt came from financial instruments that were purchased by Asian central banks and others around the world. These institutions lent dollars back to the US where they were channeled to consumers through banks and other mechanisms.

The US real estate market was just one of the financial bubbles that permitted this treadmill of increasing indebtedness to continue. People could continually refinance their mortgages as real estate prices went up. But with the collapse of this bubble global world demand is suddenly drying up. Because of the interconnectedness of world trade, this will have a very severe impact on every

country across the globe, particularly in the South.

One measure of this is shown by a relatively obscure economic indicator, the Baltic Dry Index (BDI). The BDI measures the cost of long-distance shipping for commodities such as coal, iron ore and steel. From June–November 2008, the BDI fell by 92%, with rental rates for large cargo ships dropping from $234,000 a day to $7340. This massive drop reflects two factors: the reduction in world demand for raw materials and other commodities, and the inability of shippers to have their payments guaranteed by banks because of the credit crisis.

Falling commodity prices also demonstrate this drop-off in world trade. Copper prices, for example, have fallen 23% in the past two months. Chinese consumption of the metal, critical to much industrial production, has fallen by more than half this year. ArcelorMittal, the world's largest steelmaker, stated on November 5 that its global output would decline by more than 30%. The World Bank (which has consistently underestimated the severity of the current downturn) is now predicting global trade volumes to shrink for the first time since 1982.

Social dislocation

This drop in world trade will have a particularly devastating impact on those countries that have adopted "export-oriented" models of development. This model was heavily promoted by the World Bank, the International Monetary Fund (IMF) and most economists over the last couple of decades. As global demand shrinks, countries reliant on exports will be faced with collapse of their core industries and potential mass unemployment. This will place further pressure on wages as new labour reserves augment already large levels of unemployment.

Standard and Chartered estimate, for example, that Chinese exports could tumble to "zero or even negative growth" in 2009. JP Morgan Chase is predicting that Chinese exports will fall 5.7% for every 1% drop in global economic growth. This is not just a matter of getting by on smaller levels of still positive growth. China needs to create 17 million jobs a year in order to deal with the large numbers of farmers moving from the countryside to urban areas. This means that the country must maintain high rates of growth. Even if growth drops from 11-12% annually to 8% the country faces potentially huge social dislocation. Already, workers in China are protesting in the millions as their factories close and owners abscond with unpaid wages.

A collapse in world trade is not the only potentially devastating threat this crisis presents to the global periphery. Like the 1997 Asian economic crisis, the rapid withdrawal of foreign funds from stock markets and other investments in

the South could cause the meltdown of currencies and the collapse of industries already reeling from slowdowns in trade. A quick survey of a few countries demonstrates the deadly mix of capital outflows, high inflation and drops in export earnings:

In Pakistan, foreign-currency reserves have dropped more than 74% in the past year to about $4.3 billion. The country is teetering on the edge of total collapse and urgently requires $6 billion in order to pay for imports and service its existing debt. The dire situation of foreign outflows led the German foreign minister to state on October 28 that the "world has just six days to save Pakistan" (at the time of writing it looks like Pakistan will get this money in the form of loans from the IMF and/or countries of the Gulf Cooperation Council).

Sri Lanka has lost nearly 25% of its foreign reserves since the beginning of August as foreign investors repatriate their dollar holdings from the country. Nearly 50% of Sri Lanka's textile and garments exports (accounting for some 43% of total foreign exchange earnings) went to the US in 2007, while another 45% went to the EU. These exports will likely be decimated by a generalised collapse in demand. The weakening of the Sri Lankan rupee over the last few years has contributed to a 20% increase in inflation, with high food prices hitting the poorest most heavily.

India has seen its foreign exchange reserves drop by 17% since March 2008. Over $51 billion left India during the third week of October, the largest fall in eight years. The Indian textile industry, which makes up the second largest component of the country's labour force after agriculture, exports 70% of its product to U.S. and European markets. It is expected that textile and garment orders will decline by at least 25% over winter and mass layoffs have already begun. On October 29, the Association of Chambers of Commerce and Industries predicted that companies in seven key industries (steel, cement, finance, construction, real estate, aviation and information technology) would need to cut 25% of their workforce. This at a time when the country struggles with an immense gap between rich and poor. The wealth of the richest 53 people in India is equivalent to 31% of the country's GDP, yet according to the World Bank 42% of the population lives below the official poverty line of $1.25 a day.

These patterns are repeated across the globe. Countries including Mexico, Turkey, Indonesia, Brazil, Argentina, South Korea as well as the poorer countries of eastern and southern Europe are faced with collapsing growth rates, capital flight and declines in the value of their currency. In many cases, these problems have been exacerbated due to a proliferation of low-interest loans taken by individuals and companies that were denominated in foreign currency (such as Swiss francs, euros and dollars). These loans initially offered a better rate

of interest than the domestic currency, but, as local currencies have dropped in value, the amount of money required to be repaid has increased dramatically. *Business Week* estimates that borrowers in so-called "emerging markets" owe some $4.7 trillion in foreign-denominated debt, up 38% over the past two years. This is the reassertion of a debt crisis from the 1980s that never really went away, but only partially subsided.

The IMF returns

This unfolding social crisis has returned the IMF to centrestage. Typically, the IMF lends to those countries facing potential collapse and, in return, demands the fulfillment of stringent economic conditions. The scale of borrowing is already immense: Iceland ($2.4 billion), Ukraine ($16.5 billion), and Hungary ($15.7 billion) have been extended loans with Pakistan, Serbia, Belarus and Turkey likely candidates in the near future.

The conditions that come with this latest round of IMF lending have been particularly opaque. The policies that Ukraine is expected to pass, for example, are not yet known despite the fact the country has essentially agreed to take a $16.5 billion loan from the IMF. Hungary has agreed to cuts in welfare spending, a freeze in salaries and canceling bonuses for public-sector workers yet the final details have not been made public. Iceland was required to raise interest rates to 18% with the economy predicted to contract by 10% and inflation reaching 20%.

We can certainly expect that the conditions attached to loans in the poorer countries in the Global South will be much more stringent than those imposed on these European countries. There is little doubt that these countries will face massive job losses, intense pressure to privatise public resources, and slashing of state spending on welfare, education and health in the name of "balanced budgets". Whether these attacks on the social fabric are successful, however, will ultimately depend on the level of resistance they face.

Authoritarian state

On October 11, a meeting of progressive economists in Caracas, Venezuela, issued a statement warning that the dynamic of this crisis "encourages new rounds of capital concentration and, if the people do not firmly oppose this, it is becoming perilously likely that restructuring will occur simply to save privileged sectors". This is an important point to understand. Capitalist crisis doesn't automatically lead to the end of capitalism. Without effective resistance and struggle, the crisis will eventually be resolved at the expense of working people — particularly those in the South.

This could be one of the most serious crises that capitalism has faced in living memory. But we should not be fooled into thinking that the system will somehow be reformed or its contradictions solved through peaceful and orderly means. The most likely immediate outcome is a hardened, more authoritarian state that seeks to restore profitability through ratcheting up repression and forcing people to accept the loss of jobs, housing and any kind of social support. In the South, this will inevitably mean more war and military repression.

If this is not prevented then the system will utilise this crisis to restructure and continue business as usual. This is why resistance — both at home and abroad — will be the single most important determinant to how this eventually plays out. In Latin America, for example, attempts to restrict capital flight, place key economic sectors under popular control, and establish alternative currency and trade arrangements are important initiatives that point to the necessity of solutions beyond capitalism. In the Middle East, popular resistance to the political and economic control of the region has undoubtedly checked the extension of US power.

Any displacement of crisis onto the South means playing different groups of people against one another. For this reason, the ideological corollary of war and military repression abroad is likely an increasingly virulent racism in the North — directed at immigrants, people of colour and indigenous populations. This means that for activists in North America and other rich countries the question of global solidarity and resistance to racism must be placed as a central priority of any effective fightback. Any attempt to turn inwards, or dismiss international solidarity as less important in this phase, will be disastrous for *all* working people — across the globe.■

Nationalisation: A Key Demand in the Socialist Program

By Dave Holmes

For all the misery it represents for ordinary people, there is at least one positive result of the current capitalist financial crisis. The idea of nationalisation is getting an airing again in the West, however squeamish bourgeois leaders and pundits may be about using the actual word. Of course, this is clearly a case of governments mobilising massive resources and taking drastic action to save bankers and speculators from the consequences of their greed but, nevertheless, there it is. And if nationalisation — state or public ownership — is allowable in this dubious instance, why not for far more deserving and urgent causes such as saving the planet and the lives and welfare of masses of working people?

The question of nationalisation is important because it is simply impossible to conceive of addressing a whole series of key problems facing us today without a major expansion of the public sector and bringing the "commanding heights" of the economy under state ownership and control. Firstly, of course, there is the overriding issue of climate change and all the things related to that — especially energy and water sustainability, food security and the preservation of workers' jobs as the economy is restructured. Then there is the struggle to preserve workers' jobs and livelihoods in the face of widespread downsizing during the economic downturn.

By way of an introduction, the reader is referred to two articles I wrote for *Green Left Weekly* in 1995 (issues of September 6 and October 3). They provide a useful overview of the whole question of privatisation and nationalisation from a socialist perspective. They can be found online at http://www.greenleft.org.au/1995/201/11264 and http://www.greenleft.org.au/1995/205/11117. The political background was the 1992 election victory in Victoria of the Coalition under Jeff Kennett. His seven years in power were marked by a veritable orgy

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of neoliberal restructuring and harsh attacks on working people.

PUBLIC OWNERSHIP IN THE PAST

Today we are living in the period of total neoliberal madness — madness, it should be stressed, from the point of view of society as a whole but not from the capitalist standpoint — when just about everything in sight has either been privatised or is slated for privatisation. In official circles, the idea of state enterprise is decidedly on the nose. As the wretched Victorian Labor state transport minister Lynne Kosky has notoriously said, the government is not, or should not be, in the business of running the transport system. But it wasn't always so …

In fact, historians have dubbed the period 1850-1914 in Australia as "colonial socialism". Large-scale public activity was carried out — especially in transport, communications, water supply and sewerage systems, and immigration to boost the population. Of course, it wasn't really socialism but rather public enterprise in the service of capitalism, creating the infrastructure that private enterprise needed but couldn't effectively organise itself.

The 1930s were the culmination of this process. The 1989 Evatt Research Centre publication *State of Siege* explains:

> … the 1930s provide the highwater mark in the development of public enterprise and regulations … [The labour historian Brian] Fitzpatrick described a "remarkable change" in which "systems like supervision of labour relations in industry, and the institution of public financial and industrial undertakings … the New Protection and public competition with private enterprise in production" took hold. It gave "an impression that an experiment in state control or modification of capitalism was being pursued".[1]

However, the reality was that private capital never lost its control of the country's economic organisation. It accepted public economic activity in essential areas in which it could not profitably operate — the railways are the prime example here. State enterprises which didn't come under this heading were generally sold off (as were the profitable NSW government brickworks, metal quarries and pipeworks in 1936).

NEOLIBERALISM TODAY

Since the early 1980s, neoliberalism has been in the ascendant. Internationally capitalism is in a period of sharply intensifying economic competition. Everywhere it demands that social expenditures be cut to the bone and handouts and tax breaks for big business increased; and it wants to get its hands on every bit of hitherto public enterprise that it might use to turn a profit.

The first of my 1995 articles lists the five main forms of privatisation under neoliberalism: outright sell-offs, contracting out, liberalisation and deregulation, abrogation of responsibilities, and implementation of a user-pays regime. I don't want to spend any time on these here — I'm sure we are all familiar with many examples under each heading.

We can also dismiss without much discussion the ideological justifications for privatisation. Whatever the faults of public enterprise under capitalism — and we are far from denying them — the idea that the private sector is inherently better or more efficient is utterly ludicrous. The only real "efficiencies" of the private sector lie in slugging the public and putting its hand out for ever more government subsidies and concessions.

We oppose privatisation in all its forms. It is a massive attack on working people and our quality of life. In opposition to neoliberalism we must advocate nationalisation, public ownership and a massive expansion of public sector on all levels (federal, state and municipal). If we are to cope with a whole series of problems we need rational, democratic social and economic planning and for this all the "commanding heights" of the economy must be in public hands.

Transitional Program

On an April 2007 edition of *Aló Presidente!*, the immensely popular weekly television program of Venezuelan president Hugo Chávez — "a television chatshow like no other", as the British *Guardian* aptly described it — he urged viewers to study Leon Trotsky's 1938 *Transitional Program*. We can only concur. And in the light of the current global financial crisis some passages seem especially relevant.

There is a section on advancing the demand for the nationalisation of particular sectors of the economy.

> The socialist program of expropriation [writes Trotsky], i.e., of political overthrow of the bourgeoisie and liquidation of its economic domination, should in no case during the present transitional period hinder us from advancing, when the occasion warrants, the demand for the expropriation of several key branches of industry vital for national existence or of the most parasitic group of the bourgeoisie …
>
> The difference between these demands and the muddleheaded reformist slogan of "nationalisation" lies in the following: … we reject indemnification … we call upon the masses to rely only upon their own revolutionary strength … we link up the question of expropriation with that of seizure of power by the workers and farmers.
>
> The necessity of advancing the slogan of expropriation in the course of

> daily *agitation* in partial form, and not only in our propaganda in its more comprehensive aspects, is dictated by the fact that different branches of industry are on different levels of development, occupy a different place in the life of society, and pass through different stages of the class struggle. Only a general revolutionary upsurge of the proletariat can place the complete expropriation of the bourgeoisie on the order of the day. The task of transitional demands is to prepare the proletariat to solve this problem.[2]

We should stress that today our language — as well as our political circumstances — is a little different. When we advocate nationalisation we can leave open the question of compensation ("indemnification"). For us this is a question of political expediency and not of principle. In Venezuela, for instance, in most cases the state has purchased the enterprises it has nationalised — of course, the government has driven a hard bargain but it has the oil wealth and this policy is probably better politics (at this point at least) than outright confiscation.

In Australia, in the event of nationalisation we would advocate full compensation to any ordinary small investors who are simply trying to augment their modest incomes. But for large corporate owners and investors our attitude to compensation would be wholly determined by political considerations. Morally, we consider that we owe them nothing. Their enterprises have been built up through the toil of the workers and slugging the public. In most cases we would be in favour of simply expropriating the big capitalists. However, in certain exceptional circumstances it might make political sense to negotiate with the former owners in order to secure their cooperation.

Following this section, Trotsky includes a separate one devoted to the nationalisation of the banks and the financial sector.

> It is impossible to take a single serious step in the struggle against monopolistic despotism and capitalistic anarchy — which supplement one another in their work of destruction — if the commanding posts of banks are left in the hands of predatory capitalists. In order to create a unified system of investments and credits, along a rational plan corresponding to the interests of the entire people, it is necessary to merge all the banks into a single national institution. Only the expropriation of the private banks and the concentration of the entire credit system in the hands of the state will provide the latter with the necessary actual, i.e., material resources — and not merely paper and bureaucratic resources — for economic planning.[3]

How well this reads today! Rather than bailouts of the criminals responsible for the financial crisis, "merge all the banks into a single national institution" and "create a unified system of investments and credits, along a rational plan

corresponding to the interests of the entire people". Use the truly immense resources suddenly revealed by the government response to the crisis to tackle global warming, keep people in their homes and provide everyone with decent jobs.

Of course, we are keenly aware that, ultimately, only the installation of a workers' government based on the mobilisation of the working class and its allies can solve the problems of society. But the nationalisation demand points to what is necessary and is a key part of the struggle to get there.

Objections and problems

When the question of public ownership and nationalisation is raised, we often encounter various objections.

● People might say, under capitalism what is the real difference between private and public ownership? For instance, look at the truly appalling Australia Post. It is run like a private corporation. Profitability and service to big business is its main concern; it has a whole raft of obscenely overpaid executives; in an effort to undermine the union and cut costs, it is engaged in a continuous assault on its work force; and through aggressive contracting out it is slowly privatising the whole service. (And, we might add, our post offices more and more resemble flea markets: as one waits in the inescapable queue one can peruse the merchandise bins offering André Rieu CDs or various dinky gadgets …)

Is this the sort of thing we want? Clearly not. We advocate something radically different. We want public enterprises to be run as genuine public utilities — public service and workers rights should go hand in hand. Public enterprises should be run democratically, controlled by boards representing both the community and the workforce. The corporate bludgers should be cleaned out; managers should be elected and receive workers wages with only modest margins for skill and responsibility.

● Another argument is that the public doesn't relate to the idea of public ownership and nationalisation. However, this proposition is not borne out by the facts.

Firstly, look at the struggle in NSW: there the public massively opposes the sell-off of the power industry. Whatever the problems of the state-owned power industry — and there are a lot of them — people realise that privatisation will only make things radically worse.

Secondly, as the crisis deepens a lot more people will relate to calls for nationalisation and public ownership. Right now, lots of workers don't relate to many things that we believe are objectively necessary. Our struggle is to get a hearing for our ideas.

Thirdly, as mentioned above, the intervention of capitalist governments around the world to prop up their system has been in sharp contradiction to their ideology of yesterday. The market wasn't left to sink or swim. In the US and the UK the government has taken over certain financial institutions lock, stock and barrel, i.e., it has nationalised them, whatever spin it tries to put on this fact. Thus, it seems, nationalisation is not only not impossible but even desirable in some instances.

Finally, the stirring events in Venezuela and Latin America will penetrate people's consciousness. In several countries there, with strong popular support, the state is resuming key entities and sectors of the economy. (Recently, for instance, the Chávez government announced it would nationalise the wholesale petrol distribution sector, saying it was making profits at the country's expense.)

● In regard to nationalisation, in Australia we sometimes hear the cry that it is against the constitution. This is simply not true. There is no absolute prohibition, either on a federal or state level. (I'll say a little more about this later in relation to the bank nationalisation struggle of 1947-49.) But as Marxists we know that fundamentally it is not a question of what is written on a bit of paper — it is a question of the class struggle. With sufficient public support and mobilisation and sufficient political will and determination, a government can do just about anything. New laws can be passed, the composition of courts can be changed, etc., etc.

● Another argument we may hear is that it won't or can't happen under capitalism. Again, this is ill-founded. The truth is that in the advanced capitalist countries, at particular times in particular circumstances, nationalisations have taken place. In Britain, for example, the iron and steel industry was nationalised in 1949 by the reforming postwar Labour government, the Tories denationalised it in 1951 and Labour re-nationalised it in 1967. Today, it is in private hands again. And as a result of the financial crisis the UK and US governments find themselves owning a number of key financial entities.

A lot of things we call for won't happen or are extremely unlikely to happen under capitalism. Alternatively, they might happen. But so what? The key thing is consciousness and the struggle. Fighting — and winning — on the question of public ownership can help to educate people about what is required and drive the struggle forward.

Chifley's effort to nationalise the banks

I would like now to look briefly at the struggle around bank nationalisation in Australia in 1947-49. We can learn a lot from a study of this largely forgotten episode.

Nationalisation of banking had been in the ALP platform since 1919 and it was one of the clearly stated "methods" of implementing the party's 1921 objective of "the socialisation of industry, production, distribution and exchange". During World War II, the banking sector had been stringently regulated. Chifley wanted to maintain a high level of control of the financial sector in the postwar period in order to underwrite the peacetime reconstruction effort.

Two federal bills passed in 1945 effectively continued the wartime banking regulations. Among other things they directed state and local governments and semi-government bodies to do all their business with the Commonwealth Bank. (This was then the state-owned central bank, there being no Reserve Bank.) In August 1947 the Melbourne City Council secured a High Court judgement ruling this provision invalid. Chifley concluded that other aspects of his regime of financial controls were at risk of being overturned in the courts and that nationalisation of the private banks was the only way to guarantee his program.

Robin Gollan, in his 1975 book *Revolutionaries and Reformists*, explains the significance of this chapter in Australian history:

> The attempt [by the Chifley federal ALP government] to nationalise the trading banks was the strongest attempt ever made by an Australian government to control directly an important area of the capitalist economy. The issue, connected though it was with many others, dominated politics for more than two years, from August 1947 to the general elections late in 1949. In the course of the battle the conservative forces were more effectively organised for political action than they had ever been before or have ever been, or needed to be, since.[4]

The government's announcement (in August 1947) touched off a veritable firestorm of opposition from the banks and the Menzies-led Liberal Party. They went all-out to kill the legislation. A.L. May, in his 1968 study, *The Battle for the Banks*, gives a feel for this:

> Some idea of the language used to describe the proposal by its opponents in comments, resolutions, letters, and editorials is gained from a published "sample" of adjectives used in the *Sydney Morning Herald* between 18-23 August [i.e., in the week immediately following the government's announcement] …
>
> "Sensational, radical, unprecedented, spleenful, Red, revolutionary,

dishonest, communistic, ill-considered, terrible, irresponsible, ruthless, authoritarian, totalitarian, unauthorised, insidious, subversive, disturbing, drastic, stupid, astonishing, tragic, iniquitous, impudent, arbitrary, violent, destructive, contemptible, mad, ominous, calamitous, audacious, illegal, sinister, servile, predatory, venomous, extremist, unwarranted, scandalous, unscrupulous, unjustified, undemocratic, unsound, doctrinaire, unconstitutional, putrid, appalling, tyrannical, anti-democratic, unnecessary, provocative, ill-conceived, dangerous, vindictive, shocking, deplorable, cynical, savage, wanton, petty."[5]

The banks organised on a truly tremendous scale. As Robin Gollan explains:

> For two years Australians were subjected to the most intense, highly organised, highly financed, and unscrupulous propaganda campaign they had ever experienced. At first it was against nationalisation of the banks, but this by easy stages became an all-out attack on the government. It was a struggle, as

Bank propaganda advertisement, Melbourne *Argus*, November 12, 1949. The text reads:

"Like Betty Freeland, most of us prefer to do business the friendly way. At the bank, it is pleasant to know that you are a valued customer and that your requirements will receive prompt and confidential attention.

"How different if you had to queue up at a government monopoly bank where you were only a number in a file. Your business then might take days, even weeks, to complete.

"Remember if you have no choice you have no freedom."

> they put it, in defence of freedom, against a government determined to regiment and dictate. The parliamentary opposition took the lead in public, but numerous citizens' organisations lent their support and helped with propaganda and money. The banks themselves appointed a general staff of senior officers and a small army of bank officials who became full-time political activists, supported by a larger contingent who gave part-time service.[6]

It is worth pointing out that the bank workers — "bank officers", as they were called — were overwhelmingly onside with the bank bosses and opposed to nationalisation. Being a bank employee was seen as a secure lifelong career path. In Sydney in September 1947 a bank officers meeting in the Domain protesting nationalisation attracted 10,000 people.

Against this right-wing barrage there was a only a very weak response by the ALP and the trade union movement. There were a number of reasons for this. Firstly, Chifley seems to have had no idea of what he was entering into. He did not want to challenge capitalism. He actually had quite modest objectives and blundered into nationalisation which the capitalists saw as a fundamental attack on all they held sacred. He was totally incapable of responding to what he had unwittingly unleashed.

Secondly, the Cold War was beginning and anticommunism was growing rapidly. The ALP-led trade unions were reluctant to campaign in a full-blooded way on an issue widely seen as a key Communist Party demand. Likewise, the growing Catholic Action "Industrial Groups" section in the trade unions, although nominally in favour of nationalisation, would have nothing to do with communists on any basis.

The issue was tested in the High Court in 1948 and before the London-based Privy Council in 1949, with the government suffering defeat in both cases. However, even in strictly legal terms, it is by no means clear that these judgements mean that any future nationalisation attempt will be automatically ruled out of order.

In the event, these setbacks plus the decisive victory of the Menzies-led Coalition in the 1949 elections buried the idea of bank nationalisation.

Then and now

Looking over the bank nationalisation struggle of the late 1940s from today's vantage point is very instructive. If there were a full-blooded attempt by a radical-minded government to nationalise the banks and the financial sector today, the bosses would be politically in a qualitatively weaker position. It would be impossible for them to simply replicate their 1947-49 Red-scare campaign. Conversely, any campaign for public ownership that was reasonably

and resolutely led would seem to have a good chance of success or at least of winning substantial popular support.

For instance, would bank workers rally behind their employers as they did in 1947-49? It seems highly unlikely. Today they are a casualised, insecure, badly paid workforce. The prospect of permanent, secure, well-paid jobs with decent conditions in a universal state-owned bank would surely be very attractive to them.

Just look at the banks' anti-nationalisation advertisement from 1949 (reproduced here). How things have changed in 60 years! Today they simply couldn't run this crap without being laughed out of town. Today banks mean casualised staff, queues, branch closures, being forced to transact your business at a hole in the wall out in the street and outrageous fees and charges, forever increasing. In some small rural towns there is no bank and people have to travel for 50km to find one. The big banks are widely hated.

Imagine — in today's conditions —a massive all-out campaign for folding all the banks (and other financial institutions) into a single state bank, backed by a pledge to open branches in every locality and town, enable customers to interact with real people, cut the outrageous fees, provide cheap housing finance for ordinary people and provide permanent jobs for all finance sector workers — surely such a push would win overwhelming public support. The banks, we can be sure, would resist bitterly but amongst ordinary people they don't have many friends.

NATIONALISE THE ENTIRE ENERGY SECTOR

In New South Wales in 2008 we saw a big campaign against the state ALP government's push to privatise the power industry. Polls have repeatedly shown more than 80% of the public are opposed to the sell-off. The workers in the industry are opposed and the consuming public is opposed. ALP conferences have overwhelmingly opposed the privatisation. People understand that privatisation will mean higher electricity charges, a worse service and even less action on climate change. But a narrow clique of Labor cabinet ministers, responding to the insistent demands of their ruling-class masters, are determined to have their way on the issue, come what may.

In Victoria, the electricity sector used to be run by the State Electricity Commission. The SEC had many faults but at least the state's electricity system was an integrated whole — embracing generation, distribution and supply. The sell-off, it is important to note, did not begin with Kennett and the Coalition but with the ALP. In 1991 the Kirner Labor government sold 49% of the huge Loy Yang B power station. It also corporatised the SEC, preparing it

for privatisation. After coming to power at the end of 1992, Kennett sold off the rest of the state's electricity assets.

Privatisation of the power industry in Victoria has long been a bipartisan policy. Campaigning for re-election, Labor refused to make any promise to renationalise the electricity sector (or indeed to reverse any of Kennett's cuts in any fundamental way). Then, in 2005 the Bracks ALP government re-licensed the decrepit, heavily polluting — but privately owned — Hazelwood power station for a further 25 emission-spewing years.

Grappling with climate change (trying to halt and reverse it, coping with the inescapable consequences) is the number-one issue facing humanity in the 21st century. (There are other issues but this is the absolutely decisive one. If we don't solve it most of the human race will perish.) Making the "big switch" to renewable energy necessitates a radical plan and a complete restructuring of our economy. This cannot be done with the bulk of the economy in the hands of the profit-mad capitalist corporations.

At an absolute minimum, the whole energy sector must be placed in public hands. Its foundation charter must be to achieve a rapid phasing out of the fossil fuel-fired power stations; build up the renewable energy sector; and achieve a radical improvement in energy efficiency across the whole economy. Furthermore, all this has to be done on an all-out emergency basis. Only a strong public sector can possibly achieve this and achieve the redistribution of the workforce, preserving jobs and living standards and thus securing strong public backing for the necessary changes.

Public ownership key to job protection & creation

The recent wave of factory closures, especially in Victoria, has led to significant job losses in the manufacturing sector. The looming recession will also lead to significant downsizing across the whole economy.

Decent redundancy agreements, protection of entitlements, retraining packages and special assistance in finding new work — these are all vitally important things to fight for. But what about protecting jobs in the first place and charting a course to create large numbers of new jobs?

Government handouts to big business won't save workers. The bosses will happily take the money but they have no commitment to their employees — only to themselves and their big shareholders.

In our opinion, calls to raise tariffs to protect workers' jobs are also misplaced. Such taxes on imported goods increase their cost to consumers but offer no guarantees to workers who remain vulnerable to losing their jobs due to new technology or the company relocating offshore where labor is cheaper.

Corporations recognise only one imperative — to make profits for their big shareholders.

In the face of the escalating jobs losses, the Victorian ALP government has been accused by the union movement of not having an industry plan. However, although it won't be admitting to it in public any time soon, the Labor Party state government — and the Liberal opposition, for that matter — does have an industry plan. It's a very clear and simple one. Premier John Brumby and his gang intend to keep shovelling taxpayers' money to the big end of town, no matter what — through outright handouts, tax breaks and a host of concessions. This won't do anything to save workers' jobs but it will keep the bosses happy.

Workers and trade unions need a totally different approach. Working people are not responsible for the problems of the capitalist economy. We want decent jobs, security, health and safety, and the futures of ourselves and our families protected — no matter what. The so-called "free market" can't and won't do this — irrespective of how many handouts the corporations are given.

Only a revitalised and massively expanded public sector can create the hundreds of thousands of permanent, well-paid, secure jobs that are needed to give work to all who need it. If the bosses want to close a factory or if it's really going broke, it should be taken into public ownership, reorganised and put to producing socially necessary things.

CONCLUSION

The nationalisation demand is not a panacea. It is one element in our transitional program, but an extremely important one for the times in which we live. Used intelligently, it can play an important role in the struggle. It is impossible to put forward effective solutions to the many problems we face without incorporating this demand into our program of struggle.

NOTES

1. *State of Siege* (Pluto Press Australia: Leichhardt, 1989), p. 5.
2. Trotsky, *The Transitional Program and the Struggle for Socialism* (Resistance Books: Chippendale, 1999), pp. 32-33.
3. *ibid.*, p. 33.
4. Gollan, *Revolutionaries and Reformists* (Allen & Unwin: Sydney, 1975), p. 222.
5. May, *The Battle for the Banks* (Sydney University Press: Sydney, 1968), pp. 35-36.
6. Gollan, p. 228.■

Lessons from the Past: The Great Depression & the CPA

By Dave Holmes

The current economic crisis is a fundamental crisis of the world capitalist system. British socialist Phil Hearse calls it the "third slump" in the history of the capitalism (the other two being the Great Depression of the 1930s and the 1974-75 sharp downturn). And the levels of mass distress may yet come to rival the 1930s.

We certainly already have the anti-human irrationality of that period. Some time ago I came across a TV program about Las Vegas and the crisis. Casino business was down, it said. But Las Vegas also has normal suburbs, full of struggling, financially stressed homeowners. Across the city the sherrif's department was conducting 3500-4000 home evictions each month! And the US has dozens of cities the size of Las Vegas.

But it is not the desperate homeowners who are being bailed out, but the very bankers and speculators whose insatiable greed caused the crisis. In a November 26 article on *counterpunch.org* Kevin Zeese wrote:

> $7.6 trillion.
>
> That is what [financial information agency] Bloomberg reports has been committed on behalf of the American taxpayer to bail out America's finance system. This includes spending by the Treasury, Federal Reserve and FDIC.
>
> ● The amount is equal to half the value of everything produced in the United States last year.
>
> ● It is $24,000 for every man, woman and child in America, that is, nearly $100,000 for a family of four.
>
> ● It's nine times what the US has spent so far on wars in Iraq and Afghanistan.

This is an edited version of a talk given at the Socialist Alliance Sixth National Conference, Geelong, December 6, 2008.

> ● It is enough money to pay off more than half the country's mortgages, but bankruptcies have continued despite the bailout.
>
> We do not even know where all of those funds have gone. The taxpayer is putting up a king's ransom and not being told who is receiving it. We guarantee the debts of banks and are not being told what collateral is provided or who is receiving the funds. Before receiving the bailout funds, Treasury Secretary Paulson promised transparency. But Federal Reserve Chairman Bernanke says that such transparency would be "counterproductive".
>
> All of this money and yet foreclosures, bankruptcy and unemployment are all up; the stock market, consumer spending and housing prices are down. Pouring tax dollars into banks is not working …
>
> You'd think for $7.7 trillion we'd get health care for all, tax relief or free college education! But Americans got none of that.

And, of course, no matter how hard the crisis hits ordinary people in the West it will be massively worse in the Third World.

What does all this mean for us? We are entering into a new period. Unemployment is likely to rise significantly and there will be further deep cuts to welfare and social spending — all against the backdrop of the looming threat of climate catastrophe. Along with the growing social dislocation we can expect increasing political turmoil. The last time this happened in Australia was in the Great Depression of the 1930s. And while we shouldn't expect a carbon copy of that period, we can learn a lot from the experience of the Communist Party of Australia in those turbulent years.

Much of the factual material in this talk is drawn from the 1983 book *The People Stand Up* by longtime CPA activist and leader Ralph Gibson.[1] While this work is firmly in a Stalinist framework, it nevertheless provides a very interesting picture of the 1930s crisis in Australia and the work of the CPA. Gibson gives a vivid sense of the depth of the suffering of the masses, the rottenness of the ALP leaderships, and the passionate struggle of the communists fighting for something better.

The Great Depression

The Great Depression of the 1930s began with the October 1929 crash of the US stockmarket. This rapidly developed into a crisis of world capitalism — the most severe in its entire history. From the end of 1929 to the end of 1932, industrial output fell 46% in the USA, 47% in Germany, 31% in France and 16.5% in Britain (already in a severe slump). Agricultural production dropped by a third over 1929-33. International trade contracted to one-third of its previous level. Unemployment reached at least 35 million (12 million in

the US). In the US, only the mobilisation of World War II really put an end to the decade-long slump.

Workers, means of production, people's needs — everything was still there but due to capitalist ownership of the economy the whole mechanism had seized up. To keep up prices, milk was poured down coal mines, oranges and coffee were dumped in the ocean, livestock were slaughtered, cotton fields were ploughed under. Mass misery reigned amid plenty. In the Soviet Union, however, Stalinism notwithstanding, the economy was forging ahead under the first Five-Year Plan. The contrast could not have been clearer to millions of people suffering in the capitalist world.

In Australia the impact of the crisis was extremely severe. The economy was heavily dependent on exports of primary products and world prices of these fell by over half. In the 1920s large-scale federal and state public works had been financed by loans from Britain. With the crash, these stopped but the banks (the "British bondholders") still demanded payment of the interest. In the years 1930 to 1934, an average of nearly a quarter of the workforce was unemployed, existing on a miserable pittance. Misery, hunger, homelessness and dire distress gripped the country.

ALP HELPLESS IN FACE OF CRISIS

Some basic facts of political history are necessary here.

Australia went to the polls in October 1929. The hated anti-worker Nationalist government of PM Stanley Bruce was defeated (Bruce lost his seat to a trade union official) and the ALP under James Scullin took office (but with the Nationalists still controlling the Senate). However, the euphoria was short-lived. A few days later the Great Depression began …

In the two short years it was in office, the Scullin government showed itself to be completely incapable of protecting the interests of working people. It abandoned its modest election promises and was completely subservient to the bosses.

Worried about getting their pound of flesh, the British banks sent out an emissary, Sir Otto Niemeyer, to lay down the law to the Scullin government. Neimeyer demanded drastic cuts in wages and pensions — Australian living standards were too high, he said. At a Premiers' Conference held in May-June 1931, the notorious Premiers' Plan was adopted. It called for slashing all adjustable government expenditure by 20% — including all wages, salaries and pensions.

In NSW the ALP under J.T. (Jack) Lang won office in October 1930. Lang had presided over a modestly reformist state government in the mid-twenties.

He put forward his own plan for the crisis. It called for a moratorium on interest payments to the British banks and a renegotiation of terms (actually not without precedent in the times). However, this was rejected at the February 1931 Premiers' Conference. Despite all the demagogy surrounding Lang, the truth is that he later voted for the infamous Premiers' Plan.

Lang was expelled from the Federal ALP in May 1931. There were then two ALPs in NSW: Lang Labor (by far the larger) and the rump Federal Labor. Five MHRs and two senators in Canberra were Lang supporters. In April 1932 Lang announced that the NSW government would suspend its interest payments to overseas bondholders. In response to this, in May the governor, Sir Philip Game, sacked Lang and he was defeated in the subsequent elections.

When a group of ALP defectors led by former Tasmanian premier Joseph Lyons withdrew support, the Scullin government was forced to the polls in December 1931. It was defeated by the new Lyons-led United Australia Party, a fusion of the Nationalists and ALP turncoats. Labor would remain out of office in Canberra until the Curtin government in 1941.

CPA and the 'Third Period'

The CPA was formed in 1920, inspired by the victorious Russian Revolution. It took some time before a united communist party was consolidated. Through the twenties the party struggled to find the correct strategic and tactical orientation toward the ALP. Then, in 1929-31, under the pressure of the Comintern, the old leadership around Jack Kavanagh was forced out and a new Stalinist team installed, led by Lance Sharkey and J.B. Miles. Under this leadership the party adopted the policies associated with Stalin's ultraleft "Third Period" schema and a much more top-down form of party organisation and control was implemented.

According to the Comintern analysis, adopted at its Sixth Congress in 1928, after the crisis of World War I and the immediate turbulent aftermath, and then the stabilisation of the 1920s, world capitalism was now in its third period. This was one of decisive crisis, in which revolutionary situations were on the immediate agenda just about everywhere and the task of the moment was to organise for the socialist revolution. The problem with the "Third Period" line is that it confused real possibilities of development with the actual situation.

And the tactical prescription which flowed from it was disastrous. The Comintern argued that not only were the pro-capitalist social-democratic leaders holding back the masses and preparing the ground for reaction and fascism — which was absolutely true — but their rank-and-file followers were also "social-fascists". Left social-democrats — "left social-fascists" in the

Stalinist categorisation — were even worse because they could more readily mislead the masses. When the Great Depression came and capitalism did enter a period of tremendous dislocation and political turbulence, the Comintern's ultra-sectarian "Third Period" line prevented the communist parties from being able to correctly relate to the situation.

For example, in Germany in the later 1920s and early thirties, this sectarian line prevented the potentially formidable labour movement from uniting its forces to check Hitler's rise to power. Instead, the working class remained divided between social-democracy and communism. As Trotsky tirelessly stressed, whatever their differences it was necessary for the workers' movement to unite for self-defence against the growing fascist menace. If it did not do this it would suffer a catastrophic defeat. Trotsky also pointed out that a successful campaign against the Hitlerite threat would open the way to a socialist revolution in Germany. The social-democratic leaders certainly didn't want to fight but the sectarian CP line made it easy for them to avoid the struggle. How different would world history have been had the Marxist-Leninist policy advocated by Trotsky been followed!

In Australia, the Third Period schema meant a crazy sectarianism toward the ALP and its mass base. At a time when the faith in the system of large numbers of workers was being shaken as never before, when they were groping for a way out of their misery, the CPA line made it so much harder for them to cross over to the revolutionary camp.

Of course, the ALP leadership was loyal to the capitalist system, just as they are today. But the most fruitful way to expose them in the eyes of their followers was not just through general propaganda but by constantly trying to achieve unity in action in fighting for the interests of the masses. Only in the struggle will the masses lose their illusions. Criticism is certainly not excluded but it must be relevant to the issues at hand and formulated in relation to the struggle as it unfolds.

In his book Ralph Gibson is critical of the CPA's tactics toward Langism. Yes, Lang was a capitalist demagogue but he had attracted a mass following precisely because he appeared to offer an alternative to the Premiers Plan. The CPA called for a repudiation of the overseas debts. OK. But the actual struggle was developing around Lang's proposal to suspend interest payments and renegotiate the terms of the loans.

When Game sacked him (probably an unconstitutional act) an enormous meeting was held in Sydney's Moore Park in June 1932 under the slogan "Lang is right". The place of revolutionaries was to be part of that movement, demanding that Lang be reinstated — and then actually carry out his plan.

But the CPA's Third Period schema closed off this possibility and this whole promising development passed them by.

Similarly, the CPA played a negative role in regard to the Socialisation Units which arose in the NSW Lang Labor Party in 1930-33. The outlook of the leaders of the units was utopian and they were unclear in their understanding of the nature of the Labor leadership around Lang but here was a movement embracing scores of thousands of workers looking to "socialisation" as the answer to the misery of the depression. The CPA denounced the leaders and supporters of the units (as "left social-facists"). And when a few communists did operate inside the units, they sought to commit the movement to an abstract revolutionary program.

WORK AMONG UNEMPLOYED

Ralph Gibson explains that when he joined the CPA in the early thirties it was largely a party of the unemployed: "Its members were not just *talking* about poverty. They were among the multitude who were deep in it."[2]

When the Great Depression first hit Australia and a great wave of unemployment engulfed the country, there was no unemployment insurance for eight months.

A national Unemployed Workers Movement (UWM) was set up in Sydney in July 1930. CPA members played the key role in setting it up in Sydney and Melbourne. In the big cities there were repeated demonstrations of the unemployed. These actions won the dole and the first payments were made in June 1930. The CPA played the decisive role in leading these struggles.

In mid-1931 the UWM claimed 31,000 members, in 1934 the figure was 68,000 and the organisation continued to grow until 1936. In response to the success of the UWM, the ALP and trades hall councils formed their own unemployed organisations but the CPA-led UWM outstripped them in numbers and militancy. Not surprisingly, the UWM was a major source of recruits for the CPA.

The UWM often spearheaded struggles against evictions. Some of these actions were veritable battles against the police attempting to evict people from their homes and throw them onto the street. The UWM also fought for improved conditions for the unemployed. These struggles were successful in winning higher dole payments and in gaining a rent allowance for the unemployed to stop people being evicted from their homes.

In 1932 the government tried to introduce "work for the dole". Previously there had been short-term relief work for which wages were paid. But work for the dole made the unemployed work for their pittance. In Melbourne, the

Shrine of Remembrance (that icon of bourgeois patriotism and militarism) and the Yarra Boulevard were the two main projects. The unemployed organisations were unable to prevent the introduction of this scheme, but in mid-1933 an heroic eight-week strike of the jobless in Melbourne succeeded in winning a substantial increase in the amounts paid.

Growing influence in trade unions

Alongside the Unemployed Workers Movement, the other key organisation through which the CPA attempted to lead the working class in the first part of the 1930s was the Militant Minority Movement (MMM). It was first established in 1928 with CPA leader Jack Kavanagh as its first secretary.

Ralph Gibson points out that: "The economic crisis, while it stimulated struggle among the unemployed, on the whole dampened it among employed workers." Strike activity declined as did trade union membership (due to loss of faith in unions along with an inability to pay union dues). "… there was no real strike *movement* till the ice broke with the Wonthaggi mining strike of 1934"[3] (depicted so well in the movie *Strikebound*).

However, the CPA was able to advance its industrial work, especially in traditionally militant sectors like the miners. This was despite its overall Third Period sectarian line. In his 1969 history of the CPA, Alastair Davidson summarises its gains in the first years of the Great Depression:

> In early 1933 the MMM usually captured only low positions in militant unions, gains which were basic successes, but did not become news. In late 1933 and 1934 it started to capture militant unions at the state level. It also spread its activity throughout the entire Australian union movement. In 1933, through good organisation as well as essentially "pork chop" policies, the MMM captured the presidency of the Victorian Federated Engine Drivers and Firemen's Association as well as several positions on the Victorian Tramways Union executive. It also consolidated its hold on positions in the WWF and was only narrowly defeated in the Amalgamated Engineering Union elections.
>
> In [January] 1934 it captured its first union at the federal level, [when Bill Orr became secretary of] the Miners' Federation, and throughout 1934 and 1935 it captured positions at the state level. By 1935 it decisively influenced a number of unions in various states: the ARU, the Leather and Tanners', the Federated Ironworkers' Association, the Tramways and Engineering unions, and the Miners' unions.
>
> It also led a militant minority which included about 20% of Australian unionists. It was winning influence in the Victorian, New South Wales, and New South Wales South Coast labor councils once again. Nearly all its successes at

this stage were limited to traditionally militant unions, but it was also building its influence in the lower units of unions which were not traditionally militant.[4]

The Militant Minority Movement is a very interesting phenomenon. One thing we should be clear about is that this was not just a "rank-and-file" movement. Yes, it aimed to organise the ranks of the unions but it also aimed at winning leadership of unions and as it had success in this regard, the concept of the militant *minority* became somewhat anachronistic. Whole unions were won by militants and followed a militant line.

FREE SPEECH

The CPA engaged in numerous free-speech fights through the 1930s, often through the Unemployed Workers Movement. One hard-fought campaign took place in Brunswick in Melbourne in 1933. A state law banning "subversive" gatherings was used by the police — under the command of the reactionary police commissioner, General Thomas Blamey — to break up meetings of radicals and the unemployed. The struggle was at its fiercest in Brunswick. Dozens of members of the UWM were arrested in repeated protests during Friday late-night shopping.

A celebrated incident took place on May 16 at the corner of Sydney Road and Phoenix Street in Brunswick. CPA member and artist Noel Counihan had himself locked inside an old steel mesh lift cage bolted onto the back of a horse-drawn cart which was securely chained to a verandah post. From the safety of his improvised fortress he spoke to a large and growing crowd — one estimate put it at 10,000 — for 15 or so minutes on the situation of the unemployed, the right to free speech, war and the rise of Hitler. The police were beside themselves. Earlier that evening in Brunswick a free-speech activist had been shot in the leg by the cops. With the police smashing at his cage with an improvised battering ram, Counihan eventually came out and was duly arrested.

After three months, the campaign was finally successful. The Nationalist state government backed off and brought in a new, less restrictive law and street meetings were generally allowed to proceed without police harrassment..

Then there was the famous case of Egon Kisch in late 1934-early 1935. Menzies, the attorney-general in the UAP federal government, banned the Czech communist writer from entering Australia to address a congress of the CPA-led Victorian Council Against War and Fascism. When Kisch courageously jumped from his ship in Melbourne — breaking a leg but briefly touching Australian soil — the whole government effort to exclude him backfired. He eventually made a triumphal tour of Australia, speaking to large crowds and gaining enormous publicity for his message.

New Guard threat

In response to the rise of working-class militancy a semi-fascist New Guard formed in NSW, led by ex-army officer Eric Campbell. Its slogan was "King and Country" and its aim was to break up CPA, Socialisation Unit and Lang Labor meetings. At its height, its numbers reached some 50-100,000. The CPA was forced to set up a defence guard to protect its meetings. But in February 1932 the New Guard met its match in the "Battle of Bankstown" when 200 of its thugs in dozens of cars attacked a workers' meeting and were driven off in complete disarray. After Lang's dismissal the New Guard went into sharp decline.

Conclusion

According to Alastair Davidson, at the end of 1928 the Communist Party had 249 members. By April 1931 membership was in excess of 1100. In 1934, the figure was almost 3000 and in 1935 probably greater still.[5]

What can we conclude from this very brief sketch? In the early 1930s, in the context of a global crisis of capitalism and a consequent profound crisis of Australian society, a small revolutionary party built itself into a formidable force in Australian political life. It remained small compared to the ALP but its influence was much greater than its mere numbers would suggest. All this was achieved *despite* a fundamentally wrong political line (its Third Period ultraleftism).

Many things are different today. But we can be sure that one thing at least will not be different this time around. Its Stalinist framework notwithstanding, the CPA grew because of the commitment, drive, energy and will to struggle of its membership. This time too success will go to those who are prepared to fight and make sacrifices for their cause.

In the period ahead of us the socialist movement will have increasing opportunities. We can learn a lot from the experience of the CPA during the Great Depression, while hopefully avoiding its mistakes.

Notes

1. Gibson, *The People Stand U*p (Red Rooster Press: Ascot Vale, 1983).
2. *ibid.*, p. 29.
3. *ibid.*, p. 42.
4. Davidson, *The Communist Party of Australia: A Short History* (Hoover Institution Press: Stanford, 1969), pp. 59-60.
5. *ibid.*, pp. 53, 69.n

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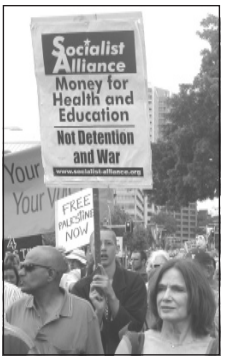

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