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The credit crisis and the New World Order of capitalist "anarchy"*

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The credit crisis, which began reaching its peak last summer with the central banks around the world pumping some $323 billion into the system to keep it liquid[1], intensified further in the last few weeks, with stock exchanges' values falling and the most important central banks in the world jointly and massively intervening in the intra-bank market. Thus, the US Federal Reserve on 12 December entered into an agreement with the European Central Bank and the national banks of Canada, Switzerland and Britain to auction $40 billion during these last two weeks of December, supposedly, to help crush the "vicious cycle in its tracks" by lessening the fear of cash availability[2]. Of course, this is also a chance to get US dollars at bargain basement prices, and if it proves successful more auctions are expected in January in an attempt to smooth over structural fault lines of neoliberal deregulation: free markets produce the best profits and little government interference.

However, despite these increasingly desperate attempts to avoid a more serious crisis, or at least to minimise the effects of the present crisis, today, some analysts already refer to the possibility of the collapse of the banking system to be followed by a world recession similar to the Great Recession in the aftermath of the 1929 US stock exchange crash, whereas even conservative analysts talk about the strong possibility of another stagflation, similar to the well known stagflation crisis of the 1970s in the aftermath of the oil crisis. Finally, those in the reformist Left who never understood the systemic character of globalisation keep maintaining the untenable thesis of the non-existence of a New World Order and "interpret" the present reality as just a simple condition of "disorder" and "de-structuring" of the Old Order (i.e. the order of socialist statism prevailing during the social democratic consensus). Still others in the Left adopt the faulty thesis supported by Castoriadis, which also suffers from the lack of a theoretical analysis on globalisation, that what we face today is simply a regression to a capitalist "planetary casino".[3] So, what are the real causes and the implications of the new crisis and what are the general conclusions we can draw from it?

During the period of neoliberal globalisation, the metropolitan capitalist centres went through a process of an elite-controlled de-industrialisation, which began in the 1970s, when statist capitalism that relied mainly on the domestic market for its growth, began transforming —through the massive expansion of transnational corporations[4]— into an internationalised form of capitalism. The opening and deregulation of commodity and capital markets made possible the mass export of investment capital to the Asian paradises (to which later the countries of former "actually existing socialism" were added), which were offering abundant and well trained workers at miserable wages. This development had nothing to do with the silly theses being supported by former Marxists and others about the creation of new economic giants and economic poles in the East[5], but could adequately be explained within the context of a new international division of labour, which institutionalised keeping high technology, research and development, as well as specialised "products" like financial services, in the metropolitan centres –which still concentrate the real planetary economic power—and, at the same time, transferring large parts of the manufacturing process to countries such as China and India, where various "development islands" have been created within vast oceans of misery and underdevelopment, which feed the new (mainly controlled by the metropolitan centres) export industries with abundant and well disciplined labour.

The consequences of this process were not only the creation of massive unemployment in the West, which was later transformed from open unemployment to disguised unemployment in the form of part-time work, occasional work, massive training programs and so on, but also the huge expansion of the financial market, which, through the opening and deregulation of markets has been globalised. In Britain, for instance, the financial and business services sector has been responsible for almost half of the growth in the economy and the City and the housing market have been proving recently the two main sources of growth. No wonder some analysts argue that "it is an exaggeration, but perhaps not much of one, to say Britain is dependent on speculation" [6].

Similarly, in America's profit surge of 2006, financial services pocketed by far the lion's share: 32.8 per cent[7]. The main profit engine was proprietary trading. Thus, traders began by offering "sound" loans to cover the property needs of the wealthy middle classes and when, at some point, the possibilities for further expansion in this part of the market were exhausted, they turned to attract the low and marginal income groups, which were keen to take part in the "American Dream", but also represented a case of high risk (and also high profit) possibility, i.e. they turned to lend in the "sub-prime" market. Dreamy-eyed risk groups (African Americans, Latinos and other working poor) bought into exploitative loan schemes with slogans such as "bad credit, no problem", "quick and easy money", "zero percent down payment", "creative financing" with teaser rates[8]. The inevitable result was that when, after an introductory period of low mortgage repayments, these repayments began rising steeply, about 14% of subprime borrowers defaulted[9] in the first quarter of 2007. Repossessions followed. Of course, the dealers, which controlled these financial dealings, had taken care, using various financial devices, to transfer the risk involved to others than themselves. For this, they used a "securitization" process by packaging up the debts into negotiable bonds, which could then be sold to banks, hedge funds and other investors from Zurich to Shanghai, whereas at the same time risky loans could be wiped off the balance sheets of the issuing banks.

So, in theory, everybody was supposed to be happy with this arrangement: dealers for spreading the risk around, and investors for potentially earning unusually high returns on these funds. In practice, of course, it was the investors who paid the price when things went wrong. As the *New York Times* reported[10] referring to the loss of more than $64m by three Norwegian municipalities, which were persuaded by agents that the profit they could make on these bonds would more than cover for a drastic improvement in social welfare services (a task that presumably was not covered adequately anymore by the Norwegian state, despite the oil bonanza):

> Norway's unlucky towns are the latest victims — and perhaps the least likely ones so far — of the credit crisis that began last summer in the American subprime mortgage market and has spread to the farthest reaches of the

> world, causing untold losses and sowing fears about the global economy (...) Tiny specks on the map, these Norwegian towns are links in a chain of misery that stretches from insolvent homeowners in California to the state treasury of Maine, and from regional banks in Germany to the mightiest names on Wall Street. Citigroup, among the hardest hit, created the investments bought by the towns through a Norwegian broker. Those investments represent a quarter of Narvik's annual budget of $163 million, and covering the losses would necessitate taking out a long-term loan, which the town could only pay off by cutting back on services.

In the process, however, there were some less desirable outcomes for the economic elites. Thus, Citigroup, the largest bank in the US, was kept floating by the Abu Dhabi Investment Authority which bailed out the bank with $7.5 billion. This investment opportunity will make Abu Dhabi one of Citigroup's largest shareholders. No wonder, some analysts point out that "the lower dollar has put the U.S. in the position of being for sale at attractive prices."[11] It is no accident either that three big bank losers Citigroup, Bank of America Corporation and JPMorgan Chase and Company are trying to put together a fund to be used in other crises they foresee by asking Japan's three largest banks to cough up this week a total of $15 billion. The Japanese banks are resisting the pressure because they think they are shouldering an unfair amount of the fund totaling $30-$60 billion to bail out a global crisis, when five years ago Japan was on the cusp of a financial crisis, the US and European banks ignored Japan's problem[12].

However, an even more significant and very undesirable, for the elites, consequence of these developments was the creation of a more general confidence crisis in the financial sector, which put at risk the financial as well as the banking systems in the West since, as it is well known, their viability relies on their clients' confidence. In Britain, for instance, the crisis of confidence that was created by the tighter lending conditions following the US credit crunch led to the collapse of Northern Rock and the first run on a British bank since the Victorian era, which led to the Argentinean spectacle of savers queuing overnight to make sure that they will be able to withdraw their deposits which were under threat. Furthermore, this confidence crisis involved not just savers and borrowers but also banks, which saw their assets to be threatened by bad debts for which there was no way of knowing who owned them in the chaos created by a globalized financial market. No wonder that even a well known British social-liberal was forced to state that: "globalisation, it is now clear, is run in the interests of a global financial class which has Western governments in its thrall. This class does not give a fig for the interests of savers, clients or wider workforces. The rules of the game are set up solely to benefit the financiers whether in London, New York or Hong Kong".[13]

As a result of this confidence crisis, banks began to cut drastically their lending activities, creating an artificial crisis of liquidity, which forced central banks to make several attempts in the last few months to enhance it. The danger, therefore, is that this increase in liquidity, combined with other, mostly speculative factors leading to inflationary pressures in the prices of raw materials like oil with chain results, could lead to a significant rise in world inflation. At the same time, the recession in the property market, in combination with the confidence crisis, create conditions for stagnation, through the pressure exerted on consumerism —the motor of growth all these years; hence, the danger of stagflation.

Yet, the present crisis, as well as the previous crises in the period of neoliberal globalisation (1987, 1990, 1994, 1997/8, 2001, etc.), and those before, in the statist period (1973/4, 1979 etc.), or even in the pre-war period, in no way represent something new in the capitalist system of the market economy. It was exactly for this reason that the elimination of the "anarchy" of the market has always been a basic demand of anti-systemic Left. In other words, the system did not just become a capitalist "casino", as Castoriadis argued, but it has always be one ("high risk for high profits"), and during its entire two hundred years history was plague-stricken by crises —apart from half a century or so of socialist statism when these crisis were to a certain extent controlled by the state. The only difference with the past is that this casino is now, as a result of globalisation, a planetary one. Therefore, the New World Order, which accurately expresses this planetary anarchy, is indeed incompatible with the pious hopes of the reformist Left, but nevertheless it is present reality!

* A shorter version of this article was published in the fortnightly column of Takis Fotopoulos in the mass circulation Athens daily, *Eleftherotypia*, (22/12/2007).

[1] David Teather, Ashley Seager, Katie Allen and Justin McCurry, "Central banks pour in billions-but global slide goes on", *The Guardian* (11/8/2007).

[2] Neil Irwin, "Fed Leads Global Bid to Spur Loans", *Washington Post* (13/12/2007).

[3] C. Castoriadis, « La 'rationalite' du capitalisme» in *Figures du Pensable* (Les carrefours du labyrinthe) (Paris: Seuil, 1999) pp. 65-66.

[4] See Takis Fotopoulos, *The Multidimensional crisis and Inclusive Democracy* (2005) chs. 2-4. And also "Globalisation, the reformist Left and the Anti-Globalisation 'Movement'", Democracy & Nature, (Vol. 7 No. 2, July 2001).

[5] See e.g. Martin Jacques, "China is well on its way to being the other superpower", *The Guardian* (8/12/2005).

[6] Larry Elliott, "Those who say this is just a market wobble are in denial**"**, *The Guardian* (17/8/2007).

[7] Bob Heller, "Financiers' greed has put capitalism at risk", *The Observer* (9/9/2007).

[8] Matt Moore, "ECB to offer up to $28B in dollars", *Associated Press* (December 12, 2007), and these are the consequences of the American Dream going sour, Dana Ford, "Tent city in suburbs is cost of home crisis", *Reuters* (December 21, 2007).

[9] Frédéric Lordon, "Subprimes, ninja loans, derivatives and other financial fantasies", *Le Monde Diplomatique* (September 2007).

[10] See e.g. Mark Landler, "U.S. Credit Crisis Adds to Gloom in Norway", *The New York Times* (30/11/2007).

[11] Joe Bel Bruno, "Stocks Higher After Citi Secures Capital", *Associated Press* (November 27, 2007).

[12] Nathan Layne and Taro Fuse, "Japan big banks reluctant to pay for subprime fund", *Reuters* (December 17, 2007).

[13] Will Hutton, "Curb the greedy global financiers", *The Observer* (26/8/2007).