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The Global Financial Crisis[1]

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Introduction

As is well known, the present financial crisis began in August 2007 and reached a crucial turning point in mid September of 2008.

The banking system of Wall Street, of the City of London and of other financial centres, during the present era of neoliberal globalisation, has distanced itself substantially from its traditional role (attracting deposits - granting loans) and has been transformed into a main vehicle of speculation. Within this framework the banks, instead of financing mainly the real economy, were financing mainly speculation. This development is the outcome of the liberalization of the financial markets, as a result of the massive expansion of Transnational Corporations and the subsequent dominance of neoliberalism. Under these conditions speculation reached unprecedented dimensions and the financial system itself developed into a huge speculative bubble. This is the cause of today's crisis. The credit derivatives issued by American banks on the basis of high risk housing loans (subprime loans), the by now notorious "toxic wastes," are simply the trigger that burst the bubble. At some point, the bubble would have burst anyway, leading the banking system to collapse. The collapse of the banking system carried the stock markets along with it. That is to say it led, in its turn, to the bursting of the stock exchange bubble (crash).

Since the banking system and the stock markets are interconnected in a multitude of ways with the real economy, the latter was led to into recession. The spectre of the 1929 crash of the stock market of New York and the Great Depression that followed was until recently floating above the USA, Europe and the rest of the world. Panic-stricken governments were rushing into actions that were unprecedented and inconceivable until recently, such as the partial nationalization of banks and insurance colossuses[2] that were collapsing, in order to prevent a domino effect. Let us note here that these nationalizations do not mean a return to the statist era. As it was made quite clear by the leaders of the USA and UK, the nationalization of banks and other institutions will be temporary and their private character will be fully restored, when the crisis is over. Furthermore, these nationalizations do not actually mean even a partial control of the "nationalized" banks by the state, as they usually imply the state acquisition of reference shares, which do not give to the state even voting rights.

Simultaneously, governments are disposing of hundreds of billions of taxpayer's money, in order to relieve the banks of their "toxic wastes," that is they are nationalizing the losses of the banks. In other words, they are transferring them to the citizens of their countries. Working people are now being asked to pay for the losses from the great feast of speculation.

However, despite the unprecedented measures of governments, the markets were not "persuaded". The free fall of the stock exchanges continued until early March 2009[3] and one black day followed the other. The credit crunch led to panic selling, so that liquidity was acquired at any cost facilitating the banks and other big speculators evasion of bankruptcy. But this is a vicious circle. To the same extent, as more and more people rushed to liquefy all sorts of assets, the system collapsed.

1. The Causes of the Financial Crisis, the Credit Suffocation of the Real Economy and the Recession

This vicious circle could not be broken unless the credit bubble were deflated and the banking system shrank and came into alignment with its capital base[4]. Most of the speculation of the banks and other speculators (such as hedge funds) has been realized with high borrowing, that is with relatively small self-owned capital, something that leads to enormous profits. This high borrowing means that the "investments" (that is the speculation) of banks and other speculators corresponded to a relatively small capital base. The "investments" of banks and other "investors" with borrowed money is politely called leverage. The dimensions of leverage in the contemporary financial system are inconceivable. For instance, the American banking colossus Lehman Brothers that collapsed, had a ratio of speculative investment to its own capital of 30 to 1, that is its own capital represented just 3.3% of its "investments"[5]. Analogous leverage ratios are seen in all the big banks, for instance, the European colossuses Deutsche Bank (the largest bank of Germany), UBS (the largest bank of Switzerland) and Barclays (the third largest bank of Britain), with percentages of 1.2%, 2.1% and 2.4% respectively. As stated in the Economist, these percentages "may provoke terror in the circles of the stock-brokers". It is evident that the banking system has swelled out of any proportion to its capital base. Hence, the panicky rush of governments to boost the capital base of the banks with public money. The banking system of the USA and Europe is expected to shrink by 5 trillion dollars, an amount which represents 36.2% of the GDP of the USA[6]!

Let us note here that almost everyone is involved in speculation over the stock, derivatives and commodities exchanges and the currency markets[7]: the banks (investment and commercial[8]), insurance companies, companies of mutual capital management, among which the closed high risk mutual capitals (hedge funds)[9] occupy a conspicuous position in terms of speculative aggressiveness and size of capital, in addition to private equity funds and other financial schemes, even including the big pension funds.

But large companies of all sorts (industrial and other) and especially multinational corporations are also involved in speculation. For example, approximately 50% of the profits of General Electric in 2007 came from its subsidiaries in the financial branch. This means that major companies involved in the real economy may also record huge losses due to the present financial crisis. A characteristic example is the case of

Metallgesellschaft AG, Germany's 14th largest enterprise. This company faced the danger of collapse in 1993 due to losses of 1 billion dollars incurred by an American subsidiary of it, because of speculation in derivatives in the oil market (commodity exchange). Also characteristic is the case of the American General Motors Corporation, the biggest automobile manufacturing company in the world, which went bankrupt. Its banking branch is GMAC, an investment bank that also lends money to the buyers of GM cars, which collapsed[10]. When the large companies involved in the real economy are exposed to major losses, a series of bankruptcies may result, leading to a rapid aggravation of the recession and rocketing unemployment.

It is characteristic that two of the three largest American automobile industries (the Big Three), General Motors and Chrysler, collapsed due to the present economic crisis and were saved from extinction by the American government[11]. The problem otherwise would be acute for the additional reason that these three companies employ approximately 240,000 people in the USA and thousands of others abroad. Moreover, 5 million jobs depend on the Big Three, including the jobs of those employed by their suppliers, by car dealers, and by various companies providing services to the branch. But the European automobile industries face big problems too. They announce layoffs, while at the same time they shut down their factories for a while in order to reduce production in response to a shrinkage in orders[12]. The Japanese automobile industry faces similar problems. It is estimated that over the next period more than 50,000 jobs will be lost in Europe, if the indices of the sector do not improve. The seriousness of the situation is clear in the statement of the Commissioner of Industry of the EU, G. Verheugen, that Europe will not let its automobile industry to collapse. The industry is kept alive to this moment mainly due to incentives given by governments to their citizens to buy new cars to replace the old ones (in the USA, Europe and Japan). But the Central Banks and the governments neither can, nor have they the funds to rescue the banking or the overall system. Their attempt to do so leads them to unprecedented measures (for instance printing new money), which may torpedo public finances, and bring about a new crisis, this time originating in the public sector (see Section 4 below).

However, all sorts of enterprises are already asking for time in order simply to survive, including the small and medium firms, which are the backbone of the Western countries in view of employment, due to the fact that they are labour intensive[13]. Profits are shrinking due to the recession, while interest and capital payments are increasing. Debts are accruing at a time in which the banking system does not dispose credit for the refinancing the debts. Production is shrinking and layoffs are increasing.

Let us now look at the five largest investment bank giants of Wall Street, the five pillars of global speculation. Three of them, Bear Stearns, Lehman Brothers and Merrill Lynch collapsed[14], while Goldman Sachs and Morgan Stanley departed hastily from the Mecca of "investments" (that is speculation) and were transformed into bank holding companies, in order to have access to the market of bank deposits. Henceforth, they will mainly play the role of commercial banks[15]. Collapsed in this way, ingloriously and almost overnight, the enterprising model of Wall Street, "investment" banking. The landscape of contemporary financial world is redefined. The investment banks of Wall Street were considered the engine of the global financial system, a financial system which was transformed, as we noted, primarily into a vehicle of speculation. Let us point out that the investment banks enjoyed complete immunity, that is, they demanded and succeeded in being exempt from almost all state controls and regulations. The investment banks of Wall Street may have closed or been bought out, nevertheless, the "investment products" they created have contaminated the global financial system and no one knows exactly where they are to be found.

1.1 The Causes of the Financial Crisis

Let us turn now to the darkest side of the contemporary financial system, the credit derivatives, which developed very rapidly over the last decade and are now in the eye of the storm, at the heart of the financial crisis. They are one of the "innovations," which became objects of worship within the context of the speculative practices. The credit derivatives are a banking "paradox," which reveals the speculative muck of contemporary capitalism that may lead to its collapse, if measures for their regulation are not taken. About what is this exactly? The credit derivatives are "products" of the so-called securitization[16]. With securitization, the banks transformed elements of their assets, such as loans they had granted, or in general finances, into derivative titles, which were sold in the market, in the form of credit derivatives, which are, like almost all derivatives, tools of speculation. To put it more simply, the banks "sold" the loans they had granted to interested "investors" (i.e. speculators), after they had transformed them into credit derivatives. The interested "investors" were quite often other banks. And from this point onward an unbelievable cycle begins. With the issuing of these titles, that is credit derivatives, the banks drew on borrowed capital, which in turn they lent. These new loans that they granted, in their turn were securitized, that is to say were transformed into new credit derivatives, and so on and so forth. More simply, the banks borrowed and re-borrowed to lend. Every such cycle meant the conveyance to the market of new tools of speculation, that is, new credit derivatives, augmenting the size of speculation, but the borrowing of banks as well. This is like an ascending spiral that develops in the air, in a vacuum. Or like a bubble. As all banks and other speculators were involved in this continuously expanding spiral, all were found to owe to all. When the bubble burst, the result was a crisis of liquidity and a credit crunch. If one views the matter from another perspective, securitization means that the assets of the banks (the loans they had granted) were transformed into liabilities, as long as with securitization they were drawing on borrowed capital (liability). With every such cycle borrowing was augmented. It was in this way that the banks reached these improbable ratios of "leverage," to which we referred above. When assets are transformed into liabilities and especially at an expanding scale, the capital adequacy of the banks vanishes. Hence, today's crisis of capital adequacy. With the credit derivatives and the transformation of assets into liabilities all banks were transformed from creditors to debtors. All against all. But this continuously expanding cycle of speculation through borrowed funds meant enormous profits. Naturally, many of these profits remained "stored up" in securities, or "papers" in everyday language. Now that the bubble has burst, these profits have evaporated into thin air, as the value of these assets collapses. "Papers" render papers, literally. The banks record huge losses.

This is in short the history of the high risk housing loans (subprime loans), which were securitized and were transformed into credit derivatives, more concretely into composite structured bonds (such as the CDOs), the now notorious “toxic wastes”. These bonds were issued by the American banks as very promising, attractive packages (they were issued while the bubble of real estate lasted) and were sold throughout the entire world, contaminating the global financial system. As estimated, 5 trillion dollars of housing loans belong to the category of high risk, a number showing the enormous scale of the problem. The European banks were also badly hit by the crisis in the market of US housing loans. For instance, the banking colossus UBS, the largest bank of Switzerland, with assets of 1.9 trillion dollars, is one of the European banks worst hit[17]. The minister of economics of Switzerland hastened to assure people that a possible bankruptcy of UBS is out of question. The IMF estimated on October 2008 that the losses of the banks around the world from the accumulation of precarious loans and “toxic” assets connected with them will surpass the sum of 1 trillion dollars. But these estimates are continuously being revised upwards. On January 2009 this estimate increased to 2.2 trillion dollars and in early April it again increased to 4 trillion dollars, which by the end of 2010.

But let us now turn to the notorious self-regulation of the markets. Of course the self-regulation of the markets is not a new conception. Long ago Adam Smith put forward his view that an “invisible hand” directs markets and balances adverse interests for the benefit of society as a whole. But it was during the present neoliberal era that almost all state controls upon the free market were abolished and brought the latter to its highest stage of “freedom”. According to the neoliberal view, i.e. the ideology that justified the structural changes of the neoliberal era, the markets do not need the “ties” of regulations which the state imposes as the collective supervisor of the functioning of the system. Free from these “ties,” the argument was, the markets are self-regulating. Self-regulation, that is deregulation, was implemented in various aspects of the financial system. The management of the credit risk was also trusted to self-regulation. The matter is of great interest, as the self-regulating markets turned credit risk itself into an object of speculation! More concretely, elements of the assets of the banks, that entailed high risk, for instance risky loans, were securitized and insured by credit risk covering derivatives (credit default swaps – CDSs). The fact that the banks with this “innovation” can get rid of the risky loans that they have granted, explains the inconsiderate willingness with which the American banks were lavishly granting housing loans of hundreds of billions of dollars to persons with low solvency, practically to anyone who asked for them, as long as the real estate bubble continued. In this way they offered the American Dream of acquiring a home to millions of Americans, not only to the working class and generally to low income people, but also to the middle class, who saw the dream of a luxury house in the suburbs materialise. Now all these people are crowded in encampments and are being fed by charitable organisations, while millions of others will follow, whose houses are on the list of ensuing seizures.

Of course the derivatives covering credit risk (CDSs) do not apply only to housing loans, but to all sorts of loans. These derivatives are complicated “investment products,” that is tools of speculation. In other words, the self-regulating banking system trusted its credit security to speculation! This is how Wall Street has been brought to its knees. It was supposed that within the frame of this "innovative" system, the credit risk would be diffused widely and thus would be diminished. It is assumed that with the bets that are undertaken with the credit derivatives[18] the "wisdom" of the market is expressed. The value of the CDSs amounts today to the sum of 62 trillion dollars, a sum more than double the combined GDP of the USA, the European Union and Japan! As long as the financial danger is expressed in the CDSs, we can say ironically that this enormous sum mirrors indeed the magnitude of the danger that the global financial system faces today.

The derivative financial "products" (financial derivatives, or simply derivatives) are not of course confined to credit derivatives, but cover the whole range of the financial economy. The object of the derivatives may be any mobile, or immobile (real estate) value that falls into the sphere of the economy. Thus, the object of the derivatives may be any value of the capital market, interest rates, currencies, commodities (such as oil), indices of the exchange markets of stocks and commodities, credit derivatives, etc. As we said, the derivatives in their overwhelming majority (over 95%) represent tools of speculation, actually bets[19]. One might say that speculation upon derivatives is a manifestation of the speculative muck in the era of neoliberal globalisation

The apotheosis of this is an unbelievable invention of the paranoid neoliberal brains, the so called "terror derivatives," which were to be created by the American Pentagon, but were called off because of the outcry they provoked. If these derivatives had not been called off, we would have a "terror market," or a "terrorism market" and terror would become an object of speculative bets, that is terror itself an object of "investment"! But what precisely was it about? Through this market, the "terror market," the Pentagon was counting on exploiting the "wisdom" of the markets, so that terrorist surprises of the type of 11th of September could be anticipated and prevented. For decades neoliberal economists, champions of the market, have insisted that the prices which are formed in the market incorporate more information than the knowledge of every governmental central planner, or specialist. As it seems, the "terror market" was expected to function more effectively than secret information agencies.

Leaving aside this paranoid case, let us get back to normal derivatives. As we said, with the use of derivatives speculators can obtain very high profits (or suffer great losses) through borrowing, that is with the lowest possible use of self-owned capital. This element led to a skyrocketing of the speculation upon derivatives. We mentioned above that today just CDSs amount to an enormous 62 trillion dollars, but the CDSs and other credit derivatives represent just a small part of the total value of all derivatives. According to the Bank of International Settlements, the value of all important contracts internationally (all derivatives are in the form of contracts) reached 600 trillion dollars at the end of 2007, a sum 11 times the value of global GDP! This figure shows the vertiginous sum that speculation over derivatives has reached today. Of course the speculation that takes place in the stock and currency markets must be added to the speculation upon derivatives.

We may, then, conclude that financial speculation has acquired unprecedented dimensions. We may say that the corresponding activity constitutes a "virtual," "paper" economy, which produces nothing, thin air and through which wealth that is produced in the real economy is bled. The term "paper" economic activity can describe accurately the speculative transactions in the stock and derivatives exchanges (it is no accident that the values negotiated in the stock markets and the contracts concluded in the derivative markets are named, in the everyday language of stock and derivative exchanges, "papers") and the speculative transactions in the commodity exchanges ("paper" commodities), as well as the speculation in the currency markets. It is about an enormous "paper" economy-parasite of the real economy. This parasitic activity has become an exceptional source of wealth in the West, putting the seal of extreme parasitism upon the Western economies[20].

As we mentioned, particularly in the speculation upon derivatives, the speculators (investment and commercial banks, hedge funds and others) dispose of comparatively small capital and borrow large sums of money in order to speculate. As J. Eatwell and L. Taylor pointed out for the conditions that already prevailed many years ago, "one of the functions of derivatives was to create 'towers of borrowed support' much, much higher than those which had contributed to the collapse of the American financial system in the 1920s [i.e. the 1929 crash]"[21].

1.2 Other Systemic Dangers of the International Financial System

So, the crisis spread to the whole world like an uncontrolled financial fire. Especially the peripheral economies have been hit badly. A collapse of these economies under the weight of the financial crisis would constitute a second major blow to globalised capitalism, this time from its periphery. At this moment the most important danger is located in the countries of Eastern Europe (especially Hungary, Ukraine, Bulgaria, Romania). Their economies are exposed to very high lending in foreign currency, they have huge current account deficits, they are severely hit by the outflow of foreign capital, and the collapse of their currencies has already taken the dimensions of havoc. They display all the characteristics of the crisis in S.E. Asia in '97-'98, which at the time threatened seriously the international financial system, and scattered panic in Washington, London, and other financial centers. The danger faced by Western Europe is very important, as the big banks here are gravely exposed in the countries of Eastern Europe through their subsidiaries, especially the Austrian, Italian, French, Belgian and Swedish banks. The countries of Eastern Europe owe mainly to the banks of the Eurozone 1.64 trillion dollars, threatening in an immediate way the financial stability of the latter. The fact that this has not happened to this moment is due to the billions of dollars poured in the Eastern European countries by the IMF. No wonder, as we will see below, the main decision of the G20 leaders who convened in London on 2nd of April 2009 was the tripling of the resources of the IMF. Of course the expenses of the "sock therapies," that the IMF prescribes for the unfortunate countries that resort to it, are paid by the people.

Another factor of major instability for the global financial system constitutes the deficit in the balance of current accounts and the fiscal deficit of the USA (the twin deficit), which have accumulated a huge and continuously expanding external debt, a debt which absorbs global savings. For the first time in the history of capitalism the largest economy in the world is becoming more and more a formal international debtor. And for the first time in the history of capitalism the largest economy in the world, the centre of global capitalism, is growing, mainly, due to this international credit. Such a peculiar regime has no precedent in the history of capitalism. The continuously expanding external debt of the USA constitutes a vicious circle, which appears almost impossible to reverse, constituting another equally important, if not more important, systemic danger for the global financial system. If under the present circumstances this systemic danger is manifested and combined with the previous ones presented above, the consequences for the global economy will be, speaking literally, tectonic. This vicious circle may be interrupted by any main or secondary factor, which may function as a triggering factor. The perpetuation of this vicious circle depends mainly upon the fate of the dollar. But will this be the case in the near future? We will see. Let us note that among the global exchange reserves the dollar possesses the lion's share. At the end of 2005 66.5% of the global exchange reserves were in dollars, 24.4% in euros, 3.7% in pounds sterling, 3.6% in yen and 1.7% in other currencies. A substantial fall of the dollar today will lead to a shrinkage of the global exchange reserves and to losses of trillions of dollars of wealth around the world, as a great part of this wealth is in dollars and dollar nominated values (bonds of the American State, shares, etc.).

We may summarise the argument so far by saying that a sky-rocketing parasitic tower of speculative transactions, which until recently brought in huge profits, producing literally nothing, rises up today over the real global economy, as it is reflected in the combined GDP of all countries and the value of international trade. Of course this sky-rocketing "paper" tower can be compared with a colossal bubble full of air. The problem is, as has been presented above, that this "paper" tower is closely interconnected with the global banking system, upon which the functioning of the real global economy is based.

Now the tower has collapsed, or the bubble has burst. Can the Central Banks and governments put a brake on the collapse, on the deconstruction, on the decomposition of the system? It is doubtful, given the fact that the reserves of the Central Banks and governments are not unlimited. To overcome the problem governments resort to unprecedented and unorthodox measures, which so far have saved the whole system from collapse, but they may produce another crisis probably in the near future, this time stemming from a bankrupt public sector (see Section 4). As we will see, state support to keep the whole system alive constitutes another unprecedented situation for the capitalist system.

1.3 From the Financial Crisis to Recession

Let us now examine briefly the processes which lead from the financial crisis to recession. As analyzed above, the burst of the speculative bubble resulted to the collapse of both investment and commercial banks. But it was not the collapse of the investment banks that brought down the whole system; it was the collapse of the commercial banks. The collapse of the latter resulted in an interruption of the credit lines to the real economy. In other words, to its credit suffocation. A multitude of processes come into operation at this point, all leading to recession. Note that after a whole year since the speculative bubble burst, the banking system has not been restored to health, neither has the credit to the real economy been restored to normal levels. Moreover, monetary policies followed by the Central Banks (interest rates approximating zero, injections of unlimited liquidity to the system, etc.) pass to the real economy in a very slow pace, due to the fact that the banking system hoards capital instead of channeling it to the real economy.

The whole capitalist economy is based on credit. There is a circuit that leads from credit to production and consumption. Let us trace the most important phases of this circuit.

(1) The most obvious aspect is interruption of credit to households, i.e., housing loans and consumer loans, such as loans for the purchase of cars, household equipment, furniture, domestic improvements, etc. Interruption of consumer loans triggers a contraction in consumption as a whole, in other words a substantial fall in effective demand. This is one of the factors, among the many others outlined below, contributing to recession. Equally important, if not more important, is the interruption of the housing loans, or the increase of the corresponding interest rates. This in turn leads to a fall in the building construction. The building industry is of major importance for the whole system. It is the most labour-intensive sector of the whole economy[22] and so a greater potential creator of jobs than any other sector. As a corollary, its contraction leads to too numerous layoffs, in other words to a rise in unemployment. Moreover, the building construction operates as a strong multiplier of the whole economy, with knock-on effects for many other sectors. A fall in building construction accordingly implies a decline in production in many other sectors and shrinkage in GDP, i.e., recession.

(2) The interruption of the credit lines to the real economy made capital scarce and sent the cost of money, i.e., interest rates, through the ceiling[23]. This in turn had repercussions on all sectors of the economy. It became too difficult and too expensive for all enterprises to raise capital (both circulating and fixed). Big corporations, specifically, could not raise capital from the banks, but neither could they raise capital from the stock markets, due to general mistrust about the future of companies. Nor were they able to issue bonds, for the same reason. These conditions led to paralysis of the productive apparatus of the economy, with a resulting shrinkage in production and layoffs and a total cessation of new investments. At the same time the reduction in overall demand because of the fall in household consumption led to the same result: a contraction in production, layoffs, etc. Moreover, the halt to new investment meant a decrease in demand for capital goods as well. There was, in other words, a shrinkage in overall effective demand for both consumption goods and capital goods. All these tendencies of course lead to recession. But let us examine incomes and profits. They are generated out of economic growth in the various sectors of the economy. Contraction of production leads to shrinkage of incomes as surely as it leads to shrinkage of profits. This means a decline in overall consumption and in effective demand, which in its turn leads to a contraction of production, etc. This is a vicious circle of aggravating recession.

(3) As stated above, large corporations of all kinds (industrial and other) are also

involved in speculation in the stock, derivatives and commodity markets, as well as in the currency markets. This means that when the speculative bubble burst they were, like the banks and other speculators, exposed to major losses. The result was a series of bankruptcies, the most conspicuous example being that of GMAC, the investment branch of General Motors, which collapsed, as mentioned above. Such bankruptcies lead to rapid worsening of the recession and to rising unemployment.

(4) In order to save money for the purpose of supporting the banking system and handling the crisis, governments freeze or decrease the salaries of public sector employees, at the same time slashing social spending. Contraction of the income of public employees and curtailment of social spending again lead to a fall in consumption, etc. But all kinds of companies, especially big companies, resort also to the practice of curtailing salaries and wages. Workers' fear of being laid off enables this to be done with the acquiescence of the workforce. Workers' rights are also circumvented through employer practices such as reduction of full employment to part-time employment. The end result of all the above is a decline in both income and in consumption.

The abovementioned factors conspire to reduce broad strata of the population to a state of poverty, in many cases extreme poverty, suggesting social unrest and potential revolt in the future.

2. The Governments' Rescue Plans

Governments walking on a tightrope

Let us now examine the rescue plans for the banking system. Note firstly, that the most vulnerable banking systems are those of the USA and of the UK, which are said to be virtually bankrupt. These have been the pacesetters for the Anglo-Saxon model of the deregulated financial system. The rescue plan for the banking system that has prevailed has been the one worked out originally by the British government and subsequently adopted by the USA and the rest of Europe. The British plan provides for injections of capital into the banks in exchange for preference shares, bank debt guarantees, short-term loans to the banks, and purchase of "toxic" assets.

Huge amounts of money have been committed in financial support for the banks. In the USA the total commitment amounts to 8.5 trillion dollars, which is divided into 7.8 trillion of Fed lending, credit guarantees and "toxic" assets purchase and other schemes. Another 700 billion dollars, approved last year, known as the Troubled Asset Relief Programme (Paulson plan) is used to boost banks' capital. The GDP of the USA was 13.8 trillion dollars in 2007. Thus the total rescue plan of 8.5 trillion dollars represents 62% of the GDP of the USA! In the UK the total government rescue plan amounts to 1.22 trillion sterling, which divides into 585 billion for asset protection, 500 billion for bank debt guarantees, 185 billion of Bank of England loans, 94 billion for the strengthening of banks' capital and 50 billion of Bank of England corporate debt scheme. The GDP of the UK was 1.4 trillion sterling in 2007. Thus the total rescue plan of 1.22 trillion represents 87% of the GDP of the UK!

Although from the beginning of the crisis to today billions of dollars have been allocated in assistance for the banks, sustainable functioning of the banking system has not been restored. Neither has the flow of credit to the economy. In order to assist inter-bank borrowing and the real economy, the central banks have in a series of unprecedented consecutive moves drastically reduced interest rates. The basic interest rates of the Fed and of the Bank of England have dropped almost to zero. The basic interest rate of the European Central Bank is at this moment 1%. But the reductions in interest rates have not passed into the real economy. The cost of money continues to be high. The inability of the banking system to restore normal functioning renders the instruments of monetary policy used by the central banks worthless, condemning the real economy to credit suffocation. Repeated injections of billion of dollars into the banks fail to bring life back to the banking system, which seems paralysed.

The banks hoard the capital that is channelled to them so as to be able to deal with the damage they have suffered, at the same time refusing to supply credit to the real economy. At the beginning of February President Obama and many members of Congress expressed anger at how the banks, recipients of the initial assistance, were evidently not to any significant degree improving their lending to the real economy. The president of the European Central Bank Jean-Claude Trichet voiced the opinion that “if we allow this conduct [of the banks] to become generalized, the very reason for the existence of the banks will be undermined.” As early as last Autumn, in a move evidently betraying desperation, the Fed and the Bank of England were attempting to break the vicious circle by lending directly to the big companies. This practice of by-passing the commercial banks was by mid-March also being adopted by the European Central Bank[24]. But if this practice were to be followed on a large scale, it would be tantamount to transformation of the central banks into commercial banks!! Furthermore, entailing as it does the supply of loans to enterprises through buying their securities, it does not address the financial needs of households and smaller enterprises that do not issue such securities. The policy of supplying capital to the banks in exchange for preference shares creates a hybrid state of affairs, which does not permit control of the banks by the state and therefore the normal flow of credits to the real economy.

But the financial system cannot restart functioning normally if it does not get rid of “toxic” assets. The governments of the USA and Europe are now preparing to buy the “toxic” wastes, in other words to nationalize the losses of the banks. The amounts are vertiginous and they are to be added to the billions that have already been made available, and will continue to be given out, to support the capital of the banks, loan guarantees, etc. According to the IMF’s estimate at the beginning of April 2009, the losses of the American banks from the “toxic” assets will rise to 3.12 trillion dollars, and those of the banks of Europe and Asia to 900 billion dollars.

The American government will expend between 500 billion and 1 trillion dollars for the purchase of “toxic” assets under a scheme named Public-Private Investment Fund. The programme will be financed by the state, which will contribute the lion’s share of this sum, with some involvement, presumably, from private “investors”. What this amounts to is indirect subsidization of private capital so as to provide an incentive for it to take part in the scheme. As noted above, the IMF estimates that the losses of the American banks from the “toxic” assets will reach 3.12 trillion dollars. This would mean that the 1 trillion dollars the American government has announced it will make available will be entirely inadequate. Where can all this money be found? The British government has also worked out a scheme, with an estimated cost running into hundreds of billions of pounds sterling, to help the banks get rid of the “toxics”. It appears that it will involve the establishment of a so-called “bad bank,” a bank to absorb the “toxics”. The German government, too, is in the final phase of a project for creating a “bad bank”. Other European governments are expected to follow suit. The bankrupt American and European banking system has the appearance of a bottomless pit into which trillions in taxpayers’ money are constantly being poured.

Besides all the above, governments are being required, in order to put a brake on the recession, to work out expensive fiscal plans for supporting the economy. Any failure in this connection could bring about a worsening of the recession, resulting in destruction of productive apparatus and of income, unprecedented levels of unemployment, and the lapse of broad strata of the population into poverty. And this in turn could trigger social eruptions and widespread social turmoil. The most expensive fiscal plan is the one worked out by the Obama administration, involving a sum of 787 billion of dollars and aimed at strengthening total demand through tax cuts and increased state expenditure on public works, development of alternative sources of energy, school buildings, etc. The plan anticipates the creation of 3 million new jobs by 2011. State expenditures will propel the fiscal deficit for the current year to the level of 1.75 trillion dollars, equivalent to 12.3% of the GDP of the USA and the highest figure since the Second World War.

The American administration will thus be required to incur huge levels of debt for the sake of covering the cost of saving the American financial system and of the fiscal packages. This of course entails dangers. Institutional investors, international and American alike, may hesitate to proceed with new massive purchases of American State bonds. It would necessitate an increase in interest rates which in turn would aggravate the deficit and the public debt. It could even lead to massive sales of dollars, and a substantial fall of its value. The European countries face similar problems of deficit and debt. In mid May the international credit rating agency Moody’s published a report in which it is pointed out that solvency rating for the USA may be revised downwards, if the current rising trend in public indebtedness stabilizes and becomes irreversible. In the same report it is also emphasized that the most serious challenge in terms of the level of public indebtedness is encountered in the USA, Britain and Ireland, with the problems of Germany, France, Switzerland and Spain being of a lesser order.

The 27 EU member-states have already committed themselves to fiscal packages totalling nearly half a trillion euros. Among the larger European countries, Britain faces the greatest problem as, apart from the fiscal package, the British are burdened far more than the other European countries with the task of saving their financial system. If the liabilities of a government exceed its potential for increasing taxes, the bond markets will question its reliability and will either demand higher interest rates or will avoid its bonds. In fact, in early April the British government failed to dispose of bonds to the sum of two billion pounds. The bond markets reflect the general unease about the sustainability of Britain's huge public debt. Any serious future difficulty faced by a British government in borrowing from the international markets is likely to lead to one or both of two equally painful contingencies: turning to the IMF or printing new money. As early as the beginning of March the Bank of England had already embarked on the second step, namely printing money (it was not the only bank to do this, but this is a subject to return to later). The point is that such a policy, particularly in the present context of Britain's huge public debt, has the potential gravely to undermine the value of sterling, which has already suffered great losses. According to sources close to the European governments, the rapid devaluation of the sterling poses a problem for Europe. As for the prospect of Britain turning to the IMF, the director of the IMF, Dominique Strauss Kahn, on 19th January 2009 expressed the opinion that even more countries may need IMF economic rescue packages and it is not unreasonable that one of them should be Britain. Strauss Kahn pointed out that it is not only the countries of Eastern Europe that urgently need help. When asked whether the European countries may be forced to turn to the IMF for help, Strauss Kahn said: "it may be found that all countries in the world need help". As is well-known, in 1976 Britain resorted to the IMF as a means of coping with the plunge that occurred at that time in the value of sterling.

But it is not only the advanced capitalist countries that are on the lookout for capital from the international financial markets. This is more or less true of countries everywhere. It is estimated that 4 trillion dollars is the amount governments throughout the world will be seeking in 2009. For the time being the circumstances are favourable for the advanced countries because "investors" are turning to the safety of government bonds, especially those of the USA and Germany. But inter-state competition could send interest rates skyrocketing, something that would be catastrophic in the midst of the crisis. Some analysts are expressing fears of a worldwide bubble in government bonds.

Apart from borrowing capital on the international financial markets governments also resort to printing new money, called in economic slang "helicopter money" because it comes out of the sky. Under former conceptions of sound monetary practice this was anathema. The formal designation for it is "monetizing the debt," i.e., covering the debt through printing money. It has the advantage of being inexpensive, but only to begin with. The printing of money for this purpose was resorted to during the recession of the Japanese economy in the 90s, and the Central Bank of Japan in December 2008 again speeded up the printing presses. The Fed followed suit at the end of January, the Bank of England and National Bank of Switzerland at the beginning of March, and the European Central Bank at the beginning of May. The technical way in which this policy is implemented is through the buying of long-term state bonds and other securities by the Central Bank. The Fed, for example, announced in mid March that it was going to buy state bonds to the sum of 300 billion dollars, at the same time expending another 850 billion dollars for the purchase of securitized mortgage loans (“toxics”). Overall the Fed’s plan was to spend 1.75 trillion dollars on these and other similar projects, financing them simply by printing money. The Bank of England at the beginning of March announced its intention of buying, within the next three months, state and corporate bonds, and probably also “toxic” bonds, to a total value of 150 billion sterling. This unorthodox practice of monetizing debt is evidently being implemented on a vast scale and reveals that the available means of the Central Banks and governments to rescue the banking system, as well as the toppling enterprises of the real economy, are actually very limited compared to the scale of the problem.

Printing money for the purpose of monetizing the debt is not without consequences. For one thing, it is inflationary, and more importantly, it may result in a greater or lesser devaluation of the currency, depending on the extent to which the policy is applied. It is worth point out that when the Fed announced the printing of the above mentioned huge sum of money, the dollar suffered its greatest weekly fall since 1973 (when convertibility of the dollar with gold was abolished). The dollar index set up by the Fed recorded a fall greater than 5.2%.

As for the possibility of an increase in inflation, for the time being the problem appears to be not inflation, but deflation. That is what took place in the 1930s, and it proved economically catastrophic. By engaging today in the inflationary practice of printing money, the central banks are staving off the danger of deflation. In fact their objectives are twofold: combating deflation and monetizing the debt. But the danger of a collapse of the value of individual currencies is still a very real one. Such a development could well mean destabilization of the monetary system, with possibly disastrous consequences, depending on the currency that collapses: whether, for instance, it is the dollar.

To summarize:

(1) Governments are required in the present conjuncture to incur huge levels of public debt. This leads to the bond markets questioning the sustainability of these huge debts and demanding higher interest rates, a factor which aggravates the deficit and the public debt. Weak economies with very high levels of public debt face the danger of default. This happens in the first instance with peripheral countries. Huge levels of debt may also undermine the value of the currencies, especially those of the peripheral economies. This could lead to a domino of collapses of peripheral countries (as happened with the ’97-’98 crisis), which would further destabilize the international financial system and would amount to a second blow to capitalism, this time from its periphery. Moreover, the increase in interest rates on public borrowing from the international financial markets is passed on to the banking system of the country in question and from there to the real economy. This will aggravate the economic crisis.

(2) The present uncontrolled increase in the public debt will in the future necessitate great tax hikes and cuts in social spending, exacerbating the already harsh conditions for broad strata of the population. This will predictably generate social unrest.

(3) The unorthodox practice of printing new money to monetize the debt, a practice now being implemented on a vast scale, has the potential to destabilize the monetary system, with possibly disastrous consequences, depending on the currency that collapses.

We may conclude that governments today are walking on a tightrope.

3. The G20 Summits and the Myth of a New World Order

3.1 The G20 summit, London, 2 April 2009

The summit of the leaders of the largest economies that took place in London on April 2, 2009 (G20, i.e., the G8 plus representatives of certain rapidly growing countries of Asia and Latin America), which was meant to consider measures for reform of the international financial system and for containing the crisis, and which gave rise to great expectations, finally emerged with little more than general principles rather than specific measures. The main concrete decision was the increase in IMF resources from 250 billion to 500 billion dollars. Another 250 billion dollars will be generated by the IMF creating more of its own currency, the “Special Drawing Rights” (SDR)[25]. This is the nearest equivalent the IMF has to printing international money (IMF-made money). It does not take money from one place to another, so rich countries do not need to open their purses. In the past such moves have always been resisted by Germany, on the grounds that printing money is inflationary. But in the current deflationary climate they appear to have waived their objection. Another 250 billion dollars was earmarked for boosting world trade and 100 billion dollars to be lent to poorer countries by Multilateral Development Banks.

But let us see what agreements have been reached on reforming the international financial system. The following concrete measures were enumerated: bringing hedge funds for the first time within the regulatory net; regulation of credit rating agencies to remove their conflict of interest; sanctions against tax havens that refuse to sign the OECD rules to fight money laundering and tax evasion; new rules on bankers’ pay and bonuses. A new Financial Stability Board (FSB) with a strengthened mandate will replace the Financial Stability Forum. The FSB will collaborate with the IMF to provide early warning of macroeconomic and financial risks and the actions needed to address them. Bear in mind that all supervisory authorities on both sides of the Atlantic, and the IMF, failed lamentably to monitor the risks in the existing financial system and foresee the ensuing catastrophe. How will this FSB and this same IMF be able to monitor future risks? Moreover, modern financial “products” are so complicated, dark and opaque that even their own creators cannot follow their movements or measure their value.

All rhetoric aside, in essence no concrete measures were decided upon, apart from the abovementioned, actually minor, measures and a provision for tightening capital requirements for the banking system once recovery is assured. Although global in principle, regulation was entrusted to the decisions of individual nation states. What the G20 leaders announced were general regulatory principles. Moreover, they lack teeth if the corresponding concrete measures are left to the discretion of the individual nation-states. This is in fact an infallible method for ensuring that no regulatory measures will be implemented. Let us assume that one country adopts strict regulatory measures while another country adopts more lenient ones. The obvious result is that capital will move from the former country to the latter. This amounts to regulatory arbitrage. Inevitably countries would compete with each other to adopt as little regulation as possible. The G20 leaders were evidently quite conscious of this and tried to exorcise the evil by expressing the wish that countries “avoid adverse impacts on other countries [and] reduce the scope for regulatory arbitrage”.

Another problematic aspect of these general regulatory principles is that they do not address the most important problems in the present financial system:

(1) The merger of investment and commercial banks, which is one of the major causes of the present financial crisis, having led to credit suffocation of the real economy, when commercial banks stopped financing real economic activity because of the huge losses they had suffered from speculation. As is well-known, in the USA the Glass-Steagall law, which prescribed a clear distinction between investment and commercial banks[26], was abolished in 1999. In practice this law had been systematically circumvented long before its abolition in 1999. Investment banks may be allowed to speculate, but in the long-term interest of the system itself it is irresponsible to allow commercial banks to do the same, as this can lead to crises in the real economy (such as the present one). One or more investment banks may collapse without necessarily bringing down the whole system, but this applies only if investment banks are clearly distinguished from commercial banks.

(2) Although it is clearly stated that hedge funds should somehow be regulated, there is no mention whatsoever of the necessity for regulating the darkest side of the present financial system, namely derivatives, and especially financial derivatives, which are the eye of the present storm. Of course it is not the hedge funds that produced the present crisis, though they contributed to it, but speculation by the banks themselves with their colossal capital and leverage.

It is also worth noting that a common approach to cleaning up banks’ “toxic” assets has been agreed upon, i.e., nationalization of the banks’ losses. The G20 also expressed commitment to the free flow of capital worldwide, which is one of the key tenets of neoliberal globalization. According to the G20 leaders’ statement, “We will not retreat into financial protectionism, particularly measures that constrain worldwide capital flows”. Nor did they omit to mention the Doha Round for further liberalization of the international trade in goods and services: “We remain committed to reaching an ambitious and balanced conclusion of the Doha Development Round, which is urgently needed”.

It is abundantly clear that the G20 summit failed to adopt substantial and universal measures for re-regulation of the international financial system. The caution of the BBC’s commentary is revealing in this respect: “There are hints, in the rhetoric and in the substantive measures, that a new way of running the whole economy may be emerging from the G20 process". The G20 leaders did their best to sell. N. Sarkozy claimed that "a page has been turned" in the history of global capitalism. A. Merkel, more restrained, said that the new measures would give the world a "clearer financial architecture". She added that the agreement was "a very, very good, almost historic compromise".

Let us pause to examine this aspect of compromise in the G20 summit, specifically the compromise reached between the USA and the UK on the one hand and "old" Europe on the other. As is well-known, the USA and the UK were reluctant to agree to measures for international regulation. Instead they insisted on more fiscal stimulus for the economy. France and Germany, as spokesmen of "old" Europe, insisted on certain measures (the regulation of hedge funds, credit rating agencies and tax havens) while rejecting the idea of more fiscal stimulus to the economy. This difference in the stance on regulation is explicable by the fact that it has been deregulation of the international financial system that has given such a huge advantage to Wall Street and the City of London. Germany, on the other hand, is the strongest opponent of increasing the fiscal stimulus. The reason for their opposition is that the weak links in the Eurozone, namely Greece, Ireland and others, suffer from big public debts, which renders their borrowing from the international markets very expensive and introduces a danger that they could reach the point of having to default. This would lead to a collapse of the Eurozone, with Germany assigned the lion's share of responsibility for the bailout.

3.2 The G20 Summit, Pittsburgh, 24 September 2009

If the summit of the G20 in London was a failure, the Pittsburgh summit was a fiasco. The G20 leaders did not even manage to reach a decent decision about the bankers' bonuses, an issue which was at the top of the agenda[27]. Despite the popular outcry about bonuses in the publicly supported banks, the G20 "circus" decided the bonuses should be dependant on the long-term creation of profits, without, however, defining the concrete limits of the rewards, as Germany and France proposed. The main opponents, as usual, were the US and UK.

It is ridiculous indeed that the summit attributed enormous significance to this issue (obviously for electioneering purposes) on the basis of the argument that high bonuses encourage excessive risk taking, leading to financial crises. However, this argument amounts to saying that it was not the framework of deregulation itself that permitted the colossal global speculation by the banks and other speculators (which resulted to the financial crisis) but the bankers' bonuses!

As for the rest of the G20 decisions, they were equally painless: (1) On the quite important issue of the increase of the capital adequacy of the banks, no concrete decision was made[28]. (2) On the even more important issue of the banks' excessive borrowing (leverage), which contributed enormously to the unprecedented dimensions of speculation, the collapse of the banking system, the credit suffocation of the real economy and the subsequent recession, no decision was made either. According to the G20 leaders' statement, the ratios of leverage (i.e., the ratio of borrowing to self-owned capital) will function "complementarily to Basil II," whatever this complementarity may mean. (3) Equally vague is the reference to the derivatives, which were found in the eye of the storm of the present financial crisis. (4) Some easy decisions of minor importance were made[29].

It is also worth while noting the new dogma put forward by the Obama administration: Certain banks (the bank colossuses) are “too big to fail”. This simply means that big banking capital will continue in the future to enjoy the protection of the taxpayers, which is of course a blank cheque for unbridled speculation to continue.

We may conclude that the weak-willed G20 leaders have left the door wide-open for the next global financial crisis. No wonder. Regulation means that the size of the banking industry will contract drastically and that its profits will go vertically down. Of course banking capital is the prince of all forms of capital, and governments are communicative vessels. This intercourse is even expressed at the personal level (personnel of the administration being ex-staff of colossal banks)[30].

At this summit, as at the previous one, bold rhetoric was not absent. Mr. Obama made the unprecedented statement that the decisions of the G20 amounted to “the most ambitious overhaul of the financial system since the Great Depression”. Of course this is a shameless lie for mass consumption. As is well known, F. Roosevelt’s New Deal imposed strict regulations upon the financial system, which, when combined with the Bretton Woods agreements in 1944, established a stable financial system, that was to be dismantled by the gradual deregulation that has been taking place since the mid seventies, with the ascendancy of Transnational Corporations, which demanded the opening and deregulation of markets to facilitate their expansion, and the consequent flourishing of the neoliberal Ideology.

Between the April and September summit of the G20, the American administration introduced a plan for the financial system of the US in June 2009 and the EU introduced a similar plan in the same month. It is not worthwhile commenting on these plans, as they do not differ substantially from the decisions of the G20 summits. Let us note that the very timid proposals of the Commission (mainly those of Germany and France) were torpedoed by the British government, that is, the City of London.

Of course the aim of the rhetoric of the G20 leaders is to disorient the people. As Takis Fotopoulos has pointed out, “…the present talk of the transnational elite (Sarkosy, Brown, et.al.) about "a new system," a brand new "capitalism," etc. are simply attempts to disorient people, who are awakening to the new abysmal failure of the capitalist market economy, from the need to replace this system, to an irrelevant discussion about cosmetic changes to it presented as huge systemic changes”[31].

4. The Crisis is not Over

The economies of Germany and France showed signs of recovery in the second quarter of this year, although it was quite weak (0.3% compared to the first quarter) after consecutive quarters of unprecedented negative rates of growth[32]. The economies of

Japan and the USA also showed signs of a weak recovery in the same quarter. President Obama announced the end of the recession in mid September with naïve optimism.

In the first place, let us examine the framework within which this anemic recovery is taking place in certain advanced capitalist countries. At present the capitalist economy is moving on state crutches, instead of being propelled by private initiative. If not for the huge fiscal packages, the free fall of the economy would continue[33]. But the fiscal packages will have to be curtailed sooner or later, as the amounts of money being spent threaten to explode public finances. The present timid recovery will be checked. On the other hand, governments have channeled trillions of dollars to the banks (to increase banks' capital adequacy, to clean the banks from the "toxics," to inject unlimited liquidity in the system, to provide state guaranties, etc). These mountains of dollars saved the financial system from a catastrophic collapse. Nevertheless, the banking system is not as yet restored to health, after a whole year since the speculative bubble burst in September 2008. It is still alive due to the taxpayer's money. Moreover, as mentioned above, credit to enterprises and households from the banks has not as yet been restored to normal levels, compelling governments to continue pumping money into the real economy. Such conditions in both the banking system and the real economy, which are kept alive with taxpayers' money, have no precedent in the history of capitalism and constitute uncharted waters for the governments and the capitalist system as a whole. It is probable that the next crisis will come from the public sector, as state finances are in a precarious balance at present.

It is evident that governments are required in the present conjuncture to incur huge levels of public debt. This leads to the bond markets questioning the sustainability of these huge debts and demanding higher interest rates, a factor that aggravates the public debt. And from now on a vicious circle begins. Governments will inevitably increase taxes sooner or later and curtail public spending in order to prevent a collapse of public finances. This will of course check the recovery of the economy and the recession will return. Moreover, higher interest rates on state bonds are passed on to the real economy. This of course will render loans to enterprises and households more expensive and will affect the present anemic recovery. Inevitably, the severe recession will return. This has happened in two different and notable occasions in the past. In 1937 F. Roosevelt was compelled to increase taxes and curtail public spending, in order to avoid the collapse of state finances, after a long period of loose monetary policies and public spending (in infrastructure, etc.). This brought severe recession back to the USA. As is well known, the recession was overcome only through the Second World War, which entailed huge state spending (to finance the war). Another characteristic example is Japan. Japan experienced a long recession during the 90s (the so called lost decade) following a financial crisis. The Japanese government was also compelled to increase taxes and curtail public spending in 1997, and as a consequence, severe recession returned. The Japanese economy also suffered from deflation in the 90s, as did the USA in the 30s. But we will come back to this later.

At the present conjuncture, governments will find themselves in the same situation, and sooner or later they will face a deadlock. If they keep spending and applying loose monetary policies (low interest rates, injections of unlimited liquidity in the system, monetizing the debt) in order to boost recovery, they will face strong inflationary pressures in the future. In this case they will be forced to tighten their monetary policies and curb the deficit and the public debt, in order to combat inflation. This in turn will check the recovery. All this amounts to a deadlock.

Another dilemma is: deflation or inflation? At present, deflationary pressures prevail [34]. Deflation is the outcome of the recession, since the latter leads to dropping demand and therefore dropping prices. Deflation is good for the people, who can buy commodities more cheaply. It also increases the value of their savings. But it is disastrous for those who have incurred high borrowing, namely banks gambling with borrowed capital and other speculators. Deflation makes the repayment of loans more expensive and leads to the so called “lending deflation”. In other words deflation is to the detriment of big capital.

Inflation, on the other hand, is to the detriment of the people, if wages and salaries are not adjusted to rising prices via indexing. It is also negative for the savings of the people, as it erodes the value of savings, if interest rates are not proportionately adjusted (nominal interest rates must be higher than inflation, otherwise real interest rates become negative, to the detriment of savings). On the contrary, inflation is to the benefit of those burdened with high levels of borrowing. In other words, it is to the benefit of big capital. As we saw above, “investment” (that is speculation) with borrowed capital (leverage) by the banks and other speculators brings about enormous profits and it is a conspicuous characteristic of modern capitalism. This was also the case in the USA in the 1920s, a factor that contributed decisively to the 1929 crash. As we also saw above, speculation with borrowed capital was a major factor that led to the present financial crisis.

Anyway, the higher inflation is, the cheaper the repayment of borrowed capital. Of course inflation cannot be allowed, in any case, to develop into high inflation, since this undermines the whole monetary system and the value of currencies.

5. Neoliberal Globalization and the Reformist Left

Let us here mention some of the disorienting ideas of the reformist Left. They argue that neoliberalism is just a bad policy adopted by the elites to serve big capital, something that could therefore be reversed by pressure on the state from below. Certain sections of the reformist Left go so far as to argue that globalization is a myth perpetuated by the dominant classes and aimed at legitimating the neoliberal policies they are pursuing. The related assertion is that capitalism has from the outset been global in character.

But neoliberal globalization is the highest stage (so far) of capitalist development. It has emerged through:

(1) The post-war transformation of the previously agricultural economies of the periphery into capitalist economies in the strictest sense, signifying an extension of capitalism to cover the entire planet, becoming a global mode of production.

(2) While in previous epochs an international market of commodities existed, during the post-war period a global network of closely interconnected production units and a global network of banking services, stock markets and currency markets has been created as well. But while production, finance and commerce are decentralized worldwide, their management and control is centralised in a few headquarters in the advanced capitalist countries, the headquarters of the multinationals. Information technology is the current day means of centralisation of organisation and control of both material and service production by capital.

(3) As industrial capital migrates from the centres of the system to the periphery in pursuit of cheap labour and the so called tax heavens, there emerges a new International Division of Labour. The international capitalist system is gradually moving towards a division of the world between a few countries mainly preoccupied with the economic management and control of the world capitalist system, as well as with production of knowledge and technology, tending in the long run to retain the production of industrial products with a high content of advanced technology, and the rest of the world involved mainly in raw materials, agricultural and industrial mass production.

(4) The main vehicles of global capital are of course the multinationals. Within their global economic space colossal amounts of capital circulate throughout the world every day. One of their key objectives is to be able to engage in world-wide speculation, the latter having become a basic source of wealth in western economies.

These are in brief the main characteristics of present-day capitalism, of neoliberal globalization, which is, as is evident from what has been outlined above, a new stage of capitalist development. Apart from being disorienting, the argument put forward by certain sections of the reformist Left that globalization is a myth, betrays their inability to grasp the different stages of capitalist development, as if capitalism has remained unchanged throughout history. They thus fail to conceive the essential features of present day capitalism, which renders them impotent in developing any kind of radical, let alone revolutionary, theory.

Equally disorienting is the argument of the reformist Left that neoliberali globalisation is just a bad policy of the elites, something that could therefore be reversed through run-of-the mill social mobilizations. If this were possible, it would of course amount to quiet, painless reform of present-day capitalism. But, as exposed above, neoliberal globalisation is a “systemic,” or endogenous characteristic of the present stage of capitalist development, unsurpassable unless capitalism itself can be overthrown by a revolutionary anti-systemic international movement. In other words, capitalist globalisation today is either neoliberal or nothing at all. There cannot be an alternative capitalist globalisation but only a neoliberal one because the main agent of capitalist globalisation today is TNCs which cannot function effectively but only within a framework of open and liberalised markets.

Let us now examine some other aspects of present-day capitalism. The creation of a world-wide financial market without borders portends danger for the global system, because a crisis at a certain point in the system (a national financial market) has the latent potential to be transmitted immediately to the others as an uncontrollable financial conflagration. That is what happened with the recent Wall Street collapse: the crisis was immediately transmitted world-wide. Global speculation, given the colossal amounts of capital involved, represents another systemic danger. Today's financial crisis makes that clear. And, as mentioned above, another important systemic danger is the deficit in the balance of current accounts and the USA's fiscal deficit (the twin deficit). The dangers are compounded by abolition of most state controls and state intervention in the economy. One of the fundamental roles of the state is to function as the supreme arbiter of the system, ensuring its normal development and its perpetuation. Each individual capitalist acts in his own immediate interest, for the maximisation of his own profits, without caring about the system as a whole. Even if he did, he could not undertake anything other than his present role. Abolition of the state's economic, and therefore also political, responsibilities makes the present-day neoliberal capitalist system look almost like a vehicle without a driver, entailing a perennial danger at critical points of going off the road.

These systemic dangers cannot be eliminated. As indicated above, they comprise fundamental features of present-day capitalism. Today's global capitalist system is thus very vulnerable. Even if the current financial crisis is overcome, the underlying condition remains and sooner or later will manifest itself again, with consequences nobody can predict today.

Epilogue

Since early March there has been a rally in the stock markets which can be explained by the fact that with share prices having sunk so low, unique opportunities had been created for speculators. Moreover, stock markets have reacted with enthusiasm to the massive governmental injections of capital into the banking system which averted the nightmarish scenario of a catastrophic collapse of the financial system, as well as to the massive fiscal packages that consolidated the view that a repetition of the Great Depression of 1930s was no longer probable. Another factor that contributed to the recovery of the stock markets is that "investors" are staying away from the money markets, the yield of which is almost zero, because of the applied monetary policies (basic interest rates near zero). But in order to evaluate the recovery of the stock markets one has to take into account the share losses between the peak period of October 2007 to early March 2009 which amounted to more than 58%, making the present conjuncture among the darkest in stock market history, even worse than that of the 1929-1931 period (-54%).

However, the recovery of the stock markets is not in itself enough to ensure an exodus from the crisis. After all, by 1931 Wall Street had started to recover from the crash of 1929, but the recession lasted all through the 30s. The president of the Federal Union of German Banks A. Smitz warned last August that the financial crisis is still present. He added that "all banks are in the next 18 months bound to face more problems than before, due to bankruptcies of their customers and non served loans". Most of them will need more state support. This warning reinforced the anxiety that the unwillingness, or even the inability of the banks to proceed to borrowing will hit the German enterprises, and the prospects of a recovery of the economy will be diminished. Equally pessimistic was the recent estimation of the IMF that the repercussions of the crisis will probably remain visible at least the next 7 years. Of late, the on-going refrain accompanying the estimations of international organizations is that the preconditions for a viable recovery have not been met.

Meanwhile unemployment is rising. Every month hundreds of thousands of people are joining the lines of the unemployed in the advanced capitalist countries. In much of the rest of the world, the situation is worse. It is estimated that by the end of 2010, 25 million people will have been added to the lists of unemployed in the countries of the OECD. Rising unemployment and the slide of broad strata of the population into poverty is already stirring social unrest. A future worsening of the situation could ignite popular uprisings throughout the length and breadth of the planet, by the hungry of this earth at the periphery of capitalism, as well as by those at its centre who till yesterday were full. Extreme poverty and hunger, combined with the systemic dangers inherent in present day capitalism exposed above, leave the door wide open to all possibilities in the future.

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[1] This article includes developments from mid September 2008 to mid October 2009.

[2] The American government nationalized the largest insurance group in the world, the American International Group (AIG), acquiring 80% of its capital for 105 billion dollars. AIG employs 116,000 employees worldwide, operates in more than 130 countries and its assets reach 1 trillion dollars. It has sunk into losses, like all the insurance companies that have guaranteed “toxic wastes”. The companies that insure bonds play a central role in the financial system, as they guarantee, in general, payments of commercial papers and papers of the local government of 2.4 trillion dollars. As K. Lewis, head of the Bank of America, stated, “Every large bank worldwide has an exposure in AIG”. The problems of AIG have ignited fears that its probable bankruptcy would leave the banks with losses of 441 billion dollars from credit derivatives. Analysts speak of the “domino phenomenon,” as no one knows who is exposed and who will be able to recover his/her money. Moreover, AIG in Europe insures over 85% of European enterprises, which make up the FT 500 index. It has offered protection to European companies of 307 billion dollars against losses of mortgaged loans. The collapse of AIG with its balance sheet of 1 trillion dollars and its enterprises in 130 countries would send markets into an abyss.

[3] To the recovery of the stock markets since early March we will come back later.

[4] With the term “capital base” we mean banks’ capital reserves, which define their capital adequacy.

[5] We draw the statistical data which are presented in this article, from the current economic Press, in particular from established economic agencies, such as Bloomberg, or articles of equally established economic periodicals, such as the Economist. The data are substantial and we did not consider it useful to burden the text with a great many and possibly pointless footnotes with

sources of statistical data or economic information.

[6] The GDP of the USA reached 13.8 trillion dollars in 2007.

[7] The international currency market is considered the largest market in the world. It is estimated that among the everyday transactions in currencies, 95% represent net speculative transactions. On an everyday basis, the turnover of speculation in the international currency market amounted in 2004 to the sum of 1.8 trillion dollars on average and on an annual basis it surpassed 400 trillion dollars, a sum 35 times larger than the GDP of the USA at the time and approximately 10 times larger than the global GDP at that time!

[8] The commercial banks have departments of “investment banking”.

[9] The hedge funds are also referred to as “counterbalancing risk capitals”, as they speculate mainly in derivatives. Financial derivatives were introduced initially as counterbalancing risk tools and developed into tools of unbridled speculation.

[10] In late December 2008 GM requested, and immediately obtained, a loan of five billion dollars from the government for GMAC, which had obviously recorded big losses. In return the American government acquired preference shares in GMAC’s stock capital. In other words GMAC was partially nationalized. GMAC had previously asked the Federal Bank of the USA (Fed) for permission to be transformed into a commercial bank so as to be able to have access to the 700 billion dollar package that the Bush administration had drafted for assistance to the banks (the Paulson plan).

[11] Chrysler is going to sell its core assets to a new company that will be owned by the US government, the Italian FIAT, and the company’s workers. As for GM, after the completion of the bankruptcy proceeding the American government will own the 61% of the firm, the government of Canada another 12%, etc. The American government will strengthen GM’s capital with 50 billion dollars for its restructuring, without, however, undertaking its management.

[12] We shall attempt to explain below how the financial crisis leads to a contraction in consumption and in the productive apparatus of the economy, in other words to a recession.

[13] In the European Union, for instance, micro-enterprises (up to 9 persons) accounted for 29% of total employment in the mid-nineties, small and medium firms (10-500 persons) 41% and large firms (500 persons and more) only 30%. That is, micro-enterprises and the small and medium enterprises together account for 70% of total employment.

[14] Bear Stearns collapsed in March 2008. The Central Bank of America (Fed) hastily offered guarantees and imposed an entrepreneurial “marriage” with JP Morgan, which bought Bear Stearns for a song. Lehman Brothers announced bankruptcy on 14 September 2008 and at the same time Merrill Lynch was led to its informal, but substantial bankruptcy, selling itself off to the Bank of America in order to survive. The two banks, Merrill Lynch and Lehman Brothers, the first and the fourth largest banks on Wall Street, ranked first in issuing attractive packages of composite structured bonds against the subprime housing loans.

[15] Let us note that Morgan Stanley sold off 20% of its stock capital to the largest bank of Japan, Mitsubishi UFJ, so that money could flow to its coffers and thus boost its devastated capital adequacy.

[16] The securitization of loans is an “inspiration” of the 1970s.

[17] Since last summer, the losses of UBS because of its over exposure in securitized subprime loans reached 37 billion dollars. It is estimated that it has another 20 billion dollars in such “investments”.

[18] In general, the derivatives represent bets in their overwhelming majority.

[19] This category excludes the forward contracts (all derivatives are in the form of contracts) which are concluded between two parties, with the object a certain physical product, such as oil. The contract implies the delivery of the physical product, when the contract expires. For example, a government concludes a forward contract with an oil producing country to buy a certain amount of oil at a future date, with a price that is agreed in advance in the contract. On the contrary, a future contract with the object oil, does not imply delivery of the physical product with the expiry of the contract, that is buying and selling oil. The two contracting parties, in this case, speculators, agree on a virtual buying and selling of oil at a certain time in the future, at a certain price. If the price of oil rises, the "buyer" gains the difference and the "seller" loses it. In other words, the contract expires without receipt or delivery of the physical product. In reality the two speculators bet about the future price of the oil. These contracts, futures, are objects of negotiations in the exchanges of commodities. They form the so called "paper" commodities, for instance, "paper" oil, "paper" metals, "paper" corn, etc. This speculation decisively influences the prices of commodities and disconnects them to a considerable degree from supply and demand. Thus, the prices of commodities go up and down behaving like indices of the stock exchanges. For example, it is estimated that about the third of the price of oil is defined by speculation. The recent skyrocketing of the prices of nutrition commodities (cereals, rice, corn, etc.) was not connected with a rise in demand, or insufficient supply, but with speculation.

[20] We call speculative economic activity parasitic, because it produces neither material products nor services. Of course parasitic economic activity within the capitalist system is no new phenomenon, but as capitalism evolves there is a deepening of its parasitical character.

[21] J. Eatwell and L. Taylor, *Global Finance at Risk. The Case for International Regulation,* Greek translation, Polis, Athens 2001, p. 150.

[22] The building industry is characterised internationally as "a backward sector of the capitalist economy" because of the low level of mechanisation prevailing in it. The inherent insusceptibility of this industry to substantial mechanization means that exceptionally labour-intensive practices are the norm in it. It goes beyond the scope of this article to explain this insusceptibility of the building industry to substantial mechanization.

[23] As we shall see below, the decrease in the basic interest rates of the central banks was not passed on to the real economy, and this was one of the major problems governments faced.

[24] This decision makes it possible for Central European and other central banks in the eurozone to supply: (i) short-term loans to enterprises through purchasing their securities of up to 12 months duration, (ii) medium/long-term loans to enterprises through purchasing their securities of up to 10 years duration.

[25] SDR is a basket of currencies including the US dollar, the euro and the yen.

[26] This law was introduced in 1933, that is, after the crash of 1929, and was one of the pillars of the New Deal.

[27] The bonuses are vertiginous. Here are few examples: Goldman Sachs received from the US government for its rescue 10 billion dollars in 2008. It used 4.8 billion dollars for bonuses to its staff. That is, the bonuses corresponded to 48% of the rescue package. Morgan Stanley received 10 billion dollars of public support and paid 4.5 billion dollars for bonuses. That is, the bonuses corresponded to 45% of the rescue package, etc. At the other side of the Atlantic the situation is similar. The Royal Bank of Scotland, owned by the British government, which holds the 70% of its

equity capital, gave to its new director of retail banking a bonus of 2.3 million pounds and another 1 million to stay at the bank for the next two years. The French BNP is planning to give to its staff a bonus of 1 billion euros in 2009, etc.

[28] The G20 relegated the issue to the Committee of Supervision of Banks of Basil, its proposals are expected by the end of 2010.

[29] The increase of the votes of China, India and Brasil in the IMF. Commitment to confronting global economic imbalances, meaning the attempt of the USA to persuade mainly China to spend more and export less for the benefit of the USA. Of course this is wishful thinking.

[30] The most conspicuous example is Goldman Sachs, which is said to be “situated” in the very oval office of the White House. Here are some of the “Goldman boys” who jumped from Goldman to the American administration: Rubin, a manager who served the bank for 26 years, was transferred to the government, to become by the end of the ‘90s, along with the president of the Fed A. Greenspan, the architect of the deregulation of the financial markets. H. Paulson, minister of economics in the administration of G. Bush junior, did 30 years of service at Goldman and S. Friedman, ex. No. 2 of Goldman, was appointed as the head of the economic council of the same president. R. Zoellick, now head of the World Bank, is an ex-member of the staff of Goldman. Finally, W. Dantley, now president of the federal bank of New York and member of the Fed, offered his services for 21 years to Goldman.

[31] See T. Fotopoulos, “The myths about the economic crisis, the reformist Left and economic democracy”, *The International Journal of Inclusive Democracy,* Vol. 4, No. 4 (October 2008). http://www.inclusivedemocracy.org/journal/vol4/vol4_no4_takis_economic_crisis.htm

[32] Germany registered a contraction of its GDP by 6.9 % on an annual basis in the first quarter of 2009, Italy 5.9%, France 3.2.

[33] Big firms were saved from extinction with public money (the most characteristic examples being GM, Chrysler, Opel). In Germany the wave of bankruptcies since the beginning of the year showed the uncertainty of the recovery and the need for channeling more money to enterprises. The minister of Economics, P. Steinbrueck, announced in late August that he is determined to continue supporting ailing enterprises with low interest rate loans, so that recovery is not checked. Note that the banks continue to provide loans to the real economy with an eye dropper. As stated by the European Central Bank, the effects of the easing of monetary policy are slow to reach the real economy.

[34] For instance, in June 2009, the annual rate of inflation became negative in the euro zone, dropping to -0.1%.