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The Financial Crisis and Democratic Public Finance

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First let's be clear about capitalism — and with it the character of the state under capitalism. There is a conventional assumption, a leftover of the cold war perhaps, that somehow capitalism is essentially about the market and socialism is essentially about the state. In fact, a central historical feature of the state in capitalist societies is the role it plays as guarantor of private property and, most importantly for the smooth running of the financial markets, that it will always honour its bonds, that is, its borrowing from the private banks.

Because of this guarantee — promising to pay back from revenue from taxation in the future — government bonds whether issued to finance war or to finance welfare — is the least risky form of lending. As such, it is the foundation of financial markets' role in sustaining the ability of capitalists generally to accumulate, i.e. continue to invest and make profits. This centrality of the state for capitalist accumulation is of course most notable with respect to those dominant states, like the USA whose currency is the main international currency and whose Treasury Bonds are the foundation on which all calculations of value in global capitalism are based; and which host and supports the main centres of international financial markets, like New York and the City of London.

States and Financial Markets

Understanding the role of the state in a capitalist society helps us see why when a government bails them out with public money the bankers do not see this as the start of socialism! On the contrary, they see it as the government fulfilling its duty to the financial markets — whose smooth running it both depends on and sustains, by providing the basis of confidence in the credibility of the banking system.

So it is misleading to see government involvement in the banks — whether it was the pure bailout of the original Paulson program in the U.S., or the subsequent non-controlling equities taken by the U.S., British and other governments — as per se a move away even from neoliberalism. It is also misleading to see neoliberalism as about the withdrawal of the state from the markets — and therefore this current involvement of the state as a defeat of neoliberalism. The state under neoliberalism has been very active in promoting the vast expansion of financial markets and facilitating their volatile growth; and as this volatility inevitably led to repeated financial crises in keeping the financial system going from moments of chaos to moments of chaos.

Does this mean that this present crisis of the financial markets is not an opportunity to debate and press for alternatives? And where do we start?

It is an opportunity because in this crisis it is clear that what has been misleadingly billed as the 'free market' has failed and is seen to have failed, and also because it is clear that states have been responsible for promoting what has now failed, and that they now need to come to the rescue of the banks. And this concentrates the minds of most people on the problem: their paychecks are deposited with banks, their pension savings are invested in the stock market, their consumption is reliant on bank credit, and is the roof over the heads, as heavily mortgaged home owners.

Nationalization: Banks as Public Utilities?

It is notable in this respect that going back over the last century, alongside the various movements that arose to struggle for the vote for working people there has always been pressure to control the financial system, and even to bring the banks under public ownership, reflecting a certain common sense that the financial system ought to be accountable to or even belong to the people — that money should be become a public resource and banks a public utility. Indeed this democratic pressure system was not without results: some of the regulations that states did of bank system after previous crises was also a response to demands from below that people that not be fleeced by the bankers.

For example, the nationalization of the Bank of England was meant to bring the government's agent in the financial markets under democratic control but in fact The Bank of England now acted inside the state as the voice of the City within the state, representing there the power of financial capital.

The lessons began to be learnt in the wake of the rise of the new left and the crisis of the Keynesian welfare state in the 1970s. They recognized that the only way to overcome the contradictions of the Keynesian welfare state in a positive manner was to take the financial system into public control. The left in the British Labour Party were able to secure the passage of a conference resolution to nationalize the big banks and insurance companies in the City of London, albeit with no effect on a Labour Government that embraced one of the IMF's first structural adjustment programs. We are still paying for the defeat of these ideas. It is now necessary to build on their proposals and make them relevant in the current conjuncture. (The best popularly written example of this coming out the earlier period, and still worth reading today, is Richard Minns, Take over the City: The case for public ownership of financial institutions, London, Pluto 1982.)

The scale of the crisis today provides an opening for the renewal of radical politics that advances a systemic alternative to capitalism. It would be a tragedy if a far more ambitious goal than making financial capital more prudent did not now come back on the agenda. It hard to see how anyone can be serious about converting our economy to green priorities without understanding that we need a democratic means of planning through new sets of public institutions that would enable us to take collective decisions about allocating resources for what we produce and how and where we produce the things we need to sustain our lives and our relationship to our environment. The reasons trading in carbon offsets as a solution to the climate crisis is a dead end is shown in this financial crisis. It involves depending on the kinds of derivatives market that are so volatile and are so inherently open to financial manipulation and to financial crashes.

In terms of immediate reforms — in a situation where the only safe debt is public debt — this should start with demands for vast programs to provide for collective services and infrastructures that not only compensate for those that have atrophied but meet new definitions of basic human needs and come to terms with today's ecological challenges.

Such reforms would soon come up against the limits posed by the reproduction of capitalism. This is why it is so important to raise not merely the regulation of finance but the transformation and democratization of the whole financial system. What is in fact needed is to turn the whole banking system into a public utility so that the distribution of credit and capital would be undertaken in conformity with democratically established priorities rather than short term profit. This would have to involve not only capital controls in relation to international finance but also controls over domestic investment, since the point of taking control over finance is to transform the uses to which it is now put. And it would also require much more than this in terms of the democratization of both the broader economy and the state.

Of course, without rebuilding popular class forces through new movements and parties this will fall on empty ground. But crucial to this rebuilding is to get people to think ambitiously again. However deep the crisis, however confused and demoralised the financial elite inside and outside the state, and however widespread the popular outrage against them, this will require hard and committed work by a great many activists. We will need to put our minds to the hard questions of what the new institutions of democratic public finance would look like — and what kinds of movements would be needed to build them. •

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