The “Global Crises of Capitalism”; Whose Crises, Who Profits?

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Introduction

From the Financial Times to the far left, tons of ink has been spilt writing about some variant of the “Crises of Global Capitalism”. While writers differ in the causes, consequences and cures, according to their ideological lights, there is a common agreement that “the crises” threatens to end the capitalist system as we know it.

There is no doubt that, between 2008-2009, the capitalist system in Europe and the United States suffered a severe shock that shook the foundations of its financial system and threatened to bankrupt its ‘leading sectors’.

However, I will argue the ‘crises of capitalism’ was turned into a ‘crises of labor’. Finance capital, the principle detonator of the crash and crises, recovered, the capitalist class as a whole was strengthened, and most important of all, it utilized the political, social, ideological conditions created as a result of “the crises” to further consolidate their dominance and exploitation over the rest of society.

In other words, the ‘crises of capital’ has been converted into a strategic advantage for furthering the most fundamental interests of capital: the enlargement of profits, the consolidation of capitalist rule, the greater concentration of ownership, the deepening of inequalities between capital and labor and the creation of huge reserves of labor to further augment their profits.

Furthermore, the notion of a homogeneous global crisis of capitalism overlooks profound differences in performance and conditions, between countries, classes, and age cohorts.

The Global Crises Thesis:The Economic and Social Argument

The advocates of global crises argue that beginning in 2007 and continuing to the present, the world capitalist system has collapsed and recovery is a mirage. They cite stagnation and continuing recession in North America and the Eurozone. They offer GDP data hovering between negative to zero growth. Their argument is backed by data citing double digit unemployment in both regions. They frequently correct the official data which understates the percentage unemployed by excluding part-time, long-term unemployed workers and others. The ‘crises’ argument is strengthened by citing the millions of homeowners who have been evicted by the banks, the sharp increase in poverty and destitution accompanying job loses, wage reductions and the elimination or reduction of social services. “”Crises” is also associated with the massive increase in bankruptcies of mostly small and medium size businesses and regional banks.

The Global Crises: The Loss of Legitimacy

Critics, especially in the financial press, write of a “legitimacy crises of capitalism” citing polls showing substantial majorities questioning the in justice s of the capitalist system, the vast and growing inequalities and the rigged rules by which banks exploit their size (“too big to fail”) to raid the Treasury at the expense of social programs.

In summary the advocates of the thesis of a “Global Crises of Capitalism” make a strong case, demonstrating the profound and pervasive destructive effects of the capitalist system on the lives of the great majority of humanity.

The problem is that a ‘crises of humanity’ (more specifically of salary ad wage workers) is not the same as a crisis of the capitalist system. In fact as we shall argue below growing social adversity, declining income and employment has been a major factor facilitating the rapid and massive recovery of the profit margins of most large scale corporations.

Moreover, the thesis of a‘global’ crises of capitalism amalgamates disparate economies, countries, classes and age cohorts with sharply divergent performances at different historical moments.

Global Crises or Uneven and Unequal Development?

It is utterly foolish to argue for a “global crises” when several of the major economies in the world economy did not suffer a major downturn and others recovered and expanded rapidly. China and India did not suffer even a recession. Even during the worst years of the Euro-US decline,the asian giants grew on average about 8%. Latin America’s economies especially the major agro-mineral export countries (Brazil, Argentina, Chile,) with diversified markets, especially in Asia, paused briefly (in 2009) before assuming moderate to rapid growth (between 3% to 7%) from 2010-2012.

By aggregating economic data from the Euro-zone as a whole the advocates of global crises, overlooked the enormous disparities in performance within the zone. While Southern Europe wallows in a deep sustained depression,by any measure, from 2008 to the foreseeable future, German exports, in 2011, set a record of a trillion euros; its trade surplus reached 158 billion euros, after a155 billion euro surpluses in 2010. (BBC News, Feb. 8 2012).

While aggregate Eurozone unemployment reaches 10.4%, the internal differences defy any notion of a “general crises”. Unemployment in Holland is 4.9%, Austria 4.1% and Germany 5.5% with employer claims of widespread skilled labor shortages in key growth sectors. On the other hand in exploited southern Europe unemployment runs to depression levels, Greece 21%, Spain 22.9%, Ireland 14.5%, and Portugal 13.6% (FT 1/19/12, p.7). In other words, “the crises” does not adversely affect some economies, that in fact profit from their market dominance and techno-financial strength over dependent, debtor and backward economies. To speak of a ‘global crises’ obscures the fundamental dominant and exploitative relations that facilitate ‘recovery’ and growth of the elite economies over and against their competitors and client states. In addition global crises theorists wrongly amalgamated crises ridden, financial-speculative economies (US, England) with dynamic productive export economies (Germany , China).

The second problem with the thesis of a “global crises” is that it overlooks profound internal differences between age cohorts. In several European countries youth unemployment

(16-25) runs between 30 to 50% (Spain 48.7%, Greece 47.2%, Slovakia 35.6%, Italy 31%, Portugal 30.8% and Ireland 29%) while in Germany, Austria and Holland youth unemployment runs to Germany 7.8%, Austria 8.2% and Netherlands 8.6% (Financial Times (FT) 2/1/12, p2). These differences underlie the reason why there is not a 'global youth movement' of "indignant" and "occupiers" .Five-fold differences between unemployed youth is not conducive to 'international' solidarity. The concentration of high youth unemployment figures explains the uneven development of mass- street protests especially centered in Southern Europe . It also explains why the northern Euro-American "anti-globalization" movement is largely a lifeless forum which attracts academic pontification on the "global capitalist crises" and the impotence of the "Social Forums" are unable to attract millions of unemployed youth from Southern Europe .They are more attracted to direct action. Globalist theorists overlook the specific way in which the mass of unemployed young workers are exploited in their dependent debt ridden countries. They ignore the specific way they are ruled and repressed by center-left and rightist capitalist parties. The contrast is most evident in the winter of 2012. Greek workers are pressured to accept a 20% cut in minimum wages while in Germany workers are demanding a 6% increase.

If the 'crises' of capitalism is manifested in specific regions, so too does it affect different age/racial sectors of the wage and salaries classes. The unemployment rates of youth to older workers varies enormously: in Italy it is 3.5/1, Greece 2.5/1, Portugal 2.3/1, Spain 2.1/1 and Belgium 2.9/1. In Germany it is 1.5/1 (FT 2/1/12). In other words because of the higher levels of unemployment among youth they have a greater propensity for direct action 'against the system'; while older workers with higher levels of employment (and unemployment benefits) have shown a greater propensity to rely on the ballot box and engage in limited strikes over job and pay related issues. The vast concentration of unemployed among young workers means they form the 'available core' for sustained action; but it also means that they can only achieve limited unity of action with the older working class experiencing single digit unemployment.

However, it is also true that the great mass of unemployment youth provides a formidable weapon, in the hands of employers to threaten to replace employed older workers. Today, capitalists constantly resort to using the unemployed to lower wages and benefits and to intensify exploitation(dubbed to "increase productivity") to increase profit margins. Far from being simply an indicater of 'capitalist crises', high levels of unemployment have served along with other factors' to increase the rate of profit, accumulate income, widen income inequalities which augments the consumption of luxury goods for the capitalist class:the sales of luxury cars and watches is booming.

Class Crises: The Counter-Thesis

Contrary to the "global capitalist crises" theorists, a substantial amount of data has surfaced which refutes its assumptions. A recent study reports "US corporate profits are higher as a share of gross domestic product than at any time since 1950" (FT 1/30/12). US companies cash balances have never been greater, thanks to intensified exploitation of workers, and a multi-tiered wage systems in which new hires work for a fraction of what older workers receive (thanks to agreements signed by 'door mat' labor bosses).

The "crises of capitalism" ideologues have ignored the financial reports of the major US corporations.According to General Motors 2011 report to its stockholders,they celebrated the greatest profit ever,turning a profit of $7.6 billion, surpassing the previous record of $6.7

billion in 1997.A large part of these profits results from the freezing of its underfunded US pension funds and extracting greater productivity from fewer workers-in other words intensified exploitation-and cutting hourly wages of new hires by half.(Earthlink News 2/16/12)

Moreover the increased importance of imperialist exploitation is evident as the share of US corporate profits extracted overseas keeps rising at the expense of employee income growth.In 2011, the US economy grew by 1.7%,but median wages fell by 2.7%.Accordingto the financial press"the profit margens of the S and P 500 leapt from

6% to 9% of the GDP in the past three years,a share last achieved three generations ago.At roughly a third, the foreign share of these profits has more than doubled since 2000"(FT 2/13/12 P9.If this is a "capitalist crises"then who needs a capitalist boom ?

Surveys of top corporations reveal that US companies are holding 1.73 trillion in cash, "the fruits of record high profit margins" (FT 1/30/12 p.6). These record profit margins result from mass firings which have led to intensifying exploitation of the remaining workers. Also negligible federal interest rates and easy access to credit allow capitalists to exploit vast differentials between borrowing and lending and investing. Lower taxes and cuts in social programs result in a growing cash pile for corporations. Within the corporate structure, income goes to the top where senior executives pay themselves huge bonuses. Among the leading S and P 500 corporations the proportion of income that goes to dividends for stockholders is the lowest since 1900 (FT 1/30/12, p.6).

A real capitalist crisis would adversely affect profit margins, gross earnings and the accumulation of "cash piles". Rising profits are being horded because as capitalists profit from intense exploitation , mass consumption stagnates.

Crises theorists confuse what is clearly the degrading of labor, the savaging of living and working conditions and even the stagnation of the economy, with a 'crises' of capital: when the capitalist class increases its profit margins, hoards trillions, it is not in crises. The key point is that the 'crises of labor' is a major stimulus for the recovery of capitalist profits. We cannot generalize from one to the other. No doubt there was a moment of capitalist crises (2008-2009) but thanks to the capitalist state's unprecedented massive transfer of wealth from the public treasury to the capitalist class – Wall Street banks in the first instance – the corporate sector recovered, while the workers and the rest of the economy remained in crises, went bankrupt and out of work.

From Crises to Recovery of Profits: 2008/9 to 2012

The key to the 'recovery' of corporate profits had little to do with the business cycle and all to do with Wall Street's large scale takeover and pillage of the US Treasury. Between 2009-2012 hundreds of former Wall Street executives, managers and investment advisers seized all the major decision-making positions in the Treasury Department and channeled trillions of dollars into leading financial and corporate coffers. They intervened financially troubled corporations,like General Motors, imposing major wage cuts and dismissals of thousands of workers.

Wall Streeters in Treasury elaborated the doctrine of "Too Big to Fail" to justify the massive transfer of wealth. The entire speculative edifice built in part by a 234 fold rise in foreign exchange trading volume between 1977-2010 was restored (FT 1/10/12, p.7). The new doctrine argued that the state's first and principle priority is to return the financial system to profitability at any and all cost to society, citizens, taxpayers and workers. "Too Big to Fail" is a complete repudiation of the most basic principle of the "free market" capitalist system: the idea that those capitalists who lose bear the consequences; that each investor or CEO, is responsible for their action. Financial capitalists no longer needed to justify their activity in terms of any contribution to the growth of the economy or "social utility". According to the current rulers Wall Street must be saved because it is Wall Street, even if the rest of the economy and people sink (FT 1/20/12, p.11). State bailouts and financing are complemented by hundreds of billions in tax concessions, leading to unprecedented fiscal deficits and the growth of massive social inequalities. The pay of CEO's as a multiple of the average worker went from 24 to 1 in 1965 to 325 in 2010 (FT 1/9/12, p.5).

The ruling class flaunts their wealth and power aided and abetted by the White House and Treasury. In the face of popular hostility to Wall Street pillage of Treasury, Obama went through the sham of asking Treasury to impose a cap on the multi-million dollar bonuses that the CEO's running bailed out banks awarded themselves. Wall Streeters in Treasury refused to enforce the executive order, the CEO's got billions in bonuses in 2011 . President Obama went along, thinking he conned the US public with his phony gesture,while he reaped millions in campaign funds from Wall Street!

The reason Treasury has been taken over by Wall Street is that in the 1990's and 2000's, banks became a leading force in Western economies. Their share of the GDP rose sharply (from 2% in the 1950's to 8% in 2010" (FT 1/10/12, p.7).

Today it is "normal operating procedure" for President's to appoint Wall Streeter's to all key economic positions; and it is 'normal' for these same officials to pursue policies that maximize Wall Street profits and eliminate any risk of failure no matter how risky and corrupt their practioners.

The Revolving Door: From Wall Street to Treasury and Return

Effectively the relation between Wall Street and Treasury has become a "revolving door": from Wall Street to the Treasury Department to Wall Street. Private bankers take appointments in Treasury (or are recruited) to ensure that all resources and policies Wall Street needs are granted with maximum effort, with the least hindrance from citizens, workers or taxpayers. Wall Streeters in Treasury give highest priority to Wall Street survival, recovery and expansion of profits. They block any regulations or restrictions on bonuses or a repeat of past swindles.

Wall Streeters 'make a reputation' in Treasury and then return to the private sector in higher positions, as senior advisers and partners. A Treasury appointment is a ladder up the Wall Street hierarchy. Treasury is a filling station to the Wall Street Limousine: ex Wall Streeters fill up the tank, check the oil and then jump in the front seat and zoom to a lucrative job and let the filling station (public) pay the bill.

Approximately 774 officials (and counting) departed from Treasury between January 2009 and August 2011 (FT 2/6/12, p. 7). All provided lucrative "services" to their future Wall Street bosses finding it a great way to re-enter private finance at a higher more lucrative position.

A report in the Financial Times Feb. 6, 2012 (p. 7) entitled appropriately Manhattan

Transfer" provides typical illustrations of the Treasury-Wall Street "revolving door".

Ron Bloom went from a junior banker at Lazard to Treasury, helping to engineer the trillion dollar bailout of Wall Street and returned to Lazard as a senior adviser. Jake Siewert went from Wall Street to becoming a top aide to Treasury Secretary Tim Geithner and then graduated to Goldman Sachs, having served to undercut any cap on Wall Street bonuses.

Michael Mundaca, the most senior tax official in the Obama regime came from the Street and then went on to a highly lucrative post in Ernst and Young a corporate accounting firm, having help write down corporate taxes during his stint in "public office".

Eric Solomon, a senior tax official in the infamous corporate tax free Bush Administration made the same switch. Jeffrey Goldstein who Obama put in charge of financial regulation and succeeded in undercutting popular demands, returned to his previous employer Hellman and Friedman with the appropriate promotion for services rendered.

Stuart Levey who ran AIPAC sanctions against Iran policies out if Treasury's so-called "anti-terrorist agency" was hired as general counsel by HSBC to defend it from investigations for money laundering (FT 2/6/12, p. 7). In this case Levey moved from promoting Israels ' war aims to defending an international bank accused of laundering billions in Mexican cartel money. Levey, by the way spent so much time pursuing Israels ' Iran agenda that he totally ignored the Mexican drug cartels' billion dollar money laundering cross-border operations for the better part of a decade.

Lew Alexander a senior advisor to Geithner in designing the trillion dollar bail out is now a senior official in Nomura, the Japanese bank. Lee Sachs went from Treasury to Bank Alliance, (his own "lending platform"). James Millstein went from Lazard to Treasury bailed out AIG insurance run into the ground by Greenberg and then established his own private investment firm taking a cluster of well-connected Treasury officials with him.

The Goldman-Sachs-Treasury "revolving door" continues today. In addition to past and current Treasury heads Paulson and Geithner, former Goldman partner Mark Patterson was recently appointed Geithner's "chief of staff". Tim Bowler former Goldman managing director was appointed by Obama to head up the capital markets division.

It should be abundantly clear that elections, parties and the billion dollar electoral campaigns have little to do with "democracy" and more to do with selecting the President and legislators who will appoint non-elected Wall Streeters to make all the strategic economic decisions for the 99% of Americans. The policy results of the Wall Street-Treasury revolving door are clear and provide us with a framework for understanding why the "profit crises" has vanished and the crises of labor has deepened.

The "Policy Achievements" of the Revolving Door

The Wall Street-Treasury conundrum (WSTC) has performed herculean and audacious labor for finance and corporate capital. In the face of universal condemnation of Wall Street by the vast majority of the public for its swindles, bankruptcies, job losses and mortgage foreclosures, the WSTC publically backed the swindlers with a trillion dollar bailout. A daring move on the face of it; that is if majorities and elections counted for anything. Equally important the WSTC dumped the entire "free market" ideology that justified capitalist profits based on its "risks", by imposing the new dogma of "too big to fail" in which the state treasury guarantees profits even when capitalists face bankruptcy, providing they are billion dollar firms. The WSTC dumped the capitalist principle of "fiscal responsibility" in favor of hundreds of billions of dollars in tax cuts for the corporate-financial ruling class, running up record peace time budget deficits and then having the audacity to blame the social programs

supported by popular majorities. (Is it any wonder these ex-Treasury officials get such lucrative offers in the private sector when they leave public office?) Thirdly, Treasury and the Central Bank (Federal Reserve) provide near zero interest loans that guarantees big profits to private financial institution which borrow low from the Fed and lend high, (including back to the Government!) especially in purchasing overseas Government and corporate bonds. They receive anywhere from four to ten times the interest rates they pay. In other words the taxpayers provide a monstrous subsidy for Wall Street speculation. With the added proviso, that today these speculative activities are now insured by the Federal government, under the "Too Big to Fail" doctrine.

Under the ideology of "regaining competitiveness" the Obama economic team (from Treasury, the Federal Reserve, Commerce, Labor) has encouraged employers to engage in the most aggressive shedding of workers in modern history. Increased productivity and profitability is not the result of "innovation" as Obama, Geithner and Bernache claim; it is a product of a state labor policy which deepens inequality by holding down wages and raising profit margins. Fewer workers producing more commodities. Cheap credit and bailouts for the billion dollar banks and no refinancing for households and small and medium size firms leading to bankruptcies, buyouts and 'consolidation' namely, greater concentration of ownership. As a result the mass market stagnates but corporate and bank profits reach record levels. According to financial experts under the WSTC "new order" "bankers are a protected class who enjoy bonuses regardless of performance, while relying on the taxpayer to socialize their losses" (FT 1/9/12, p.5). In contrast labor, under Obama's economic team, faces the greatest insecurity and most threatening situation in recent history: "in what is unquestionably novel is the ferocity with which US business sheds labor now that executive pay and incentive schemes are linked to short term performance targets" (FT 1/9/2012, p. 5).

Economic Consequences of State Policies

Because of the Wall Street " takeover" of strategic economic policy positions in Government we can now understand the paradox of record profit margins in the midst of economic stagnation. We can comprehend why the capitalist crises has, at least temporarily, been replaced by a profound crises of labor. Within the power matrix of Wall Street-Treasury Dept. all the old corrupt and exploitative practices that led up to the 2008-2009 crash have returned: multi-billion dollar bonuses for investment bankers who led the economy into the crash; banks "snapping up billions of dollars of bundled mortgage products that resemble the sliced and diced debt some (sic) blame for the financial crises" (FT 2/8/12, p.1). The difference today is that these speculative instruments are now backed by the taxpayer (Treasury). The supremacy of the financial structure of the pre-crises US economy is in place and thriving … "only" the US labor force has sunk into greater unemployment, declining living standards, widespread insecurity and profound discontent.

Conclusion: The Case Against Capitalism and for Socialism

The profound crises of 2008-2009 provoked a spate of questioning of the capitalist system, even among many of its most ardent advocates (FT 1/8/12 to 1/30/12) criticism abounded. ‘Reform, regulation and redistribution’ were the fare of financial columnists. Yet the ruling economic and governing class took no heed. The workers are controlled by door mat union leaders and lack a political instrument. The rightwing pseudo populists embrace an even more virulent pro capitalist agenda, calling for across the board elimination of social programs and corporate taxes. Inside the state a major transformation has taken place which effectively smashed any link between capitalism and social welfare, between government decision-making and the electorate. Democracy has been relaced by a corporate state, founded on the revolving door between Treasury and Wall Street, which funnels public wealth to private financial coffers. The breach between the welfare of society and the operations of the financial architecture is definitive.

The activity of Wall Street has no social utility, its practioners enrich themselves with no redeeming activity. Capitalism has demonstrated conclusively, that it thrives through the degradation of tens of millions of workers and rejects the endless pleas for reform and regulation. Real existing capitalism cannot be harnessed to raising living standards or ensuring employment free of fear of large scale, sudden and brutal firings. Capitalism, as we experience it over the past decade and for the foreseeable future, is in polar opposition to social equality, democratic decision-making and collective welfare.

Record capitalist profits are accrued by pillaging the public treasury, denying pensions and prolonging ‘work till you die’, bankrupting most families with exorbitant private corporate medical and educational costs.

More than ever in recent history, record majorities reject the rule by and for the bankers and the corporate ruling class (FT 2/6/12, p. 6). Inequalities between the top 1% and the bottom 99% have reached record proportions. CEO’s earn 325 times that of an average worker (FT 1/9/12, p.5). Since the state has become the ‘foundation’ of the economy of the Wall Street predators, and since ‘reform’ and regulation has dismally failed , it is time to consider a fundamental systemic transformation that begins via a political revolution which forcibly ousts the non-elected financial and corporate elites running the state for their own exclusive interests. The entire political process,including elections, are profoundly corrupt: each level of office has its own inflated price tag.The current Presidential contest will cost $2 to $3 billion dollars to determine which of the servants of Wall Street will preside over the revolving door.

Socialism is no longer the scare word of the past. Socialism involves the large-scale reorganization of the economy, the transfer of trillions from the coffers of predator classes’ of no social utility to the public welfare. This change can finance a productive and innovative economy based on work and leisure, study and sport. Socialism replaces the everyday terror of dismissal with the security that brings confidence, assurance and respect to the workplace. Workplace democracy is at the heart of the vision of 21st century socialism. We begin by nationalizing the banks and eliminating Wall Street. Financial institutions are redesigned to create productive employment, to serve social welfare and to preserve the environment. Socialism would begin the transition, from a capitalist economy directed by predators and swindlers and a state at their command, toward an economy of public ownership under democratic control.

James Petras’ *most recent book is The Arab Revolt and the Imperialist Counter Attack (Clarity Press 2012) 2nd edition.*

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