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The capitalist crisis

# How the left should respond

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Two and a half decades of casino capitalism - speculation, deregulation and privatisation, under Regan and Thatcher, followed up by Tony Blair and Gordon Brown - created a speculative bubble. With the collapse of the US sub-prime mortgage market where the most reckless lending regimes were located, this turned into a credit and banking crisis. The global financial structure had reached the verge of meltdown.

Unstable economic conditions brought about by the end of the post-war boom in the mid 1970s created the context of the present crisis. They produced a number of regional breakdowns over the last 15 years including the Mexican crisis of 1994, the Asian crisis of 1997, the Russian crisis of 1998 and the Argentine crisis of 2002. The current crisis, however, is qualitatively different and far more globally significant than any of these. This time it started in the capitalist heartlands of the USA and in Europe.

The way the banking failure coincides with other major global developments makes this crisis especially severe and difficult to resolve.

Firstly there is the impact of emerging countries such as India and in particular China since the full restoration of capitalism. The explosive growth of China, with its vast labour force working under repressive conditions, has been sucking in raw materials from across the globe, especially oil and steel. This has contributed to a generalised rise in commodity prices, hitting the living standards of the poor.

Secondly the decrease in easily extractable oil reserves (peak oil) alters the basic arithmetic for oil-based economies. While the crisis itself has brought the price of oil and gas down the upward pressure exerted by peak oil will remain long term. Times like the 1990s where the price of oil fluctuated between \$10 and \$20 a barrel will not return. Even under current conditions the policy of OPEC is to cut production in order to push the price back to around \$70 a barrel.

Thirdly the dangerous ecological situation and global warming ultimately represent a crisis of much greater significance than that of the economy. Global warming is expanding the deserts, melting the icecaps, drying up rivers, and destroying water reserves. It is reducing agricultural productivity and crop yields.

Bio-fuel production compounds the problem by turning food into petrol (ethanol based on sugar and diesel based on vegetable oil etc) and tying up large tracts of land in the process. These trends led to food riots in 37 countries during 2008.

Extreme weather events impact on the insurance industry and contribute to the banking crisis as shown by the example of Hurricane Katrina.

The fourth factor is the unprecedented level of globalisation. It is not just that the world economy is more integrated than ever before but with the collapse of the Soviet Union and Eastern Europe at the end of the 1980s and the full absorption of China into the world economy since then, capitalism now covers the whole globe.

For all these reasons this is not a "normal" cyclical crisis of the capitalist system, although all the contradictions of the system traditionally identified by Marxists exist with full force within it.

## Basis for a fightback

The central political issue thrown up by the crisis is who will be made to pay for it - capital or labour? Market forces or interventionism, the two options that capitalist governments have been debating, are both designed to make the working class pay and give capitalism a new lease of life.

In their immediate impact, though, they are very different. The "New Deal" interventionist approach can save some industries and some jobs and create others, while market forces would only destroy them. From this point of view socialists should welcome interventionism as far as it goes.

However, the response must go much further with programmes of public works that can employ and re-employ millions of workers. If trillions of pounds can be given to the banks the same can be done for public works. And such programmes would need to be directed towards establishing a more sustainable society for the future in order that the ecological crisis is tackled at the same time.

This approach also creates the space for a fightback. The more workers are thrown into unemployment and atomised, the more difficult it will be for them to begin to organise. On the other hand if they remain employed or are taken on for public infrastructure work they are in a far stronger position to fight.

## Nationalisation

The key to a socialist approach to all this is nationalisation. Nationalisation does not equal socialism, of course, but it does provide a practical way to defend jobs and opens up a space in which socialist ideas can be developed.

The perception of nationalisation, which was discredited by Labour in the 1970s and 1980s and demonised by the Tories, has been transformed in the course of this crisis. It has gone from an issue discussed in socialist circles to a part of the mainstream debate. Thus there is now an opening not only to demand that governments intervene into the crisis but that they do so in the framework of nationalisation.

Of course there are big problems with recent nationalisations of bankrupt companies, carried out in order to socialise risk and bail out debt, and with the intention of handing the companies back at a later date. Many of the nationalisations involve completely unacceptable attacks on wages and conditions. Others are simply government majority shareholdings, which can be sold off at any time. There is very little control exercised and Brown is making it clear that he does not want this if he can possibly avoid it.

It would be a big mistake for socialists to say that such nationalisations are either irrelevant or unsupportable. They should be welcomed as far as they go as a better alternative than market forces. However socialists should go further by defending wages and conditions and demanding full nationalisation of these institutions under the democratic control of those who work in them and devote their lives to them.

The arguments for full nationalisation under workers' control in this way are overwhelming and extremely popular today. If huge sums of money are being injected into bankrupt companies it makes no sense at all to do it without democratic control of the process and of the future development of those industries. Socialists need to put themselves at the centre of this debate.

At the same time the privileged position in regard to state aid being given to the banks should end. Other industries have an equal need and this must be met. In many cases nationalisation is the only solution. Car manufacturing, for example, is faced with a very bleak future and in need of a serious programme to change it over to socially and

environmentally useful production. Nationalisation is the only framework that can provide any kind of answer to the car industry.

All this implies a big campaign by the labour movement and the trade unions around both the demand for nationalisation and the form it should take. The recently launched People's Charter for Change would be a good starting point for such a campaign since it has serious trade union support and the ability to reach well beyond the ranks of the left.

## Protests and setbacks

Already there has been a backlash against the effects of the crisis across Europe and beyond. France and Greece have been in the forefront but there have also been protests in Spain and Italy. In Ireland over 100,000 responded to a trade union call to demonstrate and 300 workers have been reacting to lay-offs by occupying the famous Waterford crystal factory. General strikes in Martinique and Guadeloupe won significant victories (see this issue) and strikes and protests continue in Russia and Eastern Europe.

How this will play out in Britain is harder to say. The situation with the unions is verging on disastrous. The leaders of the major unions have nothing to say about the crisis. Nor has the TUC. Mostly they do nothing at all, or worse, they negotiate away hard won wages and conditions in give-back deals to 'save jobs'. Every day the media carries new announcements of closures and job losses, often by the tens of thousands, and the unions are nowhere to be seen.

That trade unionists are looking for an alternative to this kind of disastrous leadership is demonstrated by the remarkable vote for Jerry Hicks in the election for General Secretary of Amicus. He came second with 39,000 votes on the basis of a radical platform which spelled out a strong and detailed response to the crisis.

There have also been some welcome protests in reaction to the threat of privatisation of Royal Mail and the strikes by construction workers at oil refineries and power stations. The construction strikes were arguably confused and even problematic. But they were at least a reaction to the growing threat to jobs as the strikers perceived it. Elsewhere there is very little happening. Even in other parts of the construction and building sector the situation is absolutely dire. Swingeing wage cuts and redundancies are being imposed right across the industry.

A similar situation exists across a range of industries from manufacturing to retail and financial services. Previous recessions have hit the blue-collar sectors the hardest with white-collar jobs generally a safer prospect. This time everyone is being hit from bank employees to steel workers.

There has been the scandal of the sacking of agency workers at the BMW car plant in Cowley at an hour's notice with no redundancy pay. Not only did the unions refuse to defend them but told them that nothing could be done because the situation was beyond everyone's control including the management's. Yet the unions in Cowley were built in the 1950s and 1960s out of very militant strikes against pre-emptive redundancies. Now the wheel has turned full circle and instant dismissal is back.

In Birmingham workers at LDV Vans have voted to accept a 10% wage cut, a three day week and the cancellation of their bonus in a deal to 'save jobs'. At Land Rover/Jaguar workers voted to accept a package of cuts, recommended by the unions, which involved a four-day double day shift with no shift premium, a cut of one hour's pay, no pay increase in 2009, and an increase in pension contributions. White collar staff are required

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to work three hours extra per week for no extra pay, accept full flexible working across all sites in the West Midlands, along with cuts in sick pay, holiday pay, and maternity entitlement.

What is taking place in Britain at the present time is probably the biggest attack on wages jobs and working conditions since Thatcher started it in the 1980s and there is a desperate need for a trade union response.

If the unions fail to respond then action might well bypass the unions, at least in its initial stages. So many people are being hurt that almost anything is possible. Job openings for young people, for example, are plummeting and the highest number of graduates ever will leave university this year without the prospect of the job. This could lead to action on the streets of one kind or another in which case the task will be to bring the unions on board and widen and develop the fightback.

Because any fightback will also need a political expression the building of a broad political alternative to new Labour is now more urgent than ever. As things stand, Respect is the only show in town in that regard, though it sees itself as part of a process towards building something broader.

There is a big responsibility on Respect to intervene around the crisis by offering a socialist solution as well as campaigning around its effects. Today it can do this alongside important broad initiatives such as the Peoples Charter for Change, which has serious trade union sponsorship and which can reach a broader audience than Respect itself.

Ultimately if the workers do not defend their interests - through the unions or otherwise - capitalism will find its own solutions at their expense. Capitalism can always resolve a crisis if it can impose the conditions on the working class necessary to do so.

## An action programme for the crisis

Bail-out the people not the bankers

Halt all further privatisations by either government or local authorities.

Halt the attack on wages, working conditions and pension rights.

Halt all give-back negotiations. Uphold and defend trade union agreements.

No social dumping.

Halt all house re-possession for mortgage arrears. Transfer houses to local authority stock and rent them back at affordable rents.

No attacks on public services. Defend them by taxing the rich.

For a massive, trade union-backed campaign for public ownership including:

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- nationalisation of all banks and financial institutions under workers' control
- nationalisation of bankrupt industries under workers' control to preserve jobs and production. reorganise

For a Green New Deal in the shape of a crash programme of public works to combat the recession, create new green collar jobs, and to build a new sustainable energy infrastructure. This to include:

- a crash programme to construct a sustainable, publically owned, energy infrastructure based on wind, wave, and solar power which could create a million new jobs in manufacture, construction and engineering
- a crash programme to build new sustainable publically owned transport systems which could create hundreds of thousands of new jobs
- the renovation and insulation of housing to conserve energy which could also create hundreds of thousands of new jobs
- a major programme of job conversion to socially useful production for industries such as car manufacture.

An extensive programme of publicly owned and financed house building to avoid another housing bubble.

Open the books of both the financial and industrial companies to public scrutiny in order to prevent the use of the crisis to force through cost-cutting and redundancies.

A full government guarantee for pension rights. Future pensions to be paid for by taxing the rich and not to be reliant on returns from shares and bonds. Current pensioners to be compensated for loss of income resulting from interest rate reductions.

Control over international financial speculation both through controls on capital movements and through taxation.

## Background: Countdown to meltdown

The crisis broke out in 2007 when the US investment bank Bear Stearns revealed huge losses on the US sub-prime mortgage market. This was the weakest spot in the global bubble, the so-called toxic loans.

Soon afterwards Britain experienced its first run on a bank since the 19th century with the mortgage lender Northern Rock. Gordon Brown then faced a stark choice: whether to stick with the long established New Labour neo-liberal line of reliance on market forces or to change tack and intervene. At first Brown tried to hold the line together. But in February 2008, after weeks of agonising, he grasped the very painful nettle and nationalised Northern Rock. It was the first nationalisation in Britain for 30 years and in financial terms one of the biggest ever.

In 2008 two major US, government-backed, mortgage lenders, Fannie Mae and Freddie Mac, collapsed and were nationalised by US Treasury Secretary Hank Paulson along similar lines to Northern Rock.

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The next to fail, last September, was Lehman Brothers, the fourth largest US investment bank and the one most exposed to sub-prime mortgage losses. (Merrill Lynch collapsed at the same time and was bought up by the Bank of America.) US Treasury Secretary Hank Paulson announced that Lehman would not be saved and it promptly folded.

The fall of Lehman triggered the collapse of AIG, the world's biggest insurance company which insured the banks against sub-prime losses and was massively exposed. Paulson's initial reaction was to let it follow Lehman to the wall, but he asked JP Morgan and Goldman Sachs to prepare a report on the likely effects of this on the rest of the sector. Their report warned that the result would be global Armageddon or, in bankers' parlance, a *systemic failure* of the global banking system. AIG was promptly nationalised with the injection of a total of \$150 billion.

The nationalisation of AIG was a dramatic turning point in US economic policy. The hard-line, neoliberal, economic model of Milton Friedman, Ronald Regan and Margaret Thatcher, dominant for the last 30 years, had been stopped in its tracks. Regan's mantra had been that the state was the problem and deregulation the answer. Thatcher had held the same view. Now in place of this came a series of panic measures more akin to the long discarded reformist economist John Maynard Keynes.

The move was hugely controversial. But the market forces option, the approach of the US and British governments to the first years of the slump of the 1930s, in the period before the second New Deal, was seen as too dangerous to contemplate. It had resulted, at that time, in a wave of protectionism and mass unemployment (10 million in the US) overcome only by WWII and the reconstruction afterwards.

This dramatic policy change in the US triggered a series of interventionist moves by governments around the world as they realised the depth of the crisis. This involved stuffing extremely large sums of money down the throats of the bankers in the name of *recapitalisation*. In the US Paulson decided to pump \$200bn into the credit market and the Federal Reserve announced that it would buy up to \$600bn of toxic loans.

In early October the US Congress debated a proposal from Paulson, passed despite some Republican opposition, to make \$800 billion available to prop up the mortgage system. The same month in Britain the Bradford and Bingley was nationalised followed by HBOS.

In Britain New Labour are very much a part of the international interventionist consensus, seeking to hold the banking system together while spending their way out of the crisis by building up debt and printing money. The government has nationalised various banks with massive cash injections, cut interest rates to the record low of 0.5% and reduced VAT to 15%. Quantitative easing (printing money) is being used to inject £75 billion over three months in an attempt to boost consumer spending and get the banks to lend money.

All this is part of the anti-working class New Labour project - a marriage between Keynesian economics and right wing politics that creates huge contradictions. While nationalising banks the government is proposing to part-privatise Royal Mail. Local authorities, Labour as well as Tory-controlled, are privatising everything that is left they can get their hands on under the impact of the crisis. Their overarching approach to the crisis, however, is interventionist.

Far more important from a global point of view, is the role of Barack Obama. The \$787 billion economic stimulus package he has launched is the second biggest in the world after that of China and already an international benchmark for interventionism. The package is linked to his \$2.5 trillion budget which seeks to reverse some of the major policies of the Bush presidency.