We might tentatively conclude that the nature and significance of the financial crisis is not that of a decisive turning point leading to an economic downturn or the end of neoliberalism as many have supposed, but more of a point of inflection pointing to a new phase in the long upturn. The significance of this new phase and the implications it has for the future development of global capitalism and the struggle against it is a question that we have no space to take up here.

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accumulation gradually shifts away from the USA and the old advanced capitalist economies towards China and Asia.

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Paper Series, 2003, by M.P.Dooley, D. Folkerts-Landau and Peter Garber.

[12]Chinese monetary authorities were able to begin a gradual rebalancing of its foreign currency reserves for two reasons. Firstly, the opening up of other markets, particularly those in Europe, to Chinese exports meant that a larger proportion of export earnings in to China took the form of currencies other than the US dollar. Secondly, China allowed the a gradual but controlled appreciation of the Yuan against the US dollar.

[13]'Financial Reform to Address Systemic Risk'. Speech given by Ben Bernanke at the Council on Foreign Relations, Washington, D.C. March 2009.

http://www.federalreserve.gov/newsevents/speech/bernanke20090310a.htm

[14]Danegeld ('Dane's gold' or Danish Tax) was a tax raised to pay tribute to Viking raiders to save a kingdom from being ravaged from 991 AD. However, once paid, it marked out those willing to pay as 'easy marks'—and the raiders would keep coming back demanding more.

[15]It can be argued that it was in part the decline in corporate deposits that obliged banks to increasingly fund mortgage lending by selling mortgage backed securities on the financial markets.

[16]Of course, the rapid recovery in profits following the crisis has yet to result in a surge in investment and thus real capital accumulation. Even if capital accumulation does take off the austerity measures imposed by governments across Europe is likely to mean economic recovery will be slow for several years.

[17]The crisis could be seen as an earthquake caused by the shifting tectonic plates of global capital accumulation as the centre of

done is to fit a more suitable tyre and to remind the driver not to accelerate so fast out of a tight corner and all will be ok except for the minutes lost during the pit stop.

[7]See for example Fixing Global Finance by Martin Wolf and 'Global Imbalances and the Financial Crisis', Paper presented to the Federal Reserve Bank of San Francisco Asia Economic Policy Conference, October 2009, by M. Obstfeld and K. Rogoff.

[8]For an attempt to quantify the impact of international imbalances on US interest rates see 'International capital Flows and U.S. Interest Rates' F.E.Warnock & V.C. Warnock in Journal of International Money and Finance, 28 (6).

[9]The 'yield curve' relates the interest rates on government securities of increasing maturities. Given that the risk of governments major economies like the US, the US or Germany is considered negligible, the 'yield curve' indicates the relation between long and short term loans independent of variations in risk. Usually the yield curve is upward sloping: that is the longer the loan the higher the interest.

[10]Capital I p.236 Penguin edition. But as Engels notes on the same page 'The monetary crisis, defined in the text as a particular phase of every general industrial and commercial crisis, must be clearly distinguished from the special sort of crisis, also called a monetary crisis, which may appear independently of the rest, and only affects industry and commerce by its backwash. The pivot of these crises is to be found in money capital, and their immediate sphere of impact is therefore banking, the stock exchange and finance'. Thus as Itoh and Lapavitsas have pointed out, there are two quite distinct types of financial crises. The first arising from the contradictions of real capital accumulation, the second arising from with the financial system itself. The financial crisis of 2007-8 would seem closer to the second type.

[11]'An Essay on the Revived Bretton Woods System', NBER Working

Contents

idiosyncratic and neglected Keynesian economists H. Minsky. In short, Minsky argued that during a period of financial stability what he termed the financial structure of a capitalist economy would tend to become increasingly fragile. Continued financial stability encouraged the growth in confidence that loans would paid back. Reserves against bad loans would be reduced, financial innovations would be devised to get round existing regulations that aimed to ensure financial prudence and regulators would become complacent. Short term loans would be rolled over to finance long term investments and the as a result the financial structure would become increasingly speculative. As a result, eventually even a minor shock to the financial structure of the economy could cause a serious financial crisis. The crisis would then lead to renewed efforts at financial regulator and a return to financial prudence. This Minskyian financial cycle, in which financial stability produces financial instability, has been seized on by both mainstream and radical theorists to explain the recent financial crisis. Certainly at first sight it would appear to provide a neat explanation of how the sub-prime mortgage crisis served as a 'Minsky moment' that ended the 'great moderation'. But on closer inspection the Minskyian explanation is not so neat after all. Firstly, Minsky's notion of the 'financial structure' does not merely include banks and financial institutions but all economic actors such as businesses and individual households. Indeed this had been central for Minsky in order to show how a financial crisis such as the Wall Street crash could have such an impact on the real economy to create the Great Depression of the 1930s. But, as we shall, the great moderation which had preceded the credit crunch had seen non-financial corporate sector become more financially sound not less. Secondly, to the extent that it is taken to explain the recent financial crisis, the less it is able to explain the financial turbulence of the 1980s and 1990s when financial crises were far more frequent.

[6]From this perspective the crisis might be viewed like a tyre blow out in a Formula One race. But for the adept steering of the driver the crash could have been far more serious. Nevertheless the car as whole remains a functioning high performance vehicle. All that needs to be

[4]This failure to develop an adequate theory of the development of global banking and finance can also be traced back to the inadequacies of both Marx's and Keynes's theories of finance. Marx's theory of money and finance is largely contained in Part V of Volume III of Capital. But this was cobbled together by Engels from various notebooks left by Marx after his death and remains very far from constituting a finished worked-out theory. It is true that Hilferding in his celebrated book Finance Capital attempted to develop and update Marx's theory of money and finance. However, Hilferding's theory is based on the particular concrete circumstance of Germany at the beginning of the twentieth century and hence its applicability to the analysis of modern global banking and finance is limited. More recently there has been some important work in attempting to develop systematically a Marxian theory of money and finance. See for example, The Political Economy of Money and Finance by Makoto Itoh and Costas Lapavitsas. However, this remains at too high a level of abstraction to be of much use in analysing the concrete circumstance of the recent financial crisis. Keynes was first and foremost a 'monetary economist'. However, his primary aim, particularly in his seminal work The General Theory of Employment, Interest and Money, had been to persuade politicians and policymakers, who had been educated in neoclassical economic theory, to save capitalism through state intervention. To do this Keynes presented his theory as merely a generalisation of neoclassical monetary theory, which saw banks and financial markets as passive intermediaries between individual savers and individual entrepreneurs. Thus, although he made a number of observations and asides that go beyond the abstract conceptions of neoclassical monetary economics that have been taken up by his more radical disciples, the core of Keynes's theory remains confined within bourgeois economic orthodoxy. As a result it has been relatively easy for mainstream bourgeois economic theory to re-assimilate Keynes's theory as a special case that applies to the exceptional circumstances when the economy becomes stuck in a 'sub-optimal equilibrium'.

[5]The crisis has certainly brought to the fore the writings of the rather

The journal Aufheben was first produced in the UK in Autumn 1992. Those involved had participated in a number of struggles together—the anti-poll tax movement, the campaign against the Gulf War—and wanted to develop theory in order to participate more effectively: to understand capital and ourselves as part of the proletariat so we could attack capital more effectively. We began this task with a reading group dedicated to Marx's Capital and Grundrisse. Our influences included the Italian autonomia movement of 1969-77, the situationists, and others who took Marx's work as a basic starting point and used it to develop the communist project beyond the anti-proletarian dogmatisms of Leninism (in all its varieties) and to reflect the current state of the class struggle. We also recognized the moment of truth in versions of class struggle anarchism, the German and Italian lefts and other tendencies. In developing proletarian theory we needed to go beyond all these past movements at the same time as we developed them— just as they had done with previous revolutionary movements.

Aufheben comes out once a year (see subscription details), and to date (April 2011) there have been nineteen issues. This site contains all of the articles from previous issues and also some pamphlets. Since Aufheben is a developing project, some of our own ideas have already been superseded. We do not produce these ideas in the abstract, but, as we hope comes across in these articles, are involved in many of the struggles we write about, and develop our perspective through this experience.

ENDNOTES

[1]Originally we intended to begin Part II of this article with a critical review of the more salient Marxist and radical Keynesian theories of the current crisis. However, lack of space and time has meant that we decided to omit what could have easily become a rather lengthy academic exercise.

[2]Of course, the notion that capitalism is in decline has been a central tenet of traditional Marxism for the past hundred years (see 'Theory of decline or the decline of theory' in Aufheben #2, 3 and 4. But also see our self-critique of this article at http://libcom.org/aufheben/decadence). As a result of the Great Depression, in the 1930s and 1940s such a notion was also shared by many bourgeois economic thinkers. Schumpeter, for example, in his Capitalism, Socialism and Democracy lamented the passing of the entrepreneurial spirit of nineteenth century capitalism and saw the evolution of capitalism towards a bureaucratic state socialism as almost inevitable. Keynes accepted Schumpeter's prognosis, but, following John Stuart Mill, took a more sanguine view. Keynes looked forward to the time when capitalism would slow down and eventually reach a steady state in which vulgar money grabbing would no longer be necessary. His only concern was that capitalism would run out of steam before material scarcity could be abolished and wage-labour could be reduced to a minimum.

[3]Permanent Revolution are perhaps the most consistent vociferous proponents of the 'upswing' thesis. Also see our article on China in Aufheben #14.

played in bringing about this restructuring.

Thus, in order to overcome the limitations of both the 'stagnationist' and 'upswinger' theories of the crisis it was necessary to examine the relation between the emergence and development of global banking and finance and the global restructuring of real capital accumulation that has occurred over the past thirty years. On the basis of this examination we have been able to conclude that the financial crisis of 2007-8 was caused neither by an accident due to misguided policy, nor a crisis in the financial system that simply reflected an underlying crisis of stagnation of the real accumulation of capital. But instead, the underlying cause of the financial crisis was an oversupply of loanable money-capital within the global banking and financial system that has arisen since the late 1990s. This in turn has been the result of developments in the real accumulation of capital— such as the rise of China, the take off of the 'new economy' and the continued liquidation of the 'old economy'—that have been central to sustaining the long upturn.

Hence, we might tentatively conclude that the nature and significance of the financial crisis is not that of a decisive turning point leading to an economic downturn or the end of neoliberalism as many have supposed, but more of a point of inflection pointing to a new phase in the long upturn.[17]The significance of this new phase and the implications it has for the future development of global capitalism and the struggle against it is a question that we have no space to take up here.

Introduction

In Part I we gave an account of the immediately apparent causes and unfolding of the recent financial crisis, which began with the 'credit crunch' in the summer of 2007 and which culminated with near meltdown of the global financial system following the collapse of Lehman Brothers in the autumn of 2008. Here, in Part II of our article, we step back to consider the nature and significance of this crisis by looking at its deeper and longer term causes.

As we pointed out in the introduction to Part I, the recent financial crisis has brought forth a plethora of 'radical theories' purporting to explain the underlying causes of the recent crisis—mostly drawn from Marxism, but also from the more radical interpretations of the writings of John Maynard Keynes.[1] Although these theories have many differences, and often come to distinctly different political conclusions, with a few notable exceptions, they have much in common. Firstly, nearly all of these 'radical theories' are essentially the same as those developed to explain the economic crises of the 1970s and 1980s. Secondly, most of these 'radical theories' can be described as being 'stagnationist': that is they are based on the proposition that capitalism is now in decline, and its underlying tendency is towards economic stagnation.[2]

During the 1970s and 1980s, when the advanced capitalist economies of North America, Western Europe and Japan were all being afflicted by slow economic growth, rising unemployment and high rates of inflation—a predicament that came to be known as stagflation—the proposition that capitalism had run into an impasse seemed almost self-evident; and certainly enjoyed a wide currency even amongst most bourgeois commentators and policy makers. The main contentious issue had then been how the underlying problem of economic stagnation could be resolved.

However, from the early 1990s there appeared to be a revival of capitalism with the beginning of what was to become a long economic upswing. The response of most 'radical theorists' was to argue that such a revival could only be short lived. Capitalism, it was argued, could now only provide a patina of prosperity on the basis of unsustainable debt and financial speculation. Sooner or later there would be an almighty financial crisis, the bubble of illusory prosperity would burst, and the underlying tendency towards economic stagnation would once again reassert itself. As a consequence, over the last twenty years the onset of any financial crisis of any significance has sent Marxists and radical Keynesians scuttling to their attics to bring down their 'falling rate of profit machines', 'deficient effective demand detectors' or other theoretical paraphernalia to demonstrate that this time the bubble had truly burst. Then, after each financial crisis had past and capitalism had resumed its upward path, they were obliged to put everything back into their boxes and sullenly take them back upstairs. As a result, with each successive financial crisis, the arguments of stagnationists had become less and less plausible.

The failure to account for the continuation of the economic upswing prompted some more critical Marxists, including ourselves in Aufheben, to question the received 'stagnationist' orthodoxy. This has led to the emergence a distinct heterodox current within Marxism that has argued that that the revival of capitalism was far from being illusory. Against the 'stagnationists', the 'upswing' theorists pointed out, the crises and restructuring of the 1970s and 1980s had succeeded in providing the basis for renewed capital accumulation.[3] The decisive defeat of the working class in the USA and other advanced capitalist economies, the development of the 'new economy' of information and

CONCLUSION

The financial crisis came to the rescue of 'stagnationist' radical and Marxist theorists, who up until then had been finding it increasingly difficult to explain away the continuation of the long economic upswing of the past two decades. Certainly it could be admitted that the almighty financial crash at the very heart of the system had finally happened. For the 'upswingers' the option seemed either to concur with most bourgeois commentators and conclude that the financial crisis was merely the result of some horrendous accident due to misguided monetary and regulatory policy, or rejoin the 'stagnationist' camp by claiming that the crisis marked the beginning of a long economic downswing.

Yet, as we have argued, there seems little to suggest we have entered a long downswing, or that capitalism is now mired in stagnation other than the financial crisis itself. Indeed the rapid recovery in profits, and the confidence of much of the bourgeoisie in the long term prospects of renewed capital accumulation, would seem to suggest otherwise.[16]But if global capitalism is still in the middle of a long upswing, with historically high rates of profits, how are we to explain the unforeseen financial crisis of 2007-08?

As we have long argued, against the 'stagnationist' orthodoxy, 'upswing' theory has been correct in grasping that the restructuring of the global accumulation of capital that has occurred in the past decade, particularly the integration into the world economy of China and Asia, has led to the restoration of profit rates and, as a consequence, a sustained economic upswing. But as we now recognise, the problem is that the upswing theory has failed to adequately grasp the importance of the emergence of global banking and finance, and the role this has banks and other financial institutions sought to maximise the volume of their loans and other financial transactions. Encouraged by the complacency engendered by the 'great moderation', there was as a result a pressure to take on more risky loans and investments, as well as to reduce financial reserves to an absolute minimum. As a consequence, the global banking and financial system became increasingly overextended and fragile.

At first much of this oversupply of loanable money capital had been mitigated by the sharp increase in US government borrowing that had served to alleviate the impact of the dot.com crash. This had seen the US budget move from a surplus of 2% to a deficit of 4% of GDP in the first four years of Bush (jnr's) term of office. However, after the re-election of Bush the US government budget deficit had stabilised and had begun to fall. Thus in the three years before the credit crunch there had been a rapid growth in the relative oversupply of loanable capital in the global banking and financial system. This was then further exacerbated by the attempt by the monetary authorities to raise interest rates which only served to invert the 'yield curve' and squeeze financial profit margins.

As a consequence, there was a frantic effort on the part of banks to expand loans and other financial transactions and 'a search for yield'. The tendency towards the increasing fragility of the global banking and financial system was thereby greatly accelerated creating the conditions for the financial crisis of 2007-8 that we considered in detail in Part I of this article.

communication technologies and, above all, the integration of China and south-east Asia, with its vast reserves of cheap and acquiescent labour, into the US-centred global accumulation of capital had all served to bring about and sustain the long economic upswing since the early 1990s. As a result, by most measures profit rates returned to levels not seen since the long post war boom, there was steady economic growth, inflation was more or less conquered and unemployment had fallen.

Yet the financial crisis of 2007-8, which has plunged the world into the worst recession since the second world war, would seem to have turned the tables in the polemics between the 'upswingers' and the 'stagnationists'. Although the 'stagnationist' theorists were still unable to provide a satisfactory explanation for the prolonged economic upswing, they could now claim to have been at long last vindicated—the almighty financial crash had, if rather belatedly, happened. The long upswing theorists, in contrast, now faced the problem of finding a convincing explanation for the financial crisis.

Given the problems of existing radical—and in particular Marxist— theories of the crisis, how are we to understand the nature and significance of the financial crisis and the current economic recession? Where should we begin looking for its underlying causes?

A major theoretical problem that we face is that although Marx provides us with perhaps the most incisive insights in understanding the crisis ridden nature of capitalism, he left no 'unified general theory of crises'. Hence there has arisen a whole range of often conflicting Marxist theories of crisis, each one claiming support from particular passages in Marx's 'economic' works. Yet even if we had an abstract 'unified general theory of crisis' it could only take us so far. Crises are by their nature historically specific. They are part of an open historical process in which the contradictions of capital's development are brought to the fore and are forcibly resolved through class conflict. The resolution of one crisis then serves as the basis of the subsequent crisis. Each crisis has therefore to be understood in terms of the concrete historical circumstances out of which they arise. They cannot be simply explained a priori by some abstract schemas or formulae.

The basic problem of 'radical theories' of the current crisis, and this includes the 'upswing' theorists, is that they are still rooted in the analysis of the economic crises of 1970s. Of course there had been a number of financial crises in the 1970s, but these had been largely secondary if not rather peripheral to the fundamental problems afflicting capitalism at the time. After all it had been the sharp rise in the price of oil that had triggered the economic recessions of the 1970s not financial crises. As Marxists at the time had argued, these oil shocks had exacerbated the underlying economic and social problems caused by such underlying factors as the falling rate of profit, the increasing monopolisation of the economy and, of course, the breakdown of the post war class settlement and the consequent upsurge in working class militancy. As consequence, the financial system could be seen as little more than a parasitical excrescence on the real economy.

Yet, the recent crisis was first and foremost a financial crisis. After all, it was the crisis in the global financial system that can be seen as the cause of the subsequent world economic crisis. But neither the 'stagnationists' nor the 'upswingers' have developed an adequate theory of the development of global banking and finance over the past thirty years and have therefore been unable to provide an adequate explanation of the crisis.[4]

Of course, it is true that 'stagnationist theorists', particularly the radical Keynesians, have placed particular emphasis on the development of global finance and banking. In their polemics against the mainstream neoliberal economic theories of the role of finance and banking, they have certainly provided a powerful moral critique of the impact of the development of global banking and finance, by showing how it has both depressed the living standards of the working class and poor across the globe and caused havoc and economic instability. But in doing so they fail to grasp the positive role the emergence of global banking and finance has played in bring about the restructuring of capital accumulation and the rejuvenation of capitalism. Indeed, by retaining the conception of finance as a parasitical excrescence on the real economy, the 'stagnationist' theory of the emergence of global

the late 1970s to the late 1980s—it had been the destructive side of this process that had been to the fore. The rise of global banking and finance played an important role in facilitating the neoliberal counter-offensive against the working class—providing the 'economic imperatives' necessary to roll back the gains of the post-war settlements. At the same time it liquidated capital fixed in the old Fordist industries in the advanced capitalist economies.

In what we may term the second phase—from the late 1980s to the late 1990s— the 'creative' side of this process from the point of view of capital became more prominent. Global banking and finance played an important role in facilitating the transfer of capital necessary for the take off of the 'new economy' and the 'newly emerging market economies' of Asia and elsewhere, which were to provide the basis for the long upswing.

However, in what we consider as the third phase—from the late 1990s up until the credit crunch of 2007—the further development in the upswing was to have important implications for the character of global banking and finance. As we have seen, the rise of China, the take off of sustained capital accumulation of capital in the 'new economy' together with the continued liquidation of capital in the less profitable parts of the 'old economy' resulted in a situation where there was an increasing oversupply of loanable money capital.

The increasing abundance of loanable money-capital flowing through the global banking and financial system can be seen to have had two distinct consequences. Firstly, it produced a decline in financial volatility compared with the turbulence of the previous decade, since there was now plenty of loanable money-capital to go round the various spheres and areas of investment. This provided the basis of what was to be known as the 'great moderation' in financial markets following the dot.com crash.

Secondly, the abundance of loanable money-capital placed downward pressure on interest rates. This, together with increased competition due to overaccumulation of capital in the financial sector, depressed the profit margins of banks and other financial institutions.

In order to offset declining profit margins on their rate of profits, corporations that have large financial flows. Thus, for example, over the last ten years or so, many corporations have moved away from relying on overdrafts on their bank accounts to cover fluctuations in their cash flows. Instead they have issued 'commercial paper'—that is short term IOUs—that can be bought and sold on the financial markets. Although they may have to employ the services of an investment bank to manage the issue and redemption of such 'commercial paper', they save by being able to borrow at far lower interest rates than they would on an overdraft. They thereby take a cut of profits that would otherwise be made by their bank. However, some corporations have gone far further and opened up their own financial operations. General Motors for example moved from providing car loans to setting up its own mortgage company —GMAC—which ended up being bailed out after the bursting of the sub-prime mortgage bubble.[15]

Thus there has been a slow but significant encroachment of commercial and industrial corporations into the financial sector. By taking a slice of financial profits this encroachment has contributed to the downward pressure on profit margins in finance and banking. But this move into finance has not been due to a fall in the general rate of profit ruling in the industrial and commercial sectors of the economy, as orthodox Marxists might insist, which if anything have risen. On the contrary it has been due to the exceptionally high rates of profit that have arisen in the financial sector. Indeed, as we shall see, we might well conclude that it was not a low or falling rate of profit, but high though uneven rates of profits that have been the 'ultimate cause' of the crisis.

The Over-Supply of Loanable Money—Capital and the Causes of the Recent Crisis Concluded

As we have argued, the emergence of global finance and banking has played a vital role in what Schumpeter would call the process of 'creative destruction' that resulted in the long economic upswing. In what may be described as the first phase of neoliberalism – that is from

banking and finance, particularly in its more Marxist versions, has simply served to explain away the long economic upswing. As a consequence, their theory of finance has been rather ad hoc and one-sided.

On the other hand, in their polemics with the 'stagnationists', 'upswingers' have sought to emphasise the 'economic fundamentals' of the real economy - such as the restoration of the general rate of profit—that can be seen to have underpinned the long economic upswing. As a result the 'upswingers', including ourselves, have tended to overlook the importance of the rise of global finance and banking—and were thereby caught completely by surprise by the onset of the financial crisis.

In order to overcome the limitations of both the 'stagnationist' and 'upswinger' theories of the crisis we shall argue that it is necessary to consider far more closely the relation between the emergence and development of global banking and finance and the global restructuring of real capital accumulation that has occurred over the past thirty years. We shall argue that the emergence of global banking and finance has played a central role in the restructuring of global capital accumulation that brought about the long economic upswing. We shall then show how the continued development of economic restructuring of the real accumulation of capital over the past decade sowed the seeds for the crisis at the very heart of the global banking system.

Part 1.

EXPLAINING THE CURRENT CRISIS

On the Eve of the Crisis—
The View from the Cockpit

As we pointed out in some detail in part I of this article, on the eve of the current economic and financial crisis the masters of the universe, the plutocrats, their ministers and their minions could take a rather sanguine view of their world. Whatever political problems there may have been on the periphery with 'Islamic terrorism' and rogue states, the global capitalist system as a whole seemed to be in rude health. Although there were concerns at the growth of class conflict in China and elsewhere in Asia, and the European working class remained entrenched and resistant to 'pro-market policies, for the most part social peace reigned.

The problems of stagflation that had beleaguered the previous generation of bourgeois policy makers had been overcome. Although it was considered important to maintain due vigilance, it could certainly be said that inflation had by and large been subdued. But more importantly the US had experienced more than fifteen years of, if not spectacular then certainly steady economic growth, which had only been briefly interrupted by the relatively mild economic downturn that had followed the dot.com crash. What was more, the first years of the new century had seen a broadening of world economic growth and prosperity. Newly 'emerging market economies' of less developed regions of the world, particularly Asia and Latin America, were now sustaining exceptionally high rates of economic growth; Japan had at

least the prospect of high rates of profit. By mobilising loanable money capital to support the opening up of new areas of capital accumulation, by handling the vast increase in international money transactions this has entailed and by spreading and managing the risks of such speculative investments, the global banking and financial system has been able to take a significant cut in the increased profits that have resulted.

However we explain the rapid expansion and high profitability of the financial sector one further question remains: why has the rate of profit in the financial sector remained so high? Why hasn't capital rushed into the financial sector to take advantage of the high profits that can be made there and thereby bring about a reduction in its rate of profit? There are formidable barriers to entry into large areas of the financial sector, particularly banking. To prevent any mountebank running away with other peoples' money, there are strict legal requirements and restrictions on setting up banks and other similar institutions. The success of banks and other major financial companies depends on having specialist financial expertise, business connections and a long established reputation that cannot easily be reproduced by new entrants into the sector. As a result of such barriers most capital accumulation in the financial sector has been carried out by long-established banks and financial companies that have been able to sustain higher than average rates of profit.

Nevertheless there has been a rapid growth in small companies, such as hedge funds, that have been able to carve out distinct niches for themselves in the less regulated and more exotic parts of the financial system. But perhaps more importantly there has been, particularly over the past decade, a growing encroachment into the financial sector by large industrial and commercial corporations.

With the pressure exerted by financial markets to maximise shareholder value there has come what we term the 'financialisation' of industrial and commercial corporations. Such corporations are not so much in the business of producing or selling specific commodities but in making money. Under pressure to make quick returns the prospect of moving into aspects of finance has been attractive to many profits, it does not explain how the financial sector has been able to sustain such an exceptionally high profitability over the past few decades.

Now it is true as many critics of high finance maintain that the profitability of the financial sector has been boosted by its rather privileged position. Repeatedly over the past three decades the banks and other financial companies have been bailed out by governments after the bursting of speculative bubbles. From the 'third world' debt crisis of the early 1980s to the recent near meltdown of the global financial system following the collapse of Lehman Brothers, governments and monetary authorities have time after time been obliged to in effect 'nationalise' the losses of the financial system. What is more, the political power of the financial sector has led to the steady reduction in banking regulations that serve to limit the over expansion of finance and excessive risk taking that lead to speculative bubbles. As a result financial companies have been able to make more risky investments that promise big profits knowing that if things turn bad a large slice of the losses will be mopped up by the authorities. Furthermore, the financial sector can be seen to be under-taxed. Thus, for example, while companies involved the production and sale of commodities are usually subject to some form of sales tax such as VAT, financial transactions and services are usually exempt. More importantly the very mobility of finance allows the financial sector to avoid or evade tax, or make profits from helping corporations and individuals to do likewise.

It is no doubt true that bailouts and low taxes have contributed greatly to both the rapid expansion and the high profitability of the financial sector. However, we would argue the basis for such a sustained expansion and high profitability over the last thirty or so years has been the role the global financial system has played in bringing about the restructuring of global capital accumulation and the consequent restoration of profit rates. As we have seen, the development of global banking and finance has played an important role in the translocation of capital from industries and regions where profits are low and capital is over accumulated to new industries and regions where there is at

long last begun to recover from its 'lost decade' of economic stagnation of the 1990s, the laggard economies of western Europe were at last beginning to pick up speed, and even Africa—the long forgotten continent—was showing signs of economic development for the first time in more than two decades.

Most bourgeois policy makers and commentators now accepted that the 'tough and difficult decisions' that had been taken to introduce neo-liberal policies had been necessary to lay the basis of the current era of economic prosperity. By helping to tear down the walls of 'socialism', protectionism and the national Keynesian economy, neo-liberalism had aided the birth of a new, reinvigorated global capitalism.

Of course, it could now be conceded, as the critics of neo-liberalism and 'globalisation' had vociferously pointed out at the time, that the immediate impact of unleashing 'global market forces' had produced an era of economic and financial turbulence that had often had a devastating economic impact—an impact that was largely borne by sections of the working class and the poor across the globe. Most of the advanced capitalist economies had been hit by the major economic recessions of the early 1980s and early 1990s. Russia and many of the eastern European countries had taken more than a decade to recover from the economic trauma of the neo-liberal 'shock therapies' imposed after the break up of the former Eastern Bloc. The 1990s had seen economic devastation caused by recurrent financial crises in Latin America and east Asia. Meanwhile, the 1980s and 1990s had seen the poorest countries, particularly those in sub-Saharan Africa, continue to groan under the onerous weight of debt inherited from previous decades.

Indeed, at the time, for many critics of neo-liberalism and 'globalisation' the dot.com crash in 2001 had heralded the culmination of the financial and economic turbulence of the 1980s and 1990s. The financial crises that had swept around the less developed parts of the global economy to such devastating effect had now returned home. It was thought that, with the bursting of the dot.com bubble, the US, the very heart of global capitalism, which through institutions such as the IMF and the World Bank had ensured that it had gained from the booms and busts elsewhere in the world, would finally obtain its comeuppance and would itself be plunged into a deep economic recession.

But, as the apologists for 'globalisation' and neo-liberalism could now point out, such predictions had been proved wrong. The bursting of the dot.com bubble, which saw $5 trillion wiped off the nominal value of shares of dot.com companies in the space of just six months, had certainly been a major shock to US-centred global financial system, and had threatened to bring about a severe economic recession in its wake. However, prompt action by the Federal Reserve Board and other central banks in cutting interest rates, combined with Keynesian-style cuts in taxes and expansion of public spending, had proved sufficient to minimise the impact of the dot.com crash. The financial system as a whole remained intact, while the consequent economic recession had proved to be mild and relatively short lived. Indeed, it could be argued that what the dot.com crash had served to demonstrate was the remarkable robustness and resilience of the global capitalist system.

Furthermore, by the spring of 2007 the dot.com crash could be seen as having brought to an end the era of financial and economic turbulence. There was talk amongst bourgeois commentators that the world economy had entered an era that future economic historians may well describe as the 'great moderation': an era of steady broadly based economic growth, low inflation and stable and orderly financial markets.

As such, for the apologists of neo-liberalism and global capitalism, the era of economic and financial turbulence of the 1980s and 1990s could be seen as merely the necessary birth pangs of a born again global capitalism that was now driving an ever expanding global prosperity in to the foreseeable future.

Prospects of the Long Upswing on the Eve of the Crisis

What bourgeois commentators viewed as the 'great moderation' was no patina of prosperity, which somehow simply hid the underlying

over-accumulation of banking and finance, particularly in the USA.

The Over-Accumulation of Finance and Banking

What has struck most observers of the emergence of the global finance and banking system over the past three decades has been the sheer speed of its expansion. This rapid growth has meant the growing relative importance of the financial sector. In the USA, where of course the heart of global finance and banking is located, the financial sector now accounts for around 20% of GDP. But, perhaps far more significantly, the financial sector accounts for around 40% of the profits made by US corporations. This means that the financial sector has been able to capture more than its fair share of profits, and this has been reflected in the above average rates of profits made by most banks and other financial institutions. How has the financial sector been able to sustain such rapid expansion and high levels of profitability?

Banking and finance as such does not produce surplus value directly. Financial profits arise from the appropriation of surplus value produced and realised in the production and circulation of commodities in the 'real economy'. To this extent finance could be said to be parasitical on the real accumulation of capital. However, although the financial sector does not directly produce surplus value, it does play an important role in facilitating the process of capital accumulation. Thus, for example, the financial system is able to bring about substantial reductions in the costs of making monetary transaction. The provision of bank credit and overdraft facilities greatly reduces the need for capital to be held idle in the form of money reserves. And perhaps most importantly, the financial system serves to convert the small short term savings of the population into loanable money capital that can be used to support long term investment. By providing such savings and services to 'real capitals' banks and financial companies are able to extract a share of the surplus value they have produced in the form of commissions, fees and interest. However, while this may explain the basis on which banks and other financial companies derive their still comprises the bulk of the US economy, such a strategy is far less viable. Particularly for the old Fordist industries that have long since reached maturity, any investment in the real accumulation of capital is unlikely to bring quick returns. As such, any prospective profits from such investment are likely to be beyond the time horizon of most participants in the financial markets. They are therefore unlikely to carry much weight, however large they may be, on the stock market valuations.

As a result the primary response of companies and corporations in the 'old economy' to the threat of hostile takeovers has been to use the proceeds of rising profits to buy off the threat of hostile takeovers. Firstly, increased profits have been distributed in the form of higher dividend payments. Secondly increased profits have been used to pay down debt. Thirdly, in what has been a relatively novel defensive strategy that has been developed over the past decade, increased profits have been used to buy back the company's own shares. As a result, a large part of the rising profits in the 'old economy' have flowed into the global banking and financial system in the form of free loanable money capital.

But like danegeld,[14]buying off hostile attacks only serves to encourage the attackers to come back for more. By paying higher dividends, by paying down debt or by buying back shares, in order to ward off the danger that they themselves might face a hostile takeover, individual companies only serve to swell the supply of loanable money-capital that in general makes such attacks more likely. There has therefore been a degree of self perpetuation in the process that has seen both a growing supply of loanable money capital flowing into the banking and financial system and the slow recovery of investment into the real accumulation of capital in the US.

As we have seen, international financial imbalances, the take off of the 'new economy' and the continued liquidation of capital within the 'old economy' in the USA and other advanced capitalist economies, has resulted in an over-supply of free loanable money-capital. But before we can see how this oversupply of investable funds produced the recent financial crisis we must consider its impact in bringing about an

tendency of modern capitalism towards stagnation. On the contrary, it was a view that was well-founded. The decisive defeat of organised labour in the advanced capitalist economies in the 1980s, combined by the rise of the 'new economy' and the integration of the vast armies of cheap and compliant labour in Asia into the world economy in the 1990s, had succeeded in bringing about a major restructuring of worldwide capital accumulation and, with this, a rejuvenation of capitalism. It has been the success of this fundamental restructuring of world capitalism that has led to the restoration of the rate of profit to levels not seen since the long post war boom, and these high rates of profit have consequently underpinned the long economic upswing that took off in the early 1990s and was only brought to an abrupt halt following the credit crunch of 2007.

Of course, against the triumphalism of the neo-liberal apologists of 'globalisation', it could be argued that the long upswing would sooner or later come to an end. The continuation of the long upswing had become increasingly dependent on the rapid rise of China as the distinct Asian epicentre in the US-centred global accumulation of capital. But the continued rapid accumulation of capital in China could not be taken for granted. Firstly, the rise of China had depended on its ability to provide a plentiful supply of cheap and compliant labour. Already by 2005 there had been signs that the demand for labour was in places beginning to run ahead of supply leading to a shift in the balance of power between workers and employers. After more than a decade of being static or even falling, there was growing evidence that wage rates in China had begun to rise. Secondly, the rapid economic growth of China had meant that world demand for food, fuel and raw materials was outrunning supply. The consequent rise in the price of food, fuel and raw materials not only threatened to squeeze profits in China but also, by causing an economic slowdown in the US and the west, led to a slowdown in the demand for Chinese exports, thereby curtailing the dynamic of China's export led growth. Thirdly, China's rapid and sustained economic growth had been dependent on state-directed investment and the insulation of the Chinese financial system from the volatility of global financial flows. With the Chinese authorities under increasing pressure from the US to open up its financial system, China could find itself going the same way as the Asian tigers of the 1990s. Foreign speculative investment could flood in, in an effort to take advantage of China's vast surplus profits, and a speculative boom would result ending in an almighty crash.

Even if China managed to avoid such pitfalls and maintain its rapid accumulation of capital and economic growth, the long upswing in the US-centred global accumulation of capital would ultimately be limited. The rise of China had been able to sustain the long upswing because it had been based on a complimentary dynamic of accumulation with the US and other advanced capitalist economies. China, and behind it the rest of east Asia, has come to specialise in the production of cheap commodities that the US, and the other advanced capitalist economies, had either given up producing in the restructuring of the 1980s—such as textiles and clothing—or that they had never produced in the first place - such as computers, electronic toys and other digital and IT hardware. As such Chinese and Asian production did not overlap to any great extent with that in the west. Capital accumulation in China and Asia was therefore largely complimentary with that of the US and the western economies, allowing for a mutually reinforcing dynamic of capital accumulation between the west and Asia. However, this complimentary dynamic of accumulation could be seen to hold within it the seeds of its own demise. Competition would inevitably reduce the world prices of Asian produced commodities to Chinese costs of production. As a result the surplus profits of Chinese producers would be eroded and the average rate of profit in China would tend to fall towards the world average.

However, so far this tendency towards a falling rate of profit in China has been limited by the active intervention by the Chinese state to restrict overinvestment. What is more, to the extent that this tendency has operated, it has been largely offset by Chinese producers moving into new but similar lines of production, for example by producing the latest, and more expensive, gadgets and gizmos. Yet, it can be argued, that the ability of China to limit or offset the falling prices and profits cannot be sustained forever. China will sooner or

offer to pay for shares, all or in part, with their own shares. This meant that any predator had to a corporation with a stock market valuation sufficiently large to swallow its prey. Furthermore, high interest rates meant that any takeover had to offer the prospects of substantial gains to make it worthwhile. The prospective gains from a takeover had to at least cover the interest on the funds borrowed, and be sufficient to offset any downward pressure in market valuation of the predator company due to the issuing of new shares to make the offer. Only rival firms could usually hope to make sufficient gains from any takeover through any synergies that could be obtained between the operations of the two firms, through the economies of scale that could be gained from merging the operations of two firms or by simply eliminating a close competitor. Simply appointing a more ruthless management team was, by itself, unlikely to be sufficient.

In a period of increasing abundance of loanable funds and low interest rates the number of potential predators is greatly increased by the feasibility of 'leveraged buy outs'. Any consortium of well connected and wealthy businessmen could now launch a successful takeover of a large corporation through a 'leveraged buy-out'. With an abundance of loanable funds, such a consortium need only advance a tenth, a twentieth or even as little as a thirtieth of the sum required to make a successful takeover bid of their own money, since they can easily borrow the rest. Furthermore, with interest rates so low, the new management team they hire to run the business need only make a marginal gain in the company's stock market valuation before the consortium can sell the firm on, and with the proceeds pay off the loans they borrowed with interest and make a handsome return on the capital they themselves advanced.

In the rapidly expanding industries of the 'new economy' the best defence against hostile takeovers has been to reinvest rising profits in expanding the business to ensure the continued growth of profits in the near future. The prospect that investment in expanding the business now will soon lead to higher profits and thus higher dividend payments in the future should be sufficient to keep the stock market valuations high. However, in the 'old economy', which by any reasonable definition boom, its demand for loanable money capital from the banks and the financial markets declined. However, in the 'old economy' the relation to the global banking and financial system was the reverse of that of the 'new economy'. Whereas the 'new economy' had been a source of demand, the 'old economy' had been a source of supply of loanable funds.

As we have seen, the release of finance had imposed on the management of even the largest publicly quoted corporation, the overriding imperative to 'maximise shareholder value'. To do this it was necessary to regularly distribute a large amount of profit the company made in the form of dividends to its shareholders. This meant that mangers were under pressure to increase profits or squeeze the amount of profit retained for re-investment into expanding the business. Failure to ensure high and regular returns on its shares would soon lead to investors selling their shares in order to buy other company's shares that offered better returns. This would then soon lead to a sharp drop in the company's share price, and hence to a fall in its stock market valuation. With its shares so cheap, the company would then be ripe for a hostile takeover bid and the old management would then face being replaced by a new management team willing to either force through the changes necessary to restore shareholder value, or else to oversee the whole or partial liquidation of the company through the sale of its assets. To the extent that they were not simply spent on consumption but reinvested on the financial markets, or deposited with banks, the increased dividends served to swell the supply of loanable money-capital flowing into the global banking and financial system.

However, from the late 1990s the imperative to 'maximise shareholder value', under the peril of hostile takeover bids, was intensified. In a period when loanable capital had been in relatively short supply, and when interest rates had been high, the main threat of a hostile takeover bid was from rival companies of at least a similar size, and operating in the same or a closely related industry. With loanable funds limited, any large scale takeover bid would find it difficult to raise enough funds to buy up sufficient shares to give overall control simply in cash. Instead any potential predator would have to

later have to move into the production of more sophisticated commodities, such as cars or machine tools. As a result its output will increasingly come into competition with that produced in the US and the other advanced capitalist economies. The largely harmonious dynamic of accumulation between China and the West will then give way to an increasingly competitive and potentially antagonistic zero sum game. It will be then that China will be obliged to challenge the US and make its bid for world economic hegemony, with perhaps dire consequences in terms of economic and military conflict.

But in 2007 the limits to the continued rise of China, and with it the rest of Asia, were only possibilities that were only beginning to loom on the distant horizon. In the short term the rise of China and the long upswing, which it was serving to sustain, seemed set to continue for at least another decade or so. Hence, for the time being the bourgeoisie and their minions rather sanguine view of the world could be seen as being more or less well-founded—even if it might prove to be more transitory than they would like to believe.

Conceptions of the Significance and Nature of Crisis

As we pointed out in Part I of this article, by the spring of 2007 the mounting number of defaults on sub-prime mortgages in America had begun to be of some concern to the US monetary authorities. However, while the losses that the financial system was likely to suffer could be quite substantial and required monitoring, it had been assumed that the system would be robust enough to withstand the impact of such losses without too much trouble.

Few, if anyone, at the time foresaw that the collapse of the US sub-prime mortgage market would trigger a series of events that in less than eighteen months would lead to the near meltdown of the entire global financial system and as a consequence threaten the world economy with a great depression comparable with that of the 1930s. Even those Keynesian and Marxist critics who had argued that the housing bubble simply served to disguise the underlying tendency towards economic stagnation had failed to predict that it would end in such a severe financial crisis. For them the deflation of the housing bubble had been expected to lead to a decline in consumption, as homeowners could not borrow against rising house prices, and hence to a slowdown in the rate of economic growth in the economy, or perhaps even an economic recession.

But this brings us to the crucial question: if global capitalism was in the middle of a long upswing, with historically high rates of profits, how are we to explain the unforeseen financial crisis of 2007-08?

Most mainstream bourgeois commentators start with what would appear as the obvious fact that the current economic downturn was caused first and foremost by a financial crisis. It was the implosion of the financial sector, which had been triggered by the bursting of the US sub-prime mortgage market, which by impacting on what was otherwise a 'fundamentally sound real economy', has been the cause of the current 'great recession'. As such there would seem to be little need to go beyond what can be seen as the immediate causes of the malfunctioning of the financial system, most of which could be seen as the result of policy errors on the part of governments or the monetary authorities.

Thus, as chairman of the Federal Reserve Board, Alan Greenspan can be blamed for holding interest too low and for too long in order to cushion the impact of the dot.com crash. This, it can be argued provided the conditions for the plentiful supply of cheap and easy money that fuelled the housing bubble. The bursting of the sub-prime mortgage bubble can then be seen to be a delayed consequence of Greenspan's decision to belatedly restore interest rates to more normal levels after 2005.

But although 'errors' on interest rate policy might go some considerable way to explaining what fuelled the housing bubble, and why it burst when it did, it is perhaps insufficient to explain how it was possible for rising defaults in one small corner of the American mortgage market to result in the near meltdown of the global financial system. Why was it that a financial system that had been supposedly so robust proved to be so fragile?

would expect to be a net borrower. However, since the dot.com crash the US non-financial corporate sector has become a substantial net saver (see FT diagram). Indeed, it was a result of such prolonged net saving that much of corporate America found itself in an exceptionally strong financial position that allowed it to weather the credit crunch and the subsequent near meltdown of the global banking system so well. However, although they played an important part in insulating the 'real economy' from the impact of the financial crisis, the accumulated financial surpluses of the non-financial corporate sector can be seen to have played a significant role in causing the financial crisis in the first place. To understand this we must take a closer and disaggregated look at the net savings of the US corporate sector.

As we have seen, the global banking and financial system had played a major role in the take off of the 'new economy' in the 1990s. Most of the myriad of start up dot.coms had been financed by generous bank loans and share issues. No one, least of all bankers and investors, could predict which band of the computer geeks that turned up at the banks' doors with a seemingly plausible business plan would prove to be the next Mircosoft. Many would never even break even. However, it was enough for just one to prove commercially viable and the returns could be astronomical. However, following the dot.com crash the structure and direction of development of the 'new economy' had begun to settle down. Mircrosoft, Google and Apple had become well-established major corporations, and the dot.coms that had survived the cull following the crash could stake out most of the available niches in the 'new economy'. There was clearly less room for new entrants, and thus less need for starting capital. Those dot.coms that had survived the cull, were now up and running and making real, as opposed to prospective, profits. With the high rates of profit now being earned in the 'new economy', companies could fund most of their investment out of their own profits and had little need for external financing. The capital accumulation in the 'new economy' had taken off and its expansion had become more or less self-sustaining.

Thus, although the rate of investment in the 'new economy', unlike other parts of the economy, recovered rapidly after the dot.com

Part 5.

THE OVEREXPANSION OF FINANCE AND THE US ECONOMY—OLD AND NEW

The US Corporate Savings Glut

The dot.com crash brought the surge in investment in the US that had accompanied the emergence of the 'new economy' to an abrupt halt. As in any recession, companies realised that the growth projections in sales and profits which had justified high levels of investment during the heady days of the boom now looked decidedly shaky. If they were to avoid bankruptcy or hostile take-over bids, they had to abandon investment plans aimed at expanding their operations and instead set about cutting costs. Given that a substantial part of the surge in investment which had fuelled the boom had been financed by bank loans or the issue of shares or bonds on the financial markets, many companies found themselves in a precarious financial position. The first call on any profits they made had to be the paying down of debt and maintaining high dividend payouts to sustain shareholder value.

As we have previously pointed out, the recession that followed the dot.com crash proved to be particularly mild. After a brief period of retrenchment profit rates were soon restored. However, while profits made a quick recovery, investment in the real accumulation of capital proved to be far more protracted. Rather than re-investing the increase in their profits in expanding their business, companies continued to use it to pay down their debt, or in other ways improve their financial position.

This gave rise to a rather peculiar situation. Except for brief periods during an economic recession, the corporate sector as a whole

From the wilderness, Keynesians had long warned that the neoliberal policy of gradually dismantling the structure of regulation and supervision of the financial system that had been originally put in place after the Wall Street Crash of 1929 would sooner or later end in tears. Following the credit crunch of 2007, these warnings appear to have been vindicated and are now taken far more seriously by mainstream bourgeois opinion. Even the least chastened 'masters of the universe' are now obliged to admit, the process of de-regulation and liberalisation of financial markets and institutions had gone too far. The only issue being how far is too far, and hence how much re-regulation is required.[5]

The notion that the financial crisis was the result of a combination of excessive financial deregulation and low interest rates certainly provides a starting point for an understanding of the immediate causes of the crisis. Of course, it is a notion sufficiently broad to encompass various interpretations and political conclusions. It surely supports the mainstream bourgeois view that has emerged in the wake of the crisis that with minor adjustments to financial regulation and a more prudent monetary policy there can be a return to business as usual.[6]Alternatively it may also support the view of more radical Keynesians that such misguided policy is the inevitable result of dominance of neoliberal ideology over the formulation of monetary, financial and economic policy that has been established over the past thirty years.

However, on closer inspection this notion that the financial crisis was the result of 'policy errors' has a number of loose ends. Firstly, the process of financial regulation has been going on for more than three decades. Why had this deregulation made the global financial system so fragile in 2007 when it had been sufficiently robust to whether the impact of the dot.com boom six years before? Was this because financial deregulation had passed some unidentified tipping point? Or was is it that low interest policy not only produced the housing bubble and bust that caused the shock that triggered the banking crisis, but also itself contributed to increasing the fragility of the financial system?

But emphasis on the interest rate policy of the monetary authorities has its own problems. As Alan Greenspan would no doubt protest, the ability of central banks to determine interest rates ruling in the economy is limited by the balance of supply and demand for loanable funds in the financial system. It is true that the monetary authorities can regulate the level of short term interests by means of 'open market operations', whereby central banks buy or sell short term government securities, and by setting the 'discount rate' at which they are prepared to lend to banks. Interest rates on debts and securities with longer maturities or with greater perceived risks are normally based on the short term rates set by the central bank. By raising or lowering its own discount rate, together with the short term rates on government securities, the central bank can normally raise or lower the entire structure of interest rates in the financial markets as a whole. But the central bank can only do this to the extent that the interest rates it seeks to establish are broadly in accordance with the overall balance of supply and demand in the 'money' and 'capital' markets.

Some of the more perceptive bourgeois commentators, economists and policy makers have long been concerned that international financial imbalances that have arisen since the late 1990s have given rise to what has become known as a 'global savings glut'.[7]This has led to a tendency towards an oversupply of loanable money capital in the world's financial markets that has exerted downward pressure on interest rates.[8]As such, it can be argued that it was not low interest rates that caused the flood of easy money and credit; but rather it was the flood of loanable money-capital that was the cause of lower interest rates.

Because of the emergence of a 'global savings glut', Alan Greenspan had been able to cut interest rates and sustain them at exceptionally low levels after the dot.com crash, despite a ballooning US government budget deficit that was greatly increasing the demand for loanable funds on the financial markets. However, when he sought to reverse his low interest policy in 2005, Alan Greenspan found that he was now working against the tide of the money and capital markets. The Federal Reserve Board succeed in more than doubling short term rates. However, longer term rates, weighed down by an oversupply of loanable

imbalances at the heart of the global accumulation of capital—that is the USA.

lack of internal investment opportunities, other than the construction of super-luxury island resorts, and with much of the oil revenues flowing to the state, these windfall gains have taken the form of 'sovereign wealth funds'. These funds have been set up to make investments abroad so as to secure future income for the Middle Eastern states when their oil eventually runs out. To a large but by no means exclusive part, these sovereign wealth funds have been used to buy up US and other government bonds, corporate bonds and equities and other financial assets traded on the global markets, as well as being deposited in western banks.

Thus the rise of China has both directly and indirectly contributed to the oversupply of loanable money-capital in the global financial system that can be seen to be the cause of the growing fragility and overexpansion of global banking and finance capital. Indeed, as Ben Bernanke, the current Chairman of the US Federal Reserve Board, has now with hindsight concluded: "In my view…it is impossible to understand this crisis without reference to the global imbalances in trade and capital flows that began in the latter half of the 1990s."[13]

But it was perhaps not only the sheer volume of loanable money-capital supplied by both China and the sovereign wealth funds that was important in contributing to the fragility of the financial system but also their nature. China's purchase of foreign assets on the global financial markets was determined by the policy objective of controlling the rate of exchange of the Yuan to the US dollar; while the sovereign wealth fund's was to make long term investments. Neither China nor the Middle Eastern governments were interested in making short term speculative profits. As such their investment flows were immune from the day to day shifts in market sentiment. They thereby provided financial markets with an important ballast against speculative volatility that contributed to the 'great moderation' and the complacency that it bred.

However, although Ben Bernanke may blame the Chinese, the international financial imbalances caused by the rise of China are only part of the story. We must now turn our attention back to the financial

funds, initially rose by far less than short term rates, and then began to fall back. As a result, between 2005 and 2007 there arose a flattening and even an inversion of the so called 'yield curve'—as the difference between short and long term interest rates became compressed, and at times even went negative.[9]

This inversion of the 'yield curve' can be seen to have given a further twist not only to the rapidly expanding housing bubble, but also to the increasing fragility of the financial system. Low interest rates had already reduced the profit margins that could be made on loans The commercial banks had responded by offsetting lower margins by increasing the volume of their loans—a sort of financial version of pile them high sell them cheap policy – seeking higher returns on more risky assets—that is known as 'a search for yield'—or move into investment banking by securitising its debt and selling it on, making profits from management fees and commissions rather than from interest payments. All of which can be seen to have been vital ingredients of the process that was to lead to the credit crunch of 2007 and the consequent financial crisis. The inversion of the yield curve following Greenspan's decision to raise short term interest rates, meant that the profit margins of commercial banking operations, which depended on borrowing short term and lending long, became further squeezed, accelerating this process.

So, while monetary policy regarding interest rates might be blamed for accelerating developments that were to end in the big crunch, it was not the prime cause of the crisis. The prime cause can be traced back to the 'global savings glut' that had depressed interest rates and had produced an excess in the supply of loanable capital looking for profitable outlets such as the US mortgage market.

The view certainly goes beyond the notion that the credit crunch was merely a result of misguided policy. It also, as we shall see, serves as a point of departure in placing the crisis in a broader historical perspective. But, as far as it goes, this view still sees the crisis first and foremost as a financial crisis.

Now of course, from a Marxist perspective it may be argued that the sheer scale of the financial crisis, and its dramatic impact on the real economy, indicate that it was a manifestation of much deeper contradictions of global capitalism. After all did not Marx argue that the contradictions of capitalism burst 'forth as monetary crisis'?[10]Of course, it is from this conception of the financial crisis as being a symptom of deeper economic contradictions that has provided the entry point for the revival of the various radical Keynesian and Marxist stagnationist theories to explain the current crisis. Yet, the problem in resuscitating such theories to explain the financial crisis of 2007-8 is to find a plausible means of explaining away the long upswing of the past decade and half. If we reject the notion that the upswing was little more than an illusion, a patina of prosperity created by a series of asset bubbles that have now all gone pop, how do we explain the nature and significance of the crisis?

Of course the obvious logical way around this problem is to claim that the crisis reveals that, unbeknownst to anyone at the time, we have already passed a decisive turning point in the history of capitalism – the long upswing has in fact ended and we have now entered a long down swing of the Krondratiev cycle.

Yet there would seem to be little to suggest that we have entered a long down swing, other than the fact of the financial crisis itself. Indeed what evidence there is suggests the opposite, particularly for those who emphasise the determining role of the rate of profit. Although they have certainly been dented by the crisis, profit rates still remain at historically high levels in the US and elsewhere. Furthermore, although the levels of investment—and hence capital accumulation—fell sharply during the financial crisis, and still remain at subdued levels, what evidence there is suggests that what is holding back a recovery in investment is a lack of finance due to the continued retrenchment of the banks, rather than because of any lack of profitable opportunities for investment. Indeed perhaps what has been most remarkable about the current crisis has been the resilience and continued buoyancy of much of the 'real economy' despite the impact of the implosion of the financial system. Far from representing a critical turning point, the crisis at present appears far more as merely an interruption, or at most an inflexion point, in the continued ascent of the long upswing.

were to substantially reduce their dollar holdings, rather than merely accumulate them at a slightly slower rate, then speculators would rush to sell US government assets and US dollars triggering an economic crisis. Indeed, for the time being, it could be argued that the Chinese state was for all intents and purposes locked into the continued financing of US debts.

The mainstream view of bourgeois commentators and economists therefore considered such scenarios as being unlikely. However, if the mutually reinforcing dynamic of growth between China and the US was to break down it was generally accepted that this would be due the 'financial imbalances' arising from this dynamic causing a crisis in the foreign exchange markets resulting from a collapse in the exchange rate of the US dollar. But as we now know the crisis broke out in the global banking system not in the foreign exchange markets, or the market for US treasury bills—both of which remained remarkably stable given the scale of the financial crisis. The reason for this is that too much focus was placed on the accumulation of debt rather than on the wider impact of the financial flows that was giving rise to this stock of debt.

As we have seen, the demand for loanable capital from the global banking and financial markets to finance the rise of China had been limited. Yet, as we have now seen, China has provided a plentiful supply of short term loanable capital in the form of its purchase of US treasury bills. Short term money-capital that would have previously been invested in US treasury bills have been displaced into other financial markets. The supply of Chinese funds into the US Treasury Bill market has thereby served to swell the pool of loanable money-capital across all the global financial markets.

Yet this is not all. As we have seen, China's rapid growth has pushed up world demand for primary commodities. This has meant the producers of such commodities have made major gains in trade and, as a result many have built up substantial trade surpluses. This is particularly the case for the oil exporting economies of the Middle East. The growing world demand for oil, largely driven by China, coupled with the decline of the old oil fields of the North Sea and Alaska, has led to the price of oil tripling in price between 2001 and 2007. With the and south-east Asia with the rest of the world. By 2005, with most of east and south-east Asian exports being funnelled through China, it accounted for virtually all the region's trade surplus. As a result, the Asian dollar surplus had become increasingly concentrated in China. In recycling this dollar surplus, the Chinese monetary authorities had become by far the largest purchaser of US government treasury bills. Thus the day to day financing of the US government had become dependent on the continuing goodwill of the Chinese state.

In the event of a political confrontation between the USA and China— say for example due to a flare up over the security of Taiwan—it was argued that the Chinese could exercise considerable leverage over the USA by threatening to stop buying its treasury bills. Alternatively the Chinese monetary authorities may, for purely economic reasons, decide that they had accumulated more than enough dollar holdings to insure themselves against some unforeseen economic crisis and they would be better off buying securities issued by Japanese and European governments that offered a superior rate of return.

For whatever reason, whether political or economic, a decision by the Chinese state to substantially reduce its dollar holdings would cause a sharp fall in the US dollar. The Federal Reserve Board would be obliged to raise interest rates to exorbitant levels, both in order to attract the money necessary to keep the US government functioning and to defend the value of dollar. A hike in rates would then bring the US economy shuddering to a halt.

But it could be countered that such scenarios were unlikely because it was not in the interest of China to cause an economic crisis in the US, since this would bring its own export-led growth to an abrupt halt. As a political weapon, a sudden reduction in China's dollar holdings was something of a nuclear option that could ensure the mutually assured economic destruction of all parties. Furthermore, it could be pointed out that from about 2005 China had already begun to rebalance its foreign exchange reserves by reducing the proportion held in the form of dollar denominated assets.[12]But this rebalancing had necessarily been very gradual for fear of sparking a financial panic. If the market became convinced that the Chinese monetary authorities

But this does not mean that the financial crisis was merely an accident, or the result of policy errors that have little or no necessary connection with the real accumulation of capital. On the contrary, we shall argue that the financial crisis must be grounded in the upswing itself.

The finance sector is neither an autonomous sphere independent of the 'real economy', nor is merely an expression of the real accumulation of capital. There is a complex inter-relation between the accumulation of moneyed capital and the accumulation of real capital. If we are to understand the underlying causes of the recent financial crisis we must consider the historical development of this complex inter-relation.

We shall begin by looking at the origins of the global financial system and the crisis of capital accumulation in the 1970s. We shall then consider the role the emergence of the global financial system played in the restructuring of capital accumulation and the restoration of profit rates in the 1980s and 1990s that was to provide the basis for the long upswing. Finally, we shall examine how further developments in restructuring of global capital accumulation since the late 1990s have given rise to the 'global savings glut', and with this the over expansion of global finance that resulted in both the 'great moderation' and its denouement in the current financial crisis.

Part 2.

THE RISE OF GLOBAL FINANCE

The Post-war Boom and the Repression of Banking and Finance

At least for the advanced capitalist economies of North America and Western Europe, the long post war boom of the 1950s and 60s—the 'golden age of Keynesianism'—had been a period of unprecedented economic growth, growing prosperity and social peace. At the time it had seemed that capitalism had at last been tamed. The violent booms and slumps that had afflicted much of the world in previous decades could now be considered a thing of the past. As the more radical Keynesians have emphasised, vital to this taming of capitalism had been the 'repression of finance' that had been established on the basis of the Bretton Woods agreement.

The Bretton Woods agreement is perhaps most famous for establishing the post war system of fixed exchange rates. In order to promote international trade the currencies of the major advanced capitalist economies were to be freely convertible, that is they could be freely exchanged with each other on the foreign currency markets. However, in order to prevent the competitive devaluation of currencies, which was widely seen to have severely exacerbated the world depression of the 1930s, it was agreed that all the governments party to the agreement, except that of the USA, should intervene in the foreign currency markets to maintain a fixed rate of exchange of their currency with the US dollar.

However, central to maintaining this fixed rate system had been the

much more could Americans continue to spend more than they earned? Would not the interest and other payments on these debts sooner or later reach unsustainable levels?

Now, it could be pointed out that although American debt accumulated by foreigners had reached 75% of US GDP, American investments abroad had grown to 50% of GDP. Net debt was therefore a far more comfortable 25% of GDP. Furthermore, US investments abroad tended to bring significantly larger returns than investments in the US. This was even more so given that much of the debt was now being accumulated by China along with other emerging market economies in the form of low interest US treasury bills, as a result of them seeking to maintain fixed exchange rates. This differential in the rate of returns between US investments abroad and foreign investments in the USA meant that the US economy taken as a whole could run up a substantial net debt before it reached the slippery slope of 'Ponzi' financing where it would in effect be borrowing more money in order to pay off the interest on existing loans. Even when it had reached this point of moving into 'Ponzi financing', it would still take a number of years before the burden of debt would become a serious problem.

By 2007 there were strong indications that the 'financial imbalances' were being unwound. Capital accumulation in the US had begun to pick up speed, taking up the strain of maintaining economic growth. Rising tax revenues from the expanding economy had reduced the government budget deficit, while rising exports was reducing the US trade deficit with the rest of the world.

Nevertheless there remained concerns amongst more conservative bourgeois commentators, who viewed China more in terms of a future threat rather than as a probationary member of the 'international community' that was offering lucrative profit opportunities. For them the issue was not so much the size of the mounting debts of either the US government or the US economy as a whole—and hence the problem of paying them back at some point in the future—but rather the issue was the danger posed by the fact that a large and growing proportion of these debts were held by the Chinese state. In 2000 China accounted for half the trade surplus of the 'newly emerging market economies' of east that could easily be converted back into dollars in an emergency. At the same time, the dollars were recycled back to the USA, helping the US government to finance both its own debt and the American economy's growing trade deficit with China.

This recycling of China's dollar surplus proved to be quite timely since it allowed the USA to pursue the expansionary fiscal and monetary policies that were necessary to mitigate the financial and economic aftershock of the dot.com crash. Between 2002 and 2004 the US government had moved from a budget surplus amounting to more than 2% of US GDP to a 4% deficit as it cut taxes for the rich and increased spending to ward off a severe economic recession. With China's growing appetite for US treasury bills, the US government found it relatively easy to finance this sharp increase in the government deficit without pushing up interest rates. Indeed, with the short term money markets swollen by the recycling of China's dollar surplus, the US monetary authorities had been able to drastically cut interest rates.

Of course, by allowing the US to reflate its way out of recession, China was able to sustain its growing exports to the USA, and hence its export-led growth. This recycling of China's dollar surplus certainly seemed to have ensured a mutually beneficial economic dynamic between the USA and China. However, there were certainly concerns expressed amongst bourgeois economists at the time over the sustainability of this dynamic, most of which focused on the problem of mounting US debt that this involved.

The US had been running a substantial trade deficit with the rest of the world for more than two decades. In order to cover this trade deficit it had been necessary that financial inflows into the US had grown faster than outflows. Indeed, as long ago as the late 1980s the US had turned from being the world's largest creditor nation to being its largest debtor nation. As a result, by 2005 US debt accumulated by foreign corporations and governments amounted to more than 75% of the annual GDP of the USA. The issue was how much longer the USA could continue to borrow, particularly now that much of this borrowing was being used to finance unproductive government expenditure and a debt fuelled consumer boom. Or as it was more prosaically put: how

agreed right of governments to impose strict controls on the movement of money-capital across borders. These capital and exchange controls were designed to allow governments to prevent speculative flights of capital that might otherwise undermine their ability to defend the value of their currency.

By creating barriers to the international movement of money-capital, capital and exchange controls had severely restricted the development of international banking and finance. Most international monetary flows were closely tied to international trade. As such the international operations of banks and financial markets were confined to providing currency transactions necessary for the buying and selling of internationally traded 'goods and services', shipping insurance and credit to bridge lengthy shipping times.

Furthermore, what international capital flows there were mostly took the form of inter-governmental loans or direct foreign investment by transnational corporations. In either case banks and financial markets had played merely a secondary and supporting role. As a result the international flows of free loanable money-capital, not immediately tied to the current production and sale of commodities, was limited. International banking and finance remained in a rather embryonic form, confined to the cracks and crevices between the national jurisdictions of the monetary authorities.

With limited opportunities to take flight abroad, it was relatively easy for the monetary authorities in each of the advanced capitalist economies to domesticate financial capital. The highly restrictive regimes regulating banking and finance that had been put in place in the USA following the Wall Street Crash, and in western Europe due to the exigencies of resource planning during the war, were, for the most part, maintained.

The restrictions and compartmentalisation of banking meant that the primary role of banks became that of providing banking services and credit necessary for the efficient reproduction of industrial and commercial capital. As such, banks became regarded as little more than rather staid privately owned public utilities. Financial markets became dominated by institutional investors such as pension funds and insurance companies, which were charged with pooling and investing the savings of the middle and working classes. These institutional investors were primarily concerned with safe and steady long term investments, rather than with making a quick buck. These institutional investors therefore preferred to invest either in the shares of well established and dependable 'blue chip' companies or, more often than not, government securities issued to fund state borrowing.

The main players in determining capital accumulation were the large commercial and industrial monopoly corporations and conglomerates, which had come to dominate the advanced capitalist economies since the beginning of the twentieth century. Although it is true that these monopoly corporations had continued to raise capital through the issuing of shares or corporate bonds, for the most part their investment was financed through 'retained earnings'—i.e. out of their current or past profits.

Through the 'repression of finance' governments were able to ensure the financial and economic stability that was necessary to maintain the steady accumulation of real productive capital, and hence economic growth. Through the tight regulation of banking and finance governments were able to limit speculative bubbles that might otherwise disrupt capital accumulation in the real economy. Such constraints on finance also gave governments considerable freedom to use Keynesian monetary and fiscal policies to maintain a steady growth in effective demand conducive to large scale and long term investments carried out by the monopoly corporations. The monetary authorities were able to keep interest rates low in order to maximise 'retained earnings' and hence high levels of productive investment. At the same time, despite low interest rates, governments were able to borrow from the captive financial markets to fund the large scale public investments in the nation's economic and social infrastructure necessary to support real capital accumulation.

As a result, banking and finance, in each of the advanced capitalist economies, was subordinated to the national accumulation of real productive capital. This ensured steady economic growth, rising profits and wages, near full employment, increased public services and

ments of east and south-east Asia to maintaining a fixed exchange rate between their own currencies and the US dollar. However, this policy objective had not been merely confined to these Asian economies. Across the less developed world those economies seeking to follow the Asian example of export-led growth had, with varying degrees of success, attempted to tie the value of their currencies to that of the US dollar. The financial crises that hit Asia and Latin America during the 1990s had served to disrupt this tendency towards a system of fixed exchange rates amongst the 'emerging market economies'. However, since then this tendency has resumed, with China emerging as the keystone in this new system of fixed exchange rates. This gave rise to some bourgeois economists to declare the emergence of a new Bretton Woods system of exchange rates.[11]

As China became the main portal through which cheap Asian manufactures were pouring into American markets, its trade surplus with the USA grew rapidly. But up until 2002 this had been more than offset by its trade deficit with east and south-east Asia. As such, the US dollars that came into China in the form of export revenues and foreign investment were spent on the purchase of component parts and other intermediary products necessary to produce the commodities bound for export to the USA, and the raw materials and products necessary to maintain its vast infrastructure construction programme. In 2002 China's growing trade surplus with the USA overtook its Asian trade deficit. From then on China found itself with a growing surplus of dollars that placed upward pressure on the dollar value of the yuan. In order to maintain its fixed exchange the Chinese monetary authorities were obliged to buy up the surplus dollars. China's foreign exchange reserves, which were largely made up of US dollars, soared. In little more than five years China's monetary authorities had accumulated more than $2 trillion in its foreign exchange reserves.

However, the Chinese authorities, like all other monetary authorities facing a surplus of dollars, did not simply stuff their vaults full of greenbacks. The dollars were used to buy up US treasury bills. In this way the Chinese monetary authorities were able to 'put their reserves to work' earning a modest interest by investing in safe security dependent on external financing this has taken the form of foreign direct investment by transnational corporations, rather than by borrowing from western banks or issuing debt on the global financial markets.

As such the rise of China has had little direct impact on the demand for loanable money-capital in the global financial system. But it can be argued that it has served to increase the demand for loanable money-capital indirectly at least in two distinct ways. Firstly, in raising capital to invest in joint ventures in China, the transnational corporations will certainly themselves have resorted to the financial system by issuing shares and corporate bonds or else taking out bank loans. The long delivery times involved in producing in China and selling in the USA also require short term credit from banks or the financial markets. However, the bulk of the investment funds will have come from retained profits; at first largely from the profits made in the US and subsequently, increasingly from ploughing back profits previously made in China.

Secondly, and more indirectly, to the extent that it has stimulated capital accumulation elsewhere in the world, the rise of China can be seen to have increased the demand for loanable money-capital. This is perhaps particularly the case for those emerging market economies that, unlike China, have been more open to allowing an inflow of investment funds from western banks and the financial markets.

Yet overall, given its scale, the emergence of China as the Asian epicentre of the global accumulation of capital has had a relatively limited impact on the demand for money-loanable capital from the global financial system. Yet this is not so much the case when we turn to consider the supply-side. To see this we have to look more closely at the 'financial imbalances' that have emerged between China and the US.

Trade and Financial Imbalances

As we have mentioned, an essential ingredient to the success of the Asian boom had been the commitment on the part of the govern-

the establishment of the welfare state central to sustaining the various post war class settlements and hence social peace.

The Rise of International Banking and Finance

The 1970s saw a major transformation of international banking and finance that was to bring an end to the 'repression of finance'. There were three main causes of this 'liberation of finance': first of all there was the collapse of the Bretton Woods system of fixed exchange rates, secondly the recycling of 'petrodollars' following the 'oil shock' of 1973, and finally the rapid growth of 'offshore banking'. Let us briefly consider each in turn.

As we have seen, in accordance with the Bretton Woods agreement, the governments of the advanced capitalist economies, other than the USA, had been obliged to maintain a fixed rate of exchange between their currency and the US dollar. The US government, for its part, had in turn agreed to fix the value of dollar to gold. To do this the US guaranteed to convert on demand dollars into gold at the rate of $35 for each ounce. At the time of the signing of the Bretton Woods agreement in 1944 this obligation to convert US dollars into gold at a fixed rate had been inconsequential for the US government's economic and political policies. As a consequence of the war, Fort Knox held around three quarters of the world's entire stock of gold. But more importantly, with much of Europe devastated by war, American industry faced little competition. As a result throughout the 1950s the US enjoyed a substantial trade surplus, as its exports flooded into Europe. This had led to a severe dollar shortage in western Europe. Foreigners, particularly Europeans, wanted US dollars, now the undisputed world currency, not gold.

However, with the recovery and reconstruction of western Europe and the rise of Japan, US industry faced increasing competition. The US trade surplus declined at the same time as foreign direct investment by US transnational corporations in Europe increased. By the 1960s the dollar shortage had begun to become a dollar glut. The threat that the overhang of surplus dollars held by foreign banks and governments might be presented for conversion into gold now began to place onerous constraints on the freedom of US economic and political policy. The arms race with the USSR, the escalation of the Vietnam War, together with the need to secure social peace at home through expensive social programmes such as President Johnson's 'Great Society', required unprecedented levels of government spending. But such high levels of government spending only served to worsen the outflow of US dollars.

In 1971, in order to cut himself free of such constraints, President Nixon suspended the US government's commitment to convert dollars into gold and unilaterally announced a 10% devaluation of the dollar. This precipitated the collapse of the Bretton Woods system of fixed exchange rates. By 1973 attempts to shore up the system had been abandoned in favour of a system of managed floating exchange rates, in which governments only intervened in the foreign currency markets to limit excessive fluctuations in the value of their currencies.

The abandonment of fixed exchange rates opened up profitable opportunities for speculation in the day-to-day fluctuations of exchange rates on the foreign exchange markets. It also opened up profitable opportunities for banks to sell 'financial products' that would allow exporters and importers to hedge against adverse movements in the value of currencies. The collapse of Bretton Woods thereby certainly contributed to an increased internationalisation of the operations of the national banking and finance systems of the advanced capitalist economies.

But the collapse of the fixed exchange rate system did not immediately lead to an end to capital and exchange controls or the barriers separating the national banking and financial systems of the advanced capitalist economies. Far more important in this was the recycling of petrodollars, caused by the oil shock of 1973, and the consequent development of offshore banking.

In 1973 the world economy was rocked by OPEC quadrupling the price of oil. As a result of the sharp rise in oil prices, the low cost oil-producing sheikdoms of the Middle East suddenly found themselves awash with US dollars with little to spend it on other than yet more

substantially broaden the US-centred global accumulation of capital. By the middle of the last decade, rapid Chinese economic growth had meant that world demand for fuel, raw materials and food was beginning to outrun supply. As a result, world prices for such 'primary commodities', which for nearly two decades had been depressed, began to rise. This was a boon for those economies that produced such commodities in the less developed world—not only in Asia, but now also in Latin America and even Africa—who could now export more at a better price. But it was not only economies on the periphery of world capitalism that benefited from the rapid economic growth in China. China's growing demand for more sophisticated manufactures, such as machinery, machine tools and heavy vehicles, had begun to haul even Japan out of its long period of stagnation. The rise of China had served to raise the rate of accumulation across the globe, and in doing so could be seen as opening up plenty of investment opportunities.

Yet despite all this, there had certainly been worries amongst bourgeois commentators at the time concerning the sustainability of the growing 'financial imbalances' that had arisen along with the rise and continued expansion of China. To understand the relation of the rise of China to the financial crisis it is necessary to turn and consider these financial imbalances more closely.

The Rise of China and the Supply and Demand of Loanable Money-Capital

For the neoliberal ideologist China's great economic transformation over the last two or three decades is due to China abandoning a 'socialist command economy' in favour of a 'free market capitalism'. But, as we have seen, what has been essential to the continued rise of China has been its rejection of what is usually taken as the epitome of free market capitalism—the financial markets. China's rapid capital accumulation has been financed first and foremost through state-directed investment. The Chinese state has ensured that the most of the surplus value produced in China has been reinvested in China. To the extent that Chinese capital accumulation has been south-east Asia. It had also, as we have previously mentioned, established a similar, and perhaps far more important, dynamic of accumulation with the USA.

The essential complementarity in the economic relation between the USA and China was certainly recognised and reflected in the rather sanguine view taken on the part of the US bourgeoisie to the rapid emergence of China as a major economic powerhouse in the world. Of course, there were concerns dating back to the early stages of the Asian boom in the 1980s, that the import of cheap Asian manufactured goods was displacing American industry and making American workers redundant. Now, with the rise of China, this stream of Asian imports had become a flood. But it could be countered that to the extent that imports from China were driving American industry out of business, this was for the most part only hastening the demise of those American industries that had long been in a state of decline anyway. What was more, a large proportion of the commodities now being imported from China was hardware for the information and communication technology that had not been previously produced in the USA in the first place because they had yet to be invented. Indeed, it is perhaps true that overall the displacement of American industry and jobs arising from Chinese competition has been marginal. Although, of course, the threat of outsourcing to China has proved a potent weapon in the armoury of the capitalist in keeping down the demands of the American working class in recent years.

There were plenty of other good reasons for the American bourgeoisie to welcome the rise of China. The flood of cheap manufacturers from China had played a valiant part in the defeat of inflation. The high returns from their joint ventures in China bolstered the profits of US transnational corporations and enhanced the dividends distributed to their large American shareholders. Not only this, as we shall see in more detail shortly, the Chinese monetary authorities could be said to have played a key role in allowing the US government and the Federal Reserve to take action to mitigate the economic downturn following the dot.com crash.

If this was not enough, it was the rise of China that had served to

palaces and camels. As a consequence, they began depositing their surplus oil revenues in Eurodollar accounts of European banks and European subsidiaries of American banks, which had grown up to avoid US capital and exchange controls. These accounts were particularly attractive, not only because they offered high rates of return, but also because they were out of the reach of the US monetary authorities, and were therefore less likely to become impounded by the US government in the event of a political or diplomatic crisis. With the stream of 'petrodollars' flooding into their Eurodollar accounts the western banks, which operated within the Eurodollar system, now had to find somewhere to invest this money that could provide them with sufficiently high returns to cover the returns they offered on their Eurodollar deposit accounts. With the US and other advanced capitalist economies plunged into recession following the oil shock, the banks had to look beyond their traditional clientele of other banks and transnational corporations. As a result they began making large scale loans to 'third world' governments.

This recycling of 'petrodollars' brought about a dramatic expansion in both the scale and complexity of the international finance and banking system. Whereas previously it had been a rather marginal and arcane activity for the major US and other western commercial banks, international banking operations now became a substantial potential source of profits. As a consequence, banks rapidly expanded their international operations, bringing about a profusion of specialist international financial intermediaries, and the development of new 'financial products' and markets in order to facilitate the increased volume deals.

But this was not all. In order to expand their share of international banking and finance, the western banks began opening up subsidiaries that were nominally registered in small 'third world' states that offered both minimal taxes on financial transactions and lax banking regulations. The banks were then able to offer their domestic corporate and more well-heeled individual depositors the option of transferring their deposits to their 'offshore' subsidiaries. With economic and political uncertainty and falling returns in the US and western Europe, the risk of placing funds in minimally regulated banks was for many depositors more than offset by the higher returns such offshore banking offered - particularly as these banks had the implicit backing if things went wrong of their reputable parent banks.

Loanable money capital accumulated in the advanced capitalist economies could now flow into the channels of international finance that had been carved out by the recycling of petrodollars. The growth of offshore banking allowed the banks to evade regulatory controls that had inhibited the free movement of money-capital across national boundaries. In doing so offshore banking prised open the cracks in the national regulation of finance, weakening the walls that had been erected to separate the various national banking and financial systems from the largely unregulated and unconstrained international banking and finance.

As a result of the break up of the Bretton Woods system of fixed exchange rates, the recycling of petrodollars and the development of offshore banking, the 1970s saw an explosive growth in international banking and finance. By the end of the 1970s the volume of international flows of loanable money capital had grown to such a scale that they threatened to overwhelm any attempt to control it on the part of governments and monetary authorities. In 1979 the levees began to break.

Firstly, in May 1979 Margaret Thatcher came to power committed to dismantling Keynesianism and the post war social democratic settlement in Britain. Under the slogan 'you can't buck the [financial] markets', one of her first moves in this direction – the significance of which is often overlooked - was to scrap capital and exchange controls, allowing the free movement of money and capital in and out of the British economy. Within the next few years all the advanced capitalist economies had been obliged to follow Thatcher's lead. As a consequence, the barriers to the free movement of capital across borders were torn down.

Secondly, in October 1979, Paul Volcker, the newly appointed chairman of the US Federal Reserve Board, announced a sharp about turn in US monetary policy. Following the second 'oil shock', which had

economies' of east and south-east Asia. In the aftermath of the crisis, stages in the chain of manufacturing production, particularly the final assembly stages, previously undertaken elsewhere in Asia, were now relocated to China. Soon, most Asian manufactures destined for export to the US and other advanced capitalist economies, were at least partly produced in China. At the same time as establishing itself as the funnel through which Asian manufactures poured in the US and western markets, China began a concerted 'move up the production chain' to take on earlier more capital intensive stages of the production process. As a result China was able to secure a growing proportion of the value of the manufactured exports produced in the east and south-asian economy.

This displacement of value production from its Asian competitors was increasingly offset by two factors. Firstly, the rapid and sustained growth in the volume, and hence the total value, of Asian exports being funnelled through China to the US and the West increasingly compensated for the declining proportion of this total value falling to China's neighbours. Their slice of the cake might be diminishing relative to that of China, but this could be largely offset by the growth in the total size of the cake. Secondly, China's ambitious infrastructure construction programme—that was to see industrial cities the size of London being brought into being in a matter of few years—required huge quantities of oil, coal, timber, steel and concrete, along with various other raw materials, necessary to build road and rail networks, power plants and other utilities, as well as to construct houses, offices and factories. Before the Asian boom, many of the Asian tiger economies had specialised in the production of such raw materials. Hence it was relatively easy for them to revert back and expand such production to meet China's growing demand.

By the early years of the new millennium, China had become not only the heart but the locomotive of the region. China's economic growth was serving to pull it neighbours out of the recession that had followed the 1997 financial and economic crisis. However, China had not only established a complimentary dynamic of accumulation between itself and the 'newly emerging market economies' of east and no longer able to roll over their foreign debts and were forced to call in their loans to Asian businesses. Thus the exchange rate crisis rapidly developed into both a financial and economic crisis in the region, which was to see widespread bankruptcies, a sharp slow down in economic growth and tens of millions of workers plunged into abject poverty after losing their jobs.

At the time there had been serious concerns amongst Chinese policymakers that the shock waves from the financial and economic crisis elsewhere in Asia might wreck China's still fledgling export-led growth strategy. However, with hindsight the Asian crisis provided a timely opportunity for China to establish itself as the hub of Asian manufacturing production. As we have seen, unlike its neighbours, China had avoided being reliant on the footloose short term investments provided by the western banks and the global financial markets. With its strict controls over capital flows and the convertibility of its currency, China was sheltered from the worst of the financial storm that was wreaking havoc elsewhere in the eastern Pacific. Amidst the economic chaos besetting its Asian neighbours, China now shone forth as a haven of stability. Overcoming any surviving misgivings that, as a still nominally Communist state, it might in the future revert to type and nationalise foreign investments, transnational corporations now focused their attention on China's vast profit potential. Whereas the rest of the east and south-east Asian regions suffered a collapse in foreign investment in the aftermath of the crisis, China suffered merely a brief pause in its growth. China could now establish itself as the principal destination for foreign investment destined for the 'newly emerging market economies' of east and south-east Asia.

With foreign direct investment pouring in, and with the Chinese state ensuring approaching 50% of China's GDP was reinvested, both in the expansion of export-manufacturing production directly, and in the state's vast infrastructure construction programme that was necessary to sustain rapid economic development into the future, China had within less than five years established itself as the heart of the emerging Asian 'tiger' economy. At first this rise to prominence had at least been partly at the expense of its neighbouring 'newly emerging market

seen a doubling of oil prices, there had been growing fears that the consequent increase in the US trade deficit could trigger an uncontrollable speculative flight of capital from the US and, with this, a collapse of the US dollar on the foreign exchange markets. In order to ward off such a threat Volcker abandoned the last vestige of Keynesian monetary policy of maintaining low interest rates. US interest rates were forced up leading to a huge influx of loanable money-capital into the USA and a soaring dollar. In order to limit the outflow of money-capital to the US, the other advanced capitalist economies were obliged to follow suit and raise their own interest rates and, in doing so adopt monetarist economic policies.

As such, 1979 marked the end of Keynesianism and the triumph of what was to become known as neoliberalism. Governments and monetary authorities gave up attempting to subordinate banking and finance to the national accumulation of real productive capital through restrictive regulations. The free movement of capital was now to be promoted. As barriers to the free movement of finance capital were progressively dismantled the national banking and financial systems became merely segments of what was to become a US-centred global banking and financial system, in which money-capital could freely flow in search of the highest returns.

The 'Liberation' of Finance and the Stagnation of the 'Fordist Mode of Accumulation'

As radical Keynesians such as Susan Strange and Howard Watchel have pointed out, concerted action on the part of governments and monetary authorities could have perhaps prevented the explosion of international banking and finance. Thus, for example, following the rise in oil prices in 1973, there could have been an international agreement that would have allowed for petrodollars to be recycled through official intergovernmental channels, overseen by such bodies as the IMF and the World Bank. Furthermore, the monetary authorities in the US and elsewhere could have imposed new financial regulations to clamp down on the subsequent growth of offshore banking, and thereby nipped it in the bud.

For radical Keynesians, the lack of political will to take such action is seen, at least in part, as the result of the growing political influence of finance and banking over the formulation of economic policy. The economic crisis, which had for them been primarily caused by the sharp rise in the costs of oil, food and raw materials in the early 1970s, had led to a crisis in confidence in the continued efficacy of Keynesian policies. Taking advantage of this, banking and financial interests had been able to push towards the reversal of the 'Keynesian revolution in economic policy' and, with this, the progressive abandonment of the 'repression of finance'.

Furthermore, as the radical Keynesians pointed out, the consequent rapid growth of international banking and finance in turn brought with it a corresponding increase in the political power and influence of the bankers and financiers. By the end of the 1970s they had reached a position where they could seize control over state policy. Keynesianism was deposed and replaced by neoliberalism. As a result, over the last thirty years economic policy across the world has been driven by the overriding special vested interests of bankers and financiers, much to the detriment of the rest of society, particularly the poor and the working class.

Many Marxists might well agree with radical Keynesians on this. However, for most Marxists, the sharp rise in the costs of oil, food and raw materials in the early 1970s had only served to exacerbate and bring to a head a much deeper crisis in the process of capital accumulation that had underpinned the long post war boom. As such the 'crisis of Keynesianism' had not been due to the transient problems of adjustment following the impact of the 'oil shocks' and rising 'commodity prices', but had been due the fact that capitalism had reached an impasse, which manifested itself in recurrent economic and political crises. There could therefore be no return to the 'progressive capitalism' of the 'golden age of Keynesianism'.

As the Marxist French of the Regulation School, and many others have pointed out, the long post war boom had been driven by the rapid expansion of the mass assembly-line production of standardised

their governments to maintaining a given parity at which their national currency would exchange with the currency of both the world and their biggest export market—the US dollar. At the same time, with each currency pegged to the US dollar they were in effect pegged to each other creating an Asian system of fixed exchange rates.

During the height of the boom, when US dollars were flooding in, due to both high levels of foreign investment and rising revenues from export sales, this commitment had been easy. All the monetary authorities had to do was to buy up the surplus dollars with their own currency and deposit them in the nation's foreign currency reserves. There was effectively no limit to preventing an appreciation of their currency against the dollar because they were always free to issue more of their own currency with which to buy dollars. Now, with a dollar drain, in order to defend a fixed exchange rate against the pressure towards the devaluation of their currency against the US dollar, they now had to be prepared to enter the foreign exchange markets and to buy up the surplus of their own currency with dollars, thereby depleting their dollar reserves. The monetary authorities were therefore limited by the amount of their reserves of dollar holdings.

Although the Asian tiger economies had together accumulated substantial reserves preventing their currencies appreciating against the US dollar during the height of the boom, it was now a depleting hoard divided up into several national reserves. It now became a plausible possibility that a well timed and sustained speculative attack on a currency of any one of the Asian tigers could be sufficient to exhaust that country's national dollar reserves hoarded at its central bank, and force a sharp devaluation of its currency against the US dollar – thereby, of course, providing a killing for any speculator brave enough to lead the charge by betting early on such an outcome.

As it turned out, it was Thailand that proved to be the weak link and was the first to succumb to a speculative attack in July 1997. Tasting blood, the pack of currency speculators then turned on the Philipines. Within weeks the Asian system of fixed exchange rates had collapsed. Those foreign investors that could made for the exits. No longer able to borrow on the global financial market, Asian banks were economies. But, at the same time, the Chinese state could ensure that it could appropriate the lion's share of the returns in the form of taxation and its share of the joint venture's profits, which could then be ploughed back in furthering capital accumulation and economic development in China.

In 1997 the economic boom in east and south-east Asia was brought to an abrupt halt. The rapid expansion of manufacturing industries had by the mid-1990s begun to outstrip the development of the economic infrastructure that was necessary to support it. Land and property prices had begun to rise sharply in the industrial and commercial areas of the region. The flows of short term foreign investment drawn from the western banks and the global financial markets, which, alongside direct foreign investment by transnational corporations, had originally helped finance the accumulation of real productive capital, now began to switch into property speculation. As a result, the rate of growth in manufacturing output, and with it Asian exports had begun to slow down. At the same time the windfall gains produced by the speculative property bubble to a large extent ended up being spent on luxury consumer imports. As a consequence, by 1997 the leading Asian tigers were heading for large and persistent trade deficits.

Nevertheless, it is possible that the trade deficits could have been sustained long enough to defuse the speculative boom if the Asian economies had been able to continue to attract enough US dollars in the form of foreign investment to cover the outflow of US dollars due to the trade deficit. But for the banks and financial markets the emerging 'new economy' in the US was now opening up safer if not more profitable investment opportunities for foreign investors, which now began to look like a better bet than carrying on investing in the Asian tigers in the hope that their economic imbalances could be sorted out without the bursting of the speculative bubble.

Pivotal to the Asian export-led boom had been the stability provided by fixed exchange rates, and it was with an exchange rate crisis that the wheels of the boom fell off. An essential ingredient to the success of the tiger economies had been the commitment of each of

consumer durables – epitomised of course by the production of 'automobiles' and known accordingly as the 'Fordist mode of accumulation'. It may be admitted that Keynesian policy and the consequent 'repression of finance' had served a vital role in facilitating the large scale and long term investments in building and equipping the car factories, steel plants and petro-chemical complexes that had been necessary for the post war 'Fordist' economy. However, by the late 1960s these investments had begun to result in an over-accumulation of productive capital.

As a result there began a long term tendency for the general rate of profit to fall. Attempts to reverse the falling rate of profit faced formidable, if not insurmountable, problems.

Firstly, as we have seen, the large scale investments necessary for the rapid expansion of 'Fordist' mass production had been carried out by commercial and industrial monopoly corporations and conglomerates. As a consequence, these corporations had accumulated substantial amounts of fixed capital in the expansion of productive capacity. But by exploiting their monopoly position they were able to resist any scrapping of excess productive capacity and the devaluation of their fixed capital that this would entail. Thus there was little scope to remedy the over-accumulation through the scrapping of excess capital and the devaluation of accumulated capital.

Secondly, after nearly two decades of near full employment, the organised working class in the advanced capitalist economies had established strong entrenched positions that allowed them to thwart attempts to reverse the falling rate of profit through increasing the rate of exploitation. The ability of the working class to defend existing terms and conditions and working practices meant that attempts to increase the productivity of labour, through such means as raising the pace and intensity of production or through introducing new technology, had become increasingly limited.

Furthermore, attempts by capitalists to restore profits by raising prices only served to solicit demands for higher wages to compensate for the rising cost of living. This resulted in a price-wage spiral and thus accelerating inflation.

The falling rate of profit, coupled with the growing social instability and class conflict that it helped to exacerbate, resulted in a decline in productive investment and thus a slowdown in the real accumulation of productive capital. In order to offset this slowdown in capital accumulation and to maintain economic growth and full employment, governments sought to use Keynesian fiscal policies to 'spend their way out of the crisis'. However, this merely aggravated inflation and put upward pressure on interest rates and led to mounting state debts.

Marxists could then argue that, in the face of falling rates of profit, economic stagnation and increasing political and social instability, the capitalists typical response to such problems was to take refuge in financial speculation. But banking and finance only served to redistribute not create surplus value. As such it was ultimately a zero sum game, in which capitalists sought to gain at the expense of other capitalists. Thus, the rise of the political and economic power of finance and the corresponding ideological turn to neoliberalism, could be seen as merely a symptom of the underlying stagnation of capitalism.

However, whatever the disagreements at the time between radical Keynesians and Marxists about the causes and significance of both the release of finance and the turn to neoliberalism, it could be agreed that it could only have a devastating economic and social impact, which seemed to offer little in the way of a long term to solution to the economic stagnation of capitalism. Indeed, following Volcker's adoption of monetarist policies, the US, and consequently the rest of the world, was plunged into a deep recession. Manufacturing industry, in particular, was decimated, and unemployment soared to levels not seen since the Great Depression of the 1930s.

Although the decimation of industry served to eliminate excess productive capacity and thereby halt the fall in the rate of profit, at the time it seemed far from sufficient to resolve the problems of capitalism's stagnation. Capital, it appeared, had nowhere to go after the 'Fordist mode of accumulation'. The computer, information and communication technologies, which were to provide the basis of what was to become known as the 'new economy', were still in their infancy. At the same

across Asia could be transported for the more labour intensive stages of assembly in China before being shipped off to the US and western markets.

However, the Chinese state was determined not to fling open the doors for foreign investments and invite any fly-by-night investors or speculators in search of a quick return. Only foreign capitalists that were prepared to make long term investments directly in the development of real production were to be welcome. Typically such direct foreign investment was to take the form of joint ventures, co-owned by predominantly US transnational corporations and the Chinese state.

For their part the transnational corporations were to provide the design of manufactured products and advanced western technology embodied in plant and equipment necessary for their production. They were to provide business connections that could open the door to the distribution networks of the US and other western markets. And particularly important in the early stages of China's integration into the US-centred global accumulation of capital, they were to provide working capital in the form of US dollars in order import the raw materials and other inputs necessary to get the joint venture off the ground. For its part the Chinese state was to provide a plentiful supply of cheap and compliant labour, along with investment in the economic infrastructure required for the efficient production and transportation of the commodities produced by the joint ventures.

Once the joint venture was up and running, the combination of western design and production technology, and a plentiful supply of cheap and compliant Chinese labour, certainly offered a win-win situation as far as the Chinese state and its 'First-world chauvinist' partners in their 'imperialist citadels'. With costs of production far below any competitors elsewhere in the world, these joint ventures could sell well below the ruling world market price and still make handsome returns. The transnational corporation's share of the joint venture's profits would be sufficient to provide them with a rate of profit substantially higher than the general rate of profit they could expect to earn in the US or elsewhere in the advanced capitalist

Part 4.

THE RISE OF CHINA

In 1992 Deng announced a major shift in Chinese economic policy that was to prove to be of world historical significance. Abandoning more than forty years of autarchic economic development, China was to open its doors to large scale foreign investment. As a result foreign investment flooded in to China, rising from negligible levels in 1992 to more than $50bn (equal to 5% of China's GDP) ten years later, driving China's economic transformation into the new 'workshop of the world'.

The Deng announcement certainly came at a propitious time. The economic boom of east and south-east Asia, which had begun in the late 1980s, was now in full swing. Attracted by cheap and compliant labour, foreign investment had flooded into Asia, first of all to the more developed countries such as Taiwan and South Korea and then, as labour shortages and wage rises began to take hold there, to what became known as the Asian tiger economies; the Philippines, Indonesia, Thailand, and Singapore. This incessant movement of capital in search of cheap labour had brought about both a disintegration and de-nationalisation of the production process in Asia. The production process of commodities was broken up into distinct stages; the more labour intensive stages being relocated to where there were lower wages and less skilled labour, while the more capital intensive stages were retained in those countries with relatively higher wages but a more skilled and reliable workforce. China, with its vast potential reservoirs of cheap and compliant labour, and its close proximity, appeared as an obvious next step for international investors. China could easily fit into the rapidly emerging Asian economy. Component parts produced

time, the concentration of Fordist capital accumulation in the advanced capitalist economies during the post war era had left much of the rest of the world undeveloped and lacking the economic infrastructure that would enable a large scale relocation of capital.

The recovery from the recession of the 1980s was only brought about by Ronald Reagan's adoption of an economic policy that has often been described as being 'military Keynesianism'. Following his election in 1980, Reagan abandoned the policy of detente and set about accelerating the arms race with the USSR. Military spending rocketed at the same time as Reagan slashed taxes on the rich and large corporations. As a result the US government budget deficit soared from 2.7% in 1980 to 6% of GDP in 1984. This quasi-Keynesian deficit spending provided a huge stimulus to the US economy allowing it to pull the rest of the world economy out of recession.

However, at the time, this appeared as merely a short term palliative to the underlying problem of economic stagnation. It could be persuasively argued that the US could not sustain such high deficits, particularly when the money that was being borrowed was being economically wasted on unproductive militarily expenditure and increased conspicuous consumption for the rich. It could be concluded with—what has become a repeated refrain amongst both Marxists and radical Keynesians up until the present day—that the economic recovery was based on an unsustainable bubble of debt.

This argument seemed to be confirmed with the return of the world economic recession at the beginning of the 1990s.

Meanwhile the sharp rise in interest rates and the economic recession at the beginning of the 1980s triggered the 'third world' sovereign debt crisis. This was followed by the biggest stock market crash in 1987 and the US Savings and Loans crisis of 1990. As such, the 'liberation' of finance and banking could be seen to have only served to increase economic and financial instability.

By the end of the 1980s many Marxists could argue that the restructuring of capital accumulation had largely failed. The only way out for capitalism was a cataclysmic event such as a world war that could bring about a mass destruction of capital and allow capital accumulation to take place on renewed footing. After all it could be argued that it had been the Second World War that had prepared the way for the long-post war boom. Yet with hindsight we can see how the basis for a new long upswing was already being put in place. We must now look a little closer at the role the emergence of global finance and banking had in this.

relative dearth of loanable money capital flowing through the global banking and financial system. An indication of this undersupply of money capital was the persistence of relatively high interest rates through this period. But perhaps more significantly it was reflected in the frequent specific financial crises that typify this time. As the limited amount of footloose loanable money capital swashed around from one specific area of investment to another it gave rise to booms and busts in each of these areas. Thus, for example, there was the savings & loans crisis in late 1980s, the Mexican crisis in 1994, the Asian crisis in 1997, the Russian crisis in 1998 and the dot.com crisis in the US stock market in 2001.

However, the restructuring of capital was to be taken to an altogether higher level with the rise of China. This opened up a new phase in the economic upswing that, as we shall now see, was typified by an oversupply of loanable money capital flowing through the global banking and financial system.

return investments. The flood of loanable money capital from banks and the financial markets then served to fuel the take off of the 'new economy' that occurred in the 1990s.

The take off of the 'new economy' had an important impact on the 'old economy', which in turn provided growing demand for 'new tech' products. Administration costs could be cut with the computerisation of offices, computer aided design reduced research and development costs, computerised stock control and faster and more efficient communications increased the turnover of capital and reduced amount of stocks that could be held, in these and in many other ways the commercial application of the new technologies served to increase the rate of profit in the 'old economy'. Furthermore, the 'new economy' opened up a whole new range of commodities and ways of selling them from which profits could be made.

So, as we have seen, the emergence of global finance and banking played an important, but by no means an exclusive role, in the restructuring of world capital accumulation that provided the basis for the restoration of the general rate of profit and hence what was to become the long economic upswing.

First of all, the 'liberation of finance' helped galvanise capital to launch a counter-offensive against the working class at the level of both the state, through the implementation of neoliberal policies, and at the level of individual capitals, through rationalisation, redundancies and the intensification of labour. Secondly, the emergence of global banking and finance served to liquidate capital fixed in low profit industries, particularly in the old Fordist industries located with the advanced capitalist economies. And thirdly, by facilitating the transfer of this liquidated capital to potentially high profit locations and industries, the emergence of global banking and finance helped to open up new spheres of profits with the emergence of the 'new economy' and the 'newly emerging market economies' in Asia and elsewhere.

During, these early stages in the restructuring of global capital accumulation, particularly between the late 1980s and late 1990s, the demand from these new spheres of investment for free loanable money capital tended to outrun the supply. The period was characterized by a

Part 3.

GLOBAL BANKING FINANCE and the Foundations of the Long Upswing

The growth of international banking and finance meant that an increasing proportion of shares of the large monopoly corporations were being held by investors looking for the highest short term returns. Even a rumour that the next quarter's profit forecast might prove disappointing could now lead to speculative flight from a company's shares and a collapse in its share price. Such a fall in its stock market valuation could then put a company at risk of a hostile take-over bid.

As a result company managers were obliged to concentrate on the short term profit performance of the company in order to maintain high dividend payouts and keep the valuation of their company high. The 'maximisation of shareholder value' became an overriding imperative. Managers could no longer put off difficult decisions. They had to face down opposition from their workforce and push through rationalization, downsizing and outsourcing of 'non-essential' functions in order to make their companies mean and lean. Capital sunk in the company had to be sweated to earn the highest return. Failure to do so would mean being replaced by a new management team appointed by the new owners who would be ruthless enough to force through the necessary changes.

This competitive pressure exerted by the financial markets had two distinct effects. Firstly, it ensured that management kept wage rates down and work rates high in order to maximise profits. Secondly, by ensuring companies were 'mean and lean' it meant that any excess capital could be liquidated and siphoned off into the financial markets, in the form of higher dividend payments, to swell the pool of free loanable money-capital.

At first the growing pools of international loanable money-capital had ended up flooding into the USA to finance Reagan's massive budget deficit. Although at the time it might seem the emerging global financial system was simply financing Reagan's profligate tax cuts and military spending programmes, with hindsight it can seen that in doing so it was playing an important, if indirect, role in bringing about the restructuring of capital accumulation.

Firstly, the escalation of the arms race eventually brought about the fall of the 'evil empire' thereby opening up whole new regions of the world for capital accumulation in the following decades.

Secondly, and more immediately, the military programmes inaugurated by Reagan, particularly the Strategic Missile Defence Initiative or 'Star Wars' as it was commonly known, effectively served as a hidden state investment programme. Through Star Wars military spending was channelled into funding the vast research and development of the computer, information and communication technologies that was necessary to provide the foundation for the take off of the 'new economy' in the 1990s.

Under the Bush (Snr) and the Clinton administrations, concerted efforts were made to wind down the huge deficits that had been inherited from the Reagan era. By the end of Clinton's second term the US budget deficit had been eliminated. However, by then whole new spheres of investment opportunities had opened up providing ample demand for the supplies of free loanable money-capital flowing through the global banking and financial system. Firstly there were the new emerging economies of Asia and secondly there was the emergence of the 'new economy'.

Global Finance and the 'Newly Emerging Market Economies'

As we have previously mentioned, the long post war boom,

of production, but also to local banks in Asia and Latin America. Using their local knowledge and business connections, these local banks were then able to make loans to a wide variety of small- and medium-sized firms crucial to developing the economic milieu of local suppliers that could then further encourage direct investment from transnational corporations and thereby hasten the accumulation of capital.

This dynamic process was given a further twist by Western banks securitising these loans and selling them on to other financial institutions interested in buying liquid assets that had offered high returns. This gave rise to what became known as the emerging market economies securities market that served to funnel short term investment flows into financing the rapid export led growth of Latin America and, in particular, east and south-east Asia.

Global Fnance and the Emergence of the 'The New Economy'

As we have seen, the dramatic increase in military spending under Reagan had, in part, served as a huge hidden state investment programme that had funded the rapid development of the new information, communications and computer technologies. State investment, driven by military objectives and imperatives, was central to startling advances both in the processing power and miniaturisation of hardware and the increasing sophistication of software, which was necessary in providing the foundations of what was to become the 'new economy'. However, in the subsequent development of the commercial applications of these new technologies the role of private finance and investment was to play a far more significant role.

In the early 1990s it was still far from certain how the emerging new technologies would develop, how they would be used and how they could be made profitable. Investment in the emerging 'new economy' promised high returns but high risks. A situation well suited to 'casino' operations of high finance and banking. Banks were prepared to lavishly fund promising 'new tech' start ups and then float them on stock markets, selling shares to investors looking for high risk-high as the newly industrialising countries of the capitalist periphery. However, the world recession of the early 1980s saw a sharp fall in the demand for the manufactured exports from these countries. At the same time, as export revenues fell, the costs of servicing the huge debts that had built up rose with the sharp increase in interest rates. This produced the 'third world' sovereign debt crises of the early 1980s. With many western banks having had their fingers burnt in this crisis they became far less inclined to lend to 'third world' governments and the whole process of recycling petrodollars came to a halt.

Nevertheless, pressures on transnational corporations to exploit the opportunities that had been opened up to relocate production to the periphery were now to intensify. Firstly, the high exchange rate of the US dollar in the early 1980s, made many manufactured commodities produced in the USA uncompetitive. There was therefore a strong incentive for US transnationals corporations to continue to relocate production, particularly to nearby Central and South America. Then, with the sharp fall in the US dollar following the Plaza Agreement of 1985, and the corresponding sharp rise in the exchange rate of the Yen, many Japanese transnational corporations were prompted to transfer the more labour intensive stages of the production of commodities destined to be exported to the USA to neighbouring South Korea and Taiwan, whose currencies remained pegged to the US dollar and where there were plentiful supplies of cheap labour. As a result the momentum for the relocation of production was maintained through the 1980s.

As we have seen, by the late 1980s the US government had set about unwinding the huge budget deficits run up under Reagan. The demand for loanable funds to finance the deficit began to fall at the same time as the liquidation of capital in the old established Fordist industries of the US and other advanced capitalist economies continued to increase supply. As a result there was a renewed interest on the part of global banking and finance in what were to become known as the 'newly emerging market economies' of Asia and Latin America. Western banks began making loans not only to 'third world' governments and transnational corporations to facilitate the relocation

driven by the 'Fordist mode of capital accumulation', had been largely confined to the USA and the other advanced capitalist economies. Most international capital investment had taken the form of foreign direct investment within the developed world—and was predominantly by US transnational corporations setting up production in Western Europe.

As a result, as third worldists at the time often lamented, much of the 'third world' was relegated to primarily producing raw materials and agricultural products, which lacked the economic dynamism provided by 'Fordist' manufacturing industries. As a consequence, capital accumulation in the core had only a minimal impact in promoting economic growth and development in the economies on the periphery of the western world.

There had, of course, been attempts by various 'third world' governments, often in alliance with the USSR and other state capitalist countries of the Eastern bloc, to pursue national autarchic industrialisation strategies. With varying degrees of success, governments in the periphery had sought to promote the development of domestic manufacturing industries by protecting the home market from manufactured imports. But by the 1970s these 'import substitution' strategies had largely run out of steam due to both limited home demand for manufacturers and by a lack of access to modern production technologies. Nevertheless, this limited development of manufacturing industries in the more developed 'third world' had created a substantial pool of cheap and compliant labour, which was both, accustomed to the disciplines of wage labour and possessed the necessary skills for factory production. Indeed, with much of the world population outside the heartlands of western capitalism there was, in the longer term, a vast potential for the global expansion of capital beyond the advanced capitalist economies.

However, there had been formidable barriers preventing western capital exploiting the vast potential pool of labour in the 'third world'. Firstly there had been numerous political problems. Thus for example, any transnational corporation considering investment in a 'third world' country, particularly one that had been committed to a nationalist industrialisation strategy, faced the risk that the government might at some time in the future nationalise their investments.

But, perhaps more importantly, there were the sizeable economic barriers to the globalisation of capital. If transnational corporations were to set up production they first of all needed dependable communication and transport networks, and they needed reliable sources of power, gas and water, but the economies of the 'South' often lacked such basic economic infrastructure. Although there might be substantial savings in labour costs, given that labour in the 'third world' was far cheaper than that in the transnational corporation's home country, this would usually be more than offset by the large scale investments required for the construction of the economic infrastructure necessary before production could even begin.

Secondly, the transfer of productive capital required the existence of an economic milieu of small- and medium-sized enterprises that could provide the vast range of 'goods and services' necessary to maintain day-to-day production and to feed, clothe and house the company's workforce. In the absence of such local suppliers, a transnational corporation would have to ship everything required to maintain production itself. This would often not only have been prohibitively expensive, but also a logistical nightmare.

As a consequence, it had only been in agriculture and the extractive industries, such as mining, where climatic or geological factors meant there was no option but to site production in the less developed world, that the transnational corporations of the US and the western world had ventured south. Even then, as third worldists and development economists at the time often pointed out, foreign direct investment for the most part only created economically developed enclaves, since the transnational corporations only invested in economic infrastructure that was strictly necessary for their own operations.

In the 1970s the seeds were sown for what was to become the 'globalisation of capital', which was to see the outflanking of the entrenched positions of the working class in the advanced capitalist economies. And, as we shall see, the emergence of what was to become the global banking and financial system was to play a central part in the relocation of productive capital. First of all, in the face of falling profits, growing political instability and an increasingly intransigent working class in the heartlands of capitalism, transnational corporations began to look upon the prospect of relocating production, particularly manufacturing, to the more developed economies in the periphery far more favourably than they had previously. Secondly, there was the impact of the recycling of petrodollars through the emerging international banking system.

As the 'sovereign debt crises' of the early 1980s were to reveal all too clearly, much of the petrodollar loans made by banks to 'third world' governments had been frittered away either in fuelling local arms races or else on grand prestigious public projects that turned out to be white elephants. Nevertheless, a substantial amount of these loans had been used to promote a switch from an import substitution industrialisation strategy to an export-led strategy. Previously, any attempt to promote export-led growth had run into the problem of a lack of US dollars. Any large scale investment programme necessary to develop export industries would result in an initial surge in imports of raw materials and other commodities necessary to set up production. This would lead to a sharp rise in the outflow of US dollars to pay for them until production was up and running and the dollar revenues from export sales began to flow in. With limited dollar reserves a government attempting to promote such an investment programme would soon find itself with a serious currency crisis on its hands. However, with western banks falling over themselves to lend them petrodollars they had been able to lift this dollar constraint.

Furthermore, by borrowing from western banks 'third world' governments were able to finance the construction of the economic infrastructure necessary to encourage investment from western transnational corporations. This direct investment then brought with it access to both the most up to date production technology and to the transnational corporations well-established sales and distribution networks in their home markets.

Thus, the 1970s saw the beginnings of the relocation of the more labour intensive 'Fordist' lines of production to what were then known