

CALCULATION

Financial Meltdown: An Intriguing Silence at the Core

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The meltdown of global financial markets due to toxic debt emanating largely from the unregulated U.S. banking system has hit the capitalist systems of the world with the force of an earthquake. Under the guise that the banking systems in the U.S. and the other capitalist countries of the world cannot be allowed to collapse, governments in these countries have pledged hundreds of billions of dollars of public monies to the banks and other related financial institutions at the center of the financial markets.

The repeated pledging of hundreds of billions of dollars of public monies over the course of a few months exposes the continuous fraud at the heart of the capitalist system, which a few commentators have decried as “socialism of the rich.” Yet even as the “noise” generated by this process dominates the columns of newspapers and journals, there is an intriguing “silence” being maintained at the core, a silence which has monstrous implications for other countries around the world and their futures.

The silence relates to the size of the toxic debt created by the financial derivatives, which both government and financial industry officials claim is not only unknown but unknowable. In the absence of even a reasonable quantification, using vast amounts of public money to bailout the very institutions that caused the global financial meltdown is akin to pouring money into a well of unknown depth in the fond hope that the well will eventually overflow and provide water for all.

Without official quantification, we have to rely on whatever estimates exist at present. Niall Ferguson, in his book *The Ascent of Money*, has quantified the outstanding derivatives at US\$473 trillion in 2006.

Based on certain reasonable assumptions and given the current output (Gross Domestic Product, GDP) of the U.S. economy of about US\$12 trillion, it is possible to make some preliminary calculations relating to the seriousness of the crisis.

It is reasonable to assume that about half of this debt lies with the U.S., since there is a global consensus that most of it originated in the U.S. and then spread around the world. Estimating current total global debt at \$480 trillion, this would put the U.S.’s portion of it at about US\$240 trillion.

Next, let’s assume that the U.S. national savings rate is 20 percent. This would imply that the maximum savings in the U.S. economy would be US\$2.4 trillion per annum. If these entire savings were to go towards debt repayment, it would take about 100 years to repay the debt, which would have to be frozen at that value (i.e., zero percent rate of inflation of debt). What creditor would give a loan that would require 100 years to repay the principal, at zero percent rate of interest? By capitalism’s own logic, no creditor would be so foolish.

A second independent calculation, based on other reasonable assumptions, would be as follows: assume that the capital output ratio of the U.S. economy ranges between 4 and 5, where the lower value indicates a more “efficient” economy as compared to the higher value. Assuming a value of 4, the entire productive capital stock of the U.S. would be valued at US\$48 trillion—i.e., all the factories, farms, homes, infrastructure, etc. may be valued at say US\$48 trillion. On comparing this with the debt value of US\$240 trillion, we can see that the debt is five times the asset coverage of the total valuation of the U.S. economy. In other words, fully four-fifths of the U.S. debt is not covered by assets. Again, using capitalist logic, would any capitalist provide a loan to a debtor that was covered to an extent of only one-fifth by the

debtor's assets? The answer would be exactly the same as above: no creditor would be so foolish. The U.S. economy now resembles Humpty Dumpty, and "All the king's horses and all the king's men cannot put Humpty Dumpty together again."

With some modifications to the valuation of the toxic debt, savings volume, and capital output ratios, the same logic would apply to other capitalist countries sucked into this trap. All in all, we are witnessing the demise of the classic capitalist systems of the 20th century. Notice how closely in historical sequence this collapse has followed upon the collapse of the classical communist systems towards the end of the 20th century.

Several implications follow from the above:

- i. Following the collapse of both classical systems of the 20th century, all that will remain standing amidst the rubble will be several systems of emergent fascism in different parts of the world, a prospect fraught with the gravest dangers for humanity.
- ii. In the case of the U.S., the additional toxic credit overhang of \$192 trillion (US\$240 trillion minus US\$48 trillion of assets) is "phantom money" which may be used to buy up the real resources of the rest of the world—the lands, the forests, the minerals and fuels, the water resources as well as other real-valued assets, through processes of privatization. If this process is allowed to happen, then real resources and assets will be traded for near worthless money, with tragic consequences for all peoples all over the world. Every thinking person on the planet must take notice of both these dangers and advise their societies accordingly.
- iii. An eventual solution to the complex mess left behind by these excesses and collapses is already emerging. It lies in the construction of a decentralized sustainable bio-economy throughout the world in response to the challenges of climate destruction, environmental collapse, and the peaking of both fossil fuel supplies and world economic output. The outline may be found in a recent UNEP-ILO Report which states that another Great Transformation is now required in the reverse direction to build a new economy based on "green jobs." The current danger is that the "noise" generated by the chaos of the current collapse (and the fascination with spurious financial economics) may overwhelm the "signal" regarding the need to rapidly move in the new direction.

The silence at the core with regard to the quantitative dimension of the toxic debt seems to be deliberate; it is essential that we understand and acknowledge the emerging truth.