TRAIN WRECK

The Financial Crisis

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The financial crisis of 2007-2009 is remarkable for two things: the speed with which all the nostrums of free market economics were abandoned and the absence of any coherent alternative from the Left. The dogma of market supremacy was fatally fractured as country after country saw the virtual—if not actual—nationalization of the financial system. The roots of the crisis were complex, but at the heart was the de-regulation of the financial sector that enabled a complex range of financial instruments and structures to be developed. Pressure for this came from the increasing financialization of economic life, particularly in the Anglo-Saxon economies. Capitalism was "democratized" through a combination of de-mutualization, privatization, and readily available debt. Houses were increasingly seen as financial assets rather than places to live, and people were encouraged to invest in pensions, the stock market, and other income-generating schemes, effectively turning their savings into risk capital. Huge levels of consumer debt and a collapse in savings masked relatively static wages. The large flood of money into investment funds, endowment mortgages (where the capital is invested in the stock market rather than repaid), pensions, and other financial instruments swelled the stock market as these huge sums searched for a home. Like all asset booms, the early gains tempted more investors, fuelling even further rises until the bubble burst. It is not without irony that it was the poor who brought down the financial system. The search for ever-increasing speculative returns saw increasingly crazy financial instruments and inflating assets. This imploded when a huge pyramid of debt-related instruments pivoted on the shaky foundations of financially vulnerable households.

At the heart of the collapse was the so-called "credit crunch," which stopped the flow of money through the banking system. The economic impact of the collapse of credit drew attention to the critical role of credit in contemporary capitalist societies. It was clear from the second half of the 20th century that debt was playing an overwhelming role in the issue and circulation of money, and a major justification of the seemingly unlimited expansion of credit was that this was a democratizing process. People on median or low incomes were able to access credit cards and mortgages and join in the consumerist bonanza of late capitalism.

While critics from the Left have critically analyzed globalized finance capitalism and there have been large anti-globalization protests, no coherent left alternative has emerged—certainly not one that has a substantial body of support. This may be because of the paralyzing influence of "there is no alternative" politics and the neoliberal attack on the state that is echoed in the anti-state libertarian Left. Now the state is back in the driving seat with a vengeance, Keynes is being resurrected, and even Marx's name is being muttered in the mainstream. Is this the final crisis of capital? Will Wall Street Socialism have the desired outcome—i.e., that the state will once more stand in support of Capital? Or can the clear demonstration of the necessary role of the state make the case for a socialized economy and a socialist state? Despite the attacks on it, it is remarkable that the post-war welfare state built in response to war and the 1930s crisis is still with us, while the much heralded globalized free market of the 1970s and 1980s has imploded within just thirty years. It is clear from the responses of states to the financial crisis that the state is the only institution that can act as both lender and borrower of last

resort. With the collapse of major industries, it is also the investor and employer of last resort.

One of the main reasons the financial system got into such a mess was that bank-created monetary debt had become the anchor of money issue and circulation. It had also spiralled completely out of control. Notably, this did not cause general inflation except in financial assets (which is euphemistically described as "capital growth"). Creating almost all money as debt set up a forward-motion growth system that relied on increasing volumes of debt-based money to pay off previous loans, and, in a capitalist system, to create a profit. It is a system designed to fail. However, while it is rolling, control of the economy goes to those who are willing to take on the most debt. Hence the massive leveraging of investment companies, hedge funds, and private equity companies. A huge parasitic industry grew up on this sea of money in circulation, reflected in the city bonus culture and the huge increase in billionaires.

If the Left cannot make the case for the socialization of the financial system and the need for a democratically controlled state to support necessary production and welfare on the back of this crisis, it is not worthy of the name. Money creation through debt must be removed from control of the banks and speculative investors. This does not mean that money creation should not happen, but this cannot be left to the discretion of the private sector. Profit-seeking, debt-based money issue is both ecologically and socially destructive. As the state must stand as guarantor for the financial system, money creation and circulation should be used primarily for social purposes. Any new money introduced into the system would be by government expenditure (as notes and coin always were), by community or sector-based investment banks (as grants or loans), or as citizen income. Equally, collective funds such as pensions or public budgets should be invested for social benefit with default guarantees.

The principle must be that the financial system is a social resource and social service, and therefore money issue and circulation must be democratically controlled. The aim would be to create a socially just sufficiency economy through mechanisms of money creation, allocation on the basis of social priorities (including credit for working capital), and fiscal measures to avoid inflation and curb ecologically and socially destructive economic activities. If there is to be a private sector, money for investment should be based on pre-circulated money. That is, people who put forward money for investment should know that it is "tied up" for the period of the loan and is at risk. At present it would be very difficult to insulate democratically controlled local flows of money from global capital. However, this could be overcome if a new Bretton Woods would take seriously suggestions for a new and dedicated currency for conducting international exchange. This would remove the inequalities of hard and soft currencies and could combat global inequality if additional credits were issued to poor countries.