September 28, 2018
What is Behind Trump - Is There Method Behind His Madness?
Finance Capital and Industrial Capital - An Evolutionary History

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Introduction

Donald Trump – President of the USA - is a lying, bullying, sexist, racist and dangerous buffoon. But none of this, invalidates his enormous political role today. In order to understand that role, his theatrics and dramatics must be put aside.

What explains the Trump phenomenon? The 'Great' Person theory of history is especially inapplicable to Mr. Trump – he is hardly 'great'. But more broadly, such a theory resting on single persons, does not adequately explain history and societal change. Contrary to rumours, Marxist-Leninists do not minimize the role of individuals. Rather, they recognize that individuals – even great ones - fulfill societal needs, as set by historical forces acting upon classes. In short, Marxist-Leninists seek to understand political events as expressions of deeper currents.

It was **Frederick Engels**, who commented in a preface to **Karl Marx's** "The 18th Brumaire" that:

> "It was precisely Marx who had first discovered the great law of motion of history, the law according to which all historical struggles, whether they proceed in the political, religious, philosophical or some other ideological domain, are in fact only the more or less clear expression of struggles of social classes, and that the existence and thereby the collisions, too, between these classes are in turn conditioned by the degree of development of their economic position, by the mode of their production and of their exchange determined by it. This law, which has the same significance for history as the law of the transformation of energy has for natural science".
> *Frederick Engels 1885; 'Preface to 3rd German Edition: 'The Eighteenth Brumaire of Louis Bonaparte".*

It is notable, that Marx describes in the *18th Brumaire of Louis Bonaparte,* the progress of another buffoon. Louis Napoleon despite his idiocy, played an important role on history's stage. Elsewhere, Engels writes:

> "Men make their own history themselves, but not as yet with a collective will... Their aspirations clash, and for that very reason all such societies are governed by *necessity*, the complement and form of appearance of which is *accident*. The necessity which here asserts itself athwart all accident is again ultimately economic necessity. This is where the so-called great men come in for treatment. That such and such a man and precisely that man arises at a particular time in a particular country is, of course, pure chance. But cut him out, and there will be a demand for a substitute, and this substitute will be found, good or bad, but in the long run, he will be found."
> *Frederick Engels to W. Borgius, January 25, 1894. In Selected Works Marx & Engels"; Volume 3; Moscow 1989; p. 531.*

Therefore, we should ask: What are the historical forces underlying the execrable presidential regime of Trump? What is obscured by the Trumpian theatrical veil?
It is easy to dismiss the postures and frothings of this braggart-oafish-President, as a dangerous and rabid aberration. But Marxist-Leninists try to understand what thrust of American capitalism he represents. Is Trump only an arbitrary, narrow-minded, power-hungry capitalist, simply a vicious and greedy racist? Perhaps he is only a gigantic

egotist - a one-off? Or, is there a method in his 'madness', which conforms to the current needs of American imperialist demands?

One thing is clear - the ruling class in the USA is divided today. We suggest that the raging and very open controversy between members of the political representatives of the capitalist class in the USA – must have a material basis - which Marxist-Leninists should locate. When **Richard Milhous Nixon** was elected in 1972, a similar furor took place. **W.B.Bland** wrote, *('Class Against Class', for 'Marxist-Leninist Organisation of Britain; London; 1974)'*, that:

> "*The corruption in high places* which has been revealed in the "Watergate Affair" is an inevitable concomitant of the profit motive on which the capitalist system is based. Usually this corruption is kept decently hidden from the people, and this process of containment is normally assisted by the media of the ruling class. Where … this corruption is pointedly made public, this is invariably because there is a *serious conflict of interest within the ruling class*, *a conflict in which one group publicizes the sins of its rival as part of the struggle to defeat them*…
> The power of the campaign of exposure against Nixon which followed the so called 'Watergate Affair' lies in the fact that it was *undertaken by organs of US imperialism* – by the 'New York Times', the 'Washington Post', the House of Representatives and the Senate. The explanation for this is not of course, that Nixon has suffered some mental aberration which has led him to espouse the cause of the working class! It lies in the fact that since 1963 *the executive branch of the state has been controlled by a particular section of the US monopoly capitalists, a section most directly associated with the oil, armaments, and aerospace industries, a section which has used the power of the White House to the detriment of the majority of the US monopoly capitalists.*"
> *Bland for the MLOB; "Watergate: The Unmaking of The President"; London; January 1974.*

Bland characterized this grouping as the '*cowboys'*, in distinction to those monopoly capitalists resting their claims on financial capital – the '*yankees'*. Similarly, perhaps we should search for the current division in the ruling class that has prompted uproars in the "New York Times" and CNN about Trump. This article, is offered as a vehicle to prompt discussion on both Trump. It should also raise the related question of the current stage of imperialism, amongst Marxist-Leninists.

We here propose that the current divisions in the USA ruling classes mirrors a close - but at times tense - relationship between branches of finance and industrial capital. This article, tries to understand the dynamic of the two major branches of capital: Finance and Industrial capital. We will argue that currently, Trump is indeed, *largely* a representative of the '*cowboys'*, propelled into power by such as the Koch Brothers. In examining this hypothesis, we will need to place into context some key economic and political events. We will further argue, that opposing him are the leaders of the Democratic party, who, are *largely* fronts for financial capital – the '*yankees'*. The qualification of 'largely', is needed because underlining all power struggles in capitalism, is a fundamental unity of all sectors of capitalists against the working class. On many issues, both yankees and cowboys agree. For instance, on tax 'reform' (for which please understand code for enriching further the capitalists).

Marxist-Leninists have long recognised the central issue of the relationship between finance capital and industrial capital, from Marx onwards. The Austrian social-democrat,

Rudolf Hildferding, first coined the term '**financial capital'**. Till then Marx and Engels had used the term '**Bankocracy'** and '**financiers**'. All these terms are largely synonymous. Lenin saw that Hilferding had made serious errors, including that he:

> *'Ignores the relationship between imperialism and opportunism*';
> *Notebooks on Imperialism'; Volume 39 Collected Works; Moscow; 1968; p. 202*.

In making these errors, Hilferding was led into **Kautskyism**, adopting spurious claims:

> "Hilferding advances Kautksy's usual argument that world economic ties militate against isolations, that the greatest increase in the British colonies' imports and exports (1899-1913) has not bene in trade with Great Britian":
> *Notebooks on Imperialism'; Volume 39 Collected Works; Moscow; 1968; p. 2613-4*.

Indeed, that he was part of a grouping that lumped some interestingly dubious names together in a dubious enterprise:

> "Kautsky, Hilferding and Co. (+ a very close friend=Trotsky) = persuaders of the imperialist bourgeoisie counsellors and reformers of the imperialist bourgeoisie":
> *Notebooks on Imperialism'; Volume 39 Collected Works; Moscow; 1968; p. 61.*.

But nonetheless, Lenin recognised that Hilferding had produced an important analysis, one that largely - Lenin agreed with. Hilferding, as cited by **Vladimir Lenin** – wrote that the "the banker is being transformed into an industrial capitalist":

> "A steadily increasing proportion of capital in industry," writes Hilferding, "ceases to belong to the industrialists who employ it. They obtain the use of it only through the medium of the banks which, in relation to them, represent the owners of the capital. On the other hand, the bank is forced to sink an increasing share of its funds in industry. Thus, to an ever greater degree the banker is being transformed into an industrial capitalist. This bank capital, i.e., capital in money form, which is thus actually transformed into industrial capital, I call 'finance capital'. Finance capital is capital controlled by banks and employed by industrialists."
> *Hilferding R; Cited by V.I.Lenin; "Imperialism the Highest Stage of Capitalism"; 1. Concentration, of production and monopolies; Volume 22; Moscow 1964; p.226; or; https://www.marxists.org/archive/lenin/works/1916/imp-hsc/ch03.htm*

It is natural, that significant changes have occurred since Marx's and Lenin's day. Stalin believed that changing circumstances, warranted replacement of even "laws of economics":

> "One of the distinguishing features of political economy is that its laws, unlike those of natural science, are impermanent, that they, or at least the majority of them, operate for a definite historical period, after which they give place to new laws. However, these laws are not abolished, but lose their validity owing to the new economic conditions and depart from the scene in order to give place to new laws, laws which are not created by the will of man, but which arise from the new economic conditions."
> *J.V.Stalin, "Economic Problems of Socialism in the USSR"; September 28, 1952; Foreign Languages Press, Peking: 1972 (First Edition); p. 4; or at: https://www.marxists.org/reference/archive/stalin/works/1951/economic-problems/index.htm*

The dynamic relationship between finance capital and industrial capital, was changing almost as soon as Marx had completed describing its first interactions. This explains why Engels was forced to write a short update on some of these changes, after Marx died. Placing that relationship into historical periods, is to an extent arbitrary. However, perhaps five periods of development up to the present day, have decisively shaped interactions between finance capital and industrial capital. These proposed five periods, listed below, form the structure of this article:

i) The pre-monopoly stage of capitalism.
This section of the article aims to encapsulate Marx and Engels on the origins of finance and industrial capital.

ii) The imperialism or monopoly capitalism led to predominance of finance capital over industrial capital, as described by Lenin.
In this portion, the 'merging' of finance with industrial capital is described.

iii) The period of socialism in the USSR, that came to an end with the victory of revisionism in the USSR and the Warsaw Pact – formerly People's Democracies.
This section covers international capitalist strategies viewed by Stalin, up to his last major published work, 'Economic problems of the USSR'.

iv) The period of world dominance of the USA and the dollar in the Bretton-Woods era.
This section outlines the Bretton Woods Agreement, and establishing of Dollar hegemony, leading onto the era of so-called 'Neo-Liberalism'. The post-Bretton Woods period, and Friedmanite monetary pushes of the 1970s are in this section. Here we also note the deregulation movements of the 1980s. This includes especially, the disemboweling of the Glass-Stegall Banking Act, before it was finally abolished in 1999.

v) The period of the most recent, new monetary instruments of finance capital and technological innovations. This can be roughly dated from around 1990. These innovations made Marx's view of 'illusory capital', finally all-pervasive. We discuss here also the changes in imperialism that merit a new term neo-imperialism; and the emergence of 'hot money' and its effect on the crash of 2008. In essence this remains the current period.

vi) The above frames the current situation, to allow us return to the Trump Presidency.

It is possible, that we are now, on the cusp of a new technological development. Capitalism will attempt to use the new technologies of **robot**-isation and artificial intelligence. The intent is to reduce further its wage bill and raise its profit. Such technologies if implemented, will transform industry, and have major impacts on the previous **de-industrialisation**. That process ravaged the Western dominated countries, from the 1960s to the current time. These countries shipped some elements of industry to the under-developed neo-colonial countries - previously colonies. Together with the reactionary philosophy of '**Neo-Liberalism**' – de-industrialisation has devastated the working classes.

But these even newer technological innovations, may also off-set the advantages of metropolitan countries in 'de-industrialising' their own countries. The major advantage for metropolitan capitalists in de-industrialising in the metropolitan countries, has been the lower cost of wages in previous colonies. Previously, in these former colonies, wages were cheaper and could balance off the tendency of the **Law of the Falling Rate of**

Profit. The movement of '**re-shoring**' embodies the change in objective realities for the capitalists – driven by profit. Capitalism is considering moving industry back to the metropolitan countries, although rather cautiously at first.

However, this can be no solution to the forceful contradictions of capitalism. These will simply be renewed at a higher level, and remain immense and insoluble. In fact, these contradictions cannot be resolved, without the socialist revolution. But capitalism tries… and yet, it's leaders are unsure what path to take. In this piece we cannot address the ceases of crisis in capitalism, and the failure to overcome them. We hope to return to this in a later analysis.

In the meantime, a new re-division of the world is starting to take place. Hence the enormous tensions between sections of the USA capitalists amongst themselves. And furthermore the renewed and very open tensions between the USA capitalists and its main rivals - the European Union nations and a newly openly capitalist China.

We hypothesise that Trump and his cronies, are currently reverting to old-fashioned protectionism – in order to build up the new robotic industries in the USA. And that this is actually a world-wide phenomenon in other countries. As Engels pointed out in another context, history often makes a "*zig-zag*" - especially when the role of *ideology* is concerned said Engels:

> "So with all the other accidents, and apparent accidents, of history. The further the particular sphere which we are investigating is removed from the economic sphere and approaches that of pure abstract ideology, the more shall we find it exhibiting accidents in its development, the more will its curve run in a zig-zag. So also you will find that the axis of this curve will approach more and more nearly parallel to the axis of the curve of economic development the longer the period considered and the wider the field dealt with".
> *Frederick Engels: Letter to Engels to Borgius; Ibid;*

We do not pretend to be able to explain, or prove all twists and turns of the Trumpian noisy ideology. That is a confusing cacophony, containing elements of simple thuggish gangsterism and cronyism. There are strong similarities to the early years of earlier fascist movements, but, we are not quite there…. yet.

With all those caveats we try to potentially explain some of Trump's ideological 'zig-zag'. We start with a brief review of the election that brought Trump to the presidency of the USA. We then summarise the evolution of finance capital from Marx's days. This is only a sketch and we are well aware that many deficiencies exist. As stated, perhaps this spurs Marxist-Leninists to develop superior analyses.

Perforce, the article is rather long, with a fair chunk of quotes. For this we apologise. But not too much. We will say that at times - perhaps originality is over-rated:

> "It may be said that all this is correct and generally known; but that there is nothing new in it, and that it is therefore not worth spending time reiterating generally-known truths. Of course, there really is nothing new in this; but it would be a mistake to think that it is not worth spending time reiterating certain truths that are well known to us... I think that systematic reiteration and patient explanation of so-called "generally-known" truths is one of the best methods of

(education - editor)…"
J.V.Stalin, "Economic Problem of Socialism in the USSR"; September 28, 1952; Peking; 1972; p.9;

We prefer quoting the insightful and original comments of Marx, Engels, Lenin and Stalin, rather than resorting to clumsy re-phrasing. Those already knowledgeable with the literature, who wish a more specific and concise discussion relating to Trump, could start with the preamble, and then move from section 4 onwards. Some sections, especially - 5 *i) Increased circulation of the money supply resulting from new forms of money and credit* – may be too detailed in the mechanics of modern finance, for some left readers. However even a superficial flip through that section will enable them to glean the dimensions of finical ingenuity to profiteer.

Preamble. *The Election of 2016 in the Rear-view Mirror*

Prior to the last presidential elections in the USA, in October 2016, the working class of the USA faced a familiar, difficult problem: No party represented its needs and aspirations. (*Hari Kumar, ML Currents Today, Theses October 2016*). Both the Republican party and its candidate (Donald Trump) and the Democratic Party and its candidate (Hilary Clinton) represented the capitalist class.

Marxist-Leninists argue that even slight differences between parties, can be potentially important – for short term gains. Such differences might convey some – even perhaps only a marginal - benefit to the working class. Accordingly, Marxist-Leninists do not advocate abstentionism.

Kumar argued in 2016, that the vicious and near-fascist racist, anti-working class programme of Trump's campaign, made it easier for the working class to organise itself under a Clinton victory:

> "14. As we do not have a [ML-ist] party right now, we must ask pragmatically "what is in the best interest of the working class right now?" Currently there are many loud voices on the broad left who argue that we should (i) not vote for Hillary Clinton as the "line of the lesser evil" has proven useless for the working class. Or else that (ii) voting in any election of the ruling class is meaningless when the choices are purely Democratic versus Republican. However, as far as we are aware, no one denies that if Hillary Clinton does lose and Trump wins the election – that organising for the working class and for all minorities – will be exponentially more difficult. The third argument voiced is that the serious leftist should vote for the Green party and Jill Stein. We have made clear our view on this point, however, for those who cannot 'hold their nose' and vote for Hillary, we believe that voting Green is an acceptable alternative choice."

Some on the ML-ist left, found the possibility of a vote for the Green Party, problematic. However a commoner critique of Kumar's 2016 position stemmed from the natural abhorrence of leftists for the plutocrat Hilary Clinton, and the Democratic Party itself. After all, the Democratic Party has protected financiers and capitalists. Nonetheless, since Trump became President, he has flamed out an explosive contempt for working peoples of America – especially African-Americans, and the peoples of the world.

Trump's contempt takes the policy form of open racism against both African-Americans and Hispanics; a fierce defence of the ruling class enrichment at the expense of the workers expressed in the tax cuts; reactionary attacks upon women, immigrants, education, the legal system, and the environment; and this is combined with the recent conservative dominated Supreme Court legal rulings to attack workers and immigrants.

We conclude that Kumar's advice, for progressives, and Marxist-Leninists to vote for Clinton, was largely correct. However, the fault lines within the American ruling class are now becoming more clearly exposed. This allows correction of prior key sections of the analysis. One correction to be made regards the use of force. Kumar had written:

> "*Thesis 10*: It then became increasingly clear to the capitalist class that in the forthcoming 2016 Presidential election, there were only two options for them: The first was an ultra-conservative, near neo-fascist movement; or the second was a

> ‘safe’ pair of hands that could be put into the White House. Donald Trump was chosen by the Republican Party to test the viability of a neo-fascist movement. He was pitted against a more ‘known’ quantity, Hilary Clinton. She had proven for years to be an effective stalwart (and member) of the financial class. She has been supportive of the ruling class right up to the point of war-mongering in the Middle East, and complicity in nefarious activity in South America (*Henwood D; “My Turn – Hilary Clinton targets the presidency’; New York; 2015)*. There was only one potential problem here for the ruling class: Clinton’s special history of self-enrichment, self-promotion and aptitude for lies made her electoral victory less than certain.
>
> *Thesis 11*. Who would the capitalist class ultimately choose as their best face? On the one hand Hilary Clinton was not a 100% certainty at the polls, while on the other Trump was untested. Yet as the campaigns wore on, Donald Trump’s ‘litmus-test’ of viability was proving problematic. By October it had become clear that Trump’s election would be impossible to impose upon the American peoples without overt force. Firstly the street level agitations at his rallies, by those incensed at his racist, sexist and anti-working class policies showed the possibility of a wide-based anger and effective organisation. This possibility – not pleasant for the ruling class - was made an even more vivid possibility as racist and deadly provocations of the police against African-Americans continued. During the early phases of the election campaign, the ‘Black Lives Matter’ campaign erupted. As African Americans – disappointed that Obama had not made more rapid changes for their community – refused to let the police simply slaughter blacks and go un-challenged. This led to a huge and almost un-precedented mobilisation not only of African-Americans, but also of Hispanics and progressive whites. Therefore the capitalist class of the USA and its Republicans pulled the plug on Trump. Ever more embarrassing leaks about his “colourful” past would damage (hopefully ensure) his electoral demise. While on the whole it appears as though Black voters will ignore Trump, it is not clear that they are convinced by Clinton. At the time of writing it seems likely although far from certain that Clinton will be elected president”.

Kumar was clearly wrong to estimate that Trump’s accession to power would need to be achieved by an “overt force”.

Nonetheless, key points made in the Kumar 2016 analysis were correct. Clinton was ‘far from certain’ to be elected, and indeed the election was closely run. Although Clinton narrowly won the popular vote, she lost the electoral college and number of seats. However Kumar had not correctly anticipated the determination of the ruling class to manipulate and sway voters. The machinations of James Comey (Head of FBI) – are revealing. Comey at the 11th hour, exposed some damaging details about Clinton, yet he carefully hid very damaging details of Trump’s misdemeanors. Undoubtedly this swung the election at a late critical time. More recently, Special Investigator Mueller has indicted 12 members of the Russian security forces, in a web-pishing attack on the Democratic Party’s computers – following a call to do so by then candidate Trump. But this was never revealed prior to the election. Mueller’s appointment to investigate charges of collusion between Trump and the Russian state, was a counter-attack after Trump’s accession to power.

All this raises the question: Why were sections of the ruling class of the USA so anxious to ensure Trump's presidency? And what were these sections?

Theses 1-4 of 2016, outlined the passage from World War 2 to a present day intensified inter-imperialist competition. ML-ists in Britain, led by Bill Bland had noted the importance of the underlying bases of the two main USA parties in the *Watergate Affair*. Capital was composed of an industrial part and a financial part. As we noted in *Thesis 1*:

> "Bill Bland had previously analyzed American capitalism in the era of the Watergate Affair, identifying the Democratic Party as the representative primarily of financial capital – so-called "Yankee capitalists". Meanwhile the Republican Party had become the party of the advanced aerospace and technology industries, and the oil industry – the so-called "cowboy" wing of the capitalists". (*Bland, "The Watergate Affair": Class Against Class*)

But by 2016, the power of the financial section of the capitalist class had become **pervasive** and **dominant**. By 2016, both the Republican and the Democratic Party perforce – were supportive of, and were supported by the financial capitalist class of the USA. Kumar therefore further stated:

> "*Thesis 7*. As the USA economy in the era of lightning electronic transactions became one that is far more completely dominated by financial capital, this ascendant wing of the capitalist class is owed allegiance by both the Republican and Democratic parties".

This is correct overall, since the financial capitalists had by 2016 converted the entire global capitalist system into a casino of hot money and speculation. Yet Kumar's 2016 Theses, neglected a key consideration.

The evolving nature of the relationship between finance and industrial capital has become more complex. The division between finance capital and industrial capital is remains very real. But when one section is dominant, its' supremacy is rarely absolute. Even when one wing predominates, the other remains far from powerless. However, only at times do the two sections show an overt and open contradiction between themselves. Often, the two parts may act in complete harmony, and may indeed 'fuse'. Indeed by the early 1900s, finance capitalism had merged with industrial capital, as Lenin stated.

However, the complexity of interaction, has markedly increased in the late 20th century and 21st centuries. Changes over this time include two key factors.

Firstly, there are some changes that primarily affect the financial sector of capital. Many financial capitalists are now increasingly completely divorced from any actual 'production' of surplus value. These rely on the net and speedy 'hot money' transfers, and thrive on 'fictitious' capital. In so far as the enormous technical changes of handling money have affected industrial capital, these have tended to reinforce an attenuation of their links to industrial capital. Thus nowadays, some industrial capitalists can use their enormous surplus funds to completely dispense with financial capitalists. This may be by investing and accruing the interest dividends, but they may not need a financial capitalist to the same extent as before.

Secondly, there has been a recent shift in the location of main industrial manufacture. Initially in the quest for even greater profits (super-profits) the metropolitan countries shifted their base of manufacturing to the erst-while colonies. These latter are now ex-colonial neo-colonies. These continue to be dominated (politically and economically) by the metropolitan countries, but now in more politically acceptable terms, than the former un-masked, naked colonialism. This move of the manufacturing base is known by the name 'de-industrialisation; and later, by the term 'out-sourcing'.

Out-sourcing was prompted by the falling rate of profit in the metropolitan countries – as predicted by Marx – and the ability to increase super-profits by "less strict controls on pollution levels, fewer safety regulations, longer hours worked, better 'labour discipline' or in other words, more repression and, above all, less protection for the workers from trade unions". (*Teresa Hayter (1982): cited by Bland W.B. See section 4. below*).

Lately however, some sections of US industrial capital have cautiously started to move at least part of their manufacturing base back to the USA. They are impelled to do so by **several factors**, including these three:

> The continuing falling rate of profit; the rising cost of labour in the relatively under-developed market; the falling cost of raw materials inside the USA; and finally the imminent prospect of robotic and artificial intelligence manufacture.

These factors have to an extent, limited the 'off-shore' movement of USA domestic industry to the under-developed world, into a so-called 're-shoring'. This brings back some components of industrial manufacture to the metropolitan heartland inside the USA. Trump's policies are designed to assist the industrial section of capital.

In reality, both sectors of capital are supported by both the Democratic and Republican parties. But the amount of support to each sector, varies over time due to the exact economic situation. Capitalism is always evolving, precise fit of its needs to the electoral map at any time, requires detailed considerations. Currently, we believe that it remains the case that a stronger support for finance capital is shown by the Democratic party, and a stronger support for industrial capital is shown by the Republican party led by Trump. Nonetheless, the ability of the working class to organize itself has its own imperative. Therefore even moderate, or at times small, differences between parties may make for vital improvements for the working class.

The Changing Relationship Between Industrial and Financial Capital

1. The early development of the capitalist class - the pre-monopoly stage

Marx shows how the two main sections of Capital, base themselves. One, the industrial capitalist, squeezes out surplus-value (profit) from the working class; while the other, the '*bankocracy'* (finance capital) is based upon the operations of money, and the circulation of commodity in the market place. Marx's writings help explain how modern day money merchants make profits without any contribution to society in the form of ensuring a product or value. His analysis remains highly relevant to understanding modern day financiers. We will trace the path of the bankocracy.

(i) Commodities, Gold, Early Money-lending and Usury

Commodities are products or services made by humans for exchange. When trading or swopping such commodities, a common determinant underlies their value – of necessity. This is not the **use-value** of commodities – but their **exchange value**. For Marx all commodities made for the market, embody differing degrees of a portion of **labour time**, and it this that '*determines'* their exchange value:

> "What exclusively determines the magnitude of the value of any article is therefore the amount of labour socially necessary, or the labour time socially necessary for its production. The individual commodity, counts here only as an , average sample of its kind. Commodities, which contain equal quantities of labour, or which can be produced in the same time, have therefore the same value. The value of a commodity is related to the value of any other commodity, as the labour-time necessary for the production of the one is related to the labour-time necessary for the production of the other".
> *Karl Marx. Capital Volume One; Part I: Commodities and Money; Chapter One: Commodities; London; Penguin Edition; Translated by Ben Fowkes; 1990;p. 129-30.*

Of course, Marx in the same work, shows how profit is generated by the capitalist form the worker. It is by extracting an unpaid and hidden portion of **labour power**, which the worker is forced to sell on the labour market as a commodity. Labour power is the ultimate source of all **profit** or **surplus value**. We discuss this further in relation to labour as one source of wealth, but the only source of surplus value, below.

Exchange values between different commodities, were (and are) practically expressed as money. The need to do this arose in ancient times. Money, and its relationship to an underlying 'value', are found in the earliest human records. A good example is in the Babylonian empire of Hammurabi (ca 1810 BC – ca 1750 BC), where exchange values were established between barley and a given weight of silver. These silver standard weights were kept in the palace treasury, which served perhaps as the first 'bank'.
Vilar, Pierre. A History of Gold and Money; London; 1976; p.26.

However, gold soon became the favoured medium by which to express exchange value. This had occurred long before bourgeois capitalist production. Why did rare metals like gold and silver achieve this role? Principally, because many differing commodities could be easily related to pure gold, which was relatively rare. Gold embodied an "identical, homogenous quality", which allowed it's use to express a "universal labour time":

> "Money necessarily crystallizes out of the process of the exchanges, in which different products of labour are in fact equated with each other and thus converted into commodities."
> *Karl Marx. Capital Volume I; London; Penguin Edition; Translated by Ben Fowkes; 1990; "Chapter Two: Exchange"; p.181 .*

> "At first the process of bourgeois production takes possession of metallic currency as an existing and ready-made instrument, which, although it has been gradually reorganised, in its basic structure has nevertheless been retained. The question why gold and silver, and not other commodities, are used as the material of money lies outside the confines of the bourgeois system…
> Because universal labour-time itself can only display quantitative differences, the object to be recognised as its specific embodiment must be able to express purely quantitative differences, thus presupposing identical, homogeneous quality. This is the first condition that has to be fulfilled if a commodity is to

function as a measure of value. If, for instance, one evaluates all commodities in terms of oxen, hides, corn, etc., one has in fact to measure them in ideal average oxen, average hides, etc., since there are qualitative differences between one ox and another, one lot of corn and another, one hide and another. Gold and silver, on the other hand, as simple substances are always uniform and consequently equal quantities of them have equal values. Another condition that has to be fulfilled by the commodity which is to serve as universal equivalent and that follows directly from its function of representing purely quantitative differences, is its divisibility into any desired number of parts and the possibility of combining these again, so that money of account can be represented in palpable form too. Gold and silver possess these qualities to an exceptional degree.
As means of circulation gold and silver have an advantage over other commodities in that their high specific gravity – representing considerable weight in a relatively small space – is matched by their economic specific gravity, in containing much labour-time, i.e., considerable exchange-value, in a relatively small volume. This facilitates transport, transfer from one hand to another, from one country to another, enabling gold and silver suddenly to appear and just as suddenly to disappear."
Karl Marx: "Critique of Political Economy" 1859; 4. The Precious Metals:
https://www.marxists.org/archive/marx/works/1859/critique-pol-economy/ch02_4.htm

"I assume, gold is the money-commodity, for the sake of simplicity,.
The first main function of money is to supply commodities with the material for the expression of their values, or to represent their values as magnitudes of the same denomination, qualitatively equal, and quantitatively comparable. It thus acts as a universal measure of value, and only through performing this function does gold, the specific equivalent commodity, become money.
It is not money that renders the commodities commensurable. Quite the contrary. Because all commodities, as values, are objectified human labour, and therefore in themselves commensurable, their values can be communally measured in one and the same special commodity, and this commodity can be converted into the common measure of their values, that is into money. Money as a measure of value, is the necessary form of appearance of the measure of value which is immanent in commodities, labour-time.
The expression of the value of a commodity in gold — *x* commodity A = *y* money-commodity — is its money-form or price. ....
Commodities with definite prices all appear in this form: *a* commodity A = x gold; *b* commodity B = y gold; *c* commodity C = z gold, *etc*., where *a*, *b*, *c*, represent definite quantities of the commodities A, B, C and x, z, y, definite quantities of gold. The values of these commodities are, therefore, changed into imaginary quantities of gold of different magnitudes. Hence, in spite of the confusing variety of the commodities themselves, their values become magnitudes of the same denomination, gold-magnitudes. As such, they are now capable of being compared with each other and measured, and the course of development produces the need to compare them, for technical reasons with some fixed quantity of gold as their unit of measurement."
Karl Marx. Capital Volume One; Chapter Three: Money, Or the Circulation of Commodities; The Measure of Values ; Ibid; p.190-91.

As money became the accepted medium of exchange, the practice of loans became widespread. By the 14th century in Italy, the great city states, established guild mercantile trading centers, and became '*commercial wealth*' centers:

> "Italian cities were the first in Europe to rise by trade; during the crusades – Venice, Genoa, Pisa – partly by the transport of people and always by that of the supplies which had to be delivered to them. These republics were, in a manner of speaking, the supply commissaries of these armies...
> Commercial wealth as an independent economic form and as the foundation of commercial cities and commercial peoples exists and has existed between peoples on the most diverse stages of economic development, and within the commercial city itself (e.g. the old Asian, the Greek, and the Italian etc. of the Middle Ages) production can continue on in the form of guilds etc."
> *Marx, Karl; "Grundrisse - Foundations of the Critique of Political Economy (rough Draft)"; Penguin Edition; London 1993; 'The Chapter on Capital - Interest and profit - Carey. Pawning in England; p.856, 859.*

Several Florentine financial houses set up banks, including the Bardi, Peruzzi, Acciaiyoli and Medici. Such houses in Italian city-states established the first banks. They were rapidly emulated - for example by the German Fuggers and the Flemish. Italian houses and the Flemish trader-bankers, initially controlled the English export wool-trade (*A.L.Morton, A People's history of England; London 1968; p.93*). But English traders progressively ousted them. Gradually a money economy took over from a barter economy in England.

It follows from its' ancient history, that interest-bearing loans were not a capitalist invention. A usurer is "*a money-lender, especially one who charges an excessive interest*" (*'Oxford Shorter Dictionary'; Oxford 1973*). Marx writes that in the Middle Ages there were '*two distinct forms of capital… usurer's capital and merchant's capital*':

> "Interest bearing capital... or in its archaic form, usurer's capital, belongs together with its twin brother, merchant's capital, to the antediluvian forms of capital which long preceded the capitalist mode of production and are to be found in the most diverse socio-economic formations".
> *Marx; Volume 3; Penguin edition; London 1991 Chapter 36, 'Pre-capitalist relations' Ibid; p. 728.*

The forfeiting of loans by the borrowers to the usurer, enabled '*concentration of large money capitals*':

> "Ruining of rich landed proprietors by usury and the impoverishment of the small producers, leading to the formation and concentration of large money capitals."
> *Marx; Volume 3; Ibid; Chapter 36; 'Pre-capitalist relations' Ibid; p 729.*

Usury was therefore, a destructive force that '*undermines'* and '*ruins small peasants'* - thereby clearing the path to modern capitalist development:

> "Usury… works on the one hand to undermine and destroy ancient and feudal wealth, and ancient and feudal property. On the other hand it undermines and ruins small peasant and petty-bourgeois production, in short all forms in which the producer still appears as the owner of his means of production":
> *Marx; Volume 3; Ibid; Chapter 36, Pre-capitalist relations' Ibid; p 731.*

However, while being so erosive, usury does not of itself, actually change the mode of production. It acts as an accelerant by '*impoverishing'* the old means of production:

> "Where the means of production are fragmented, usury centralizes monetary wealth. It does not change the mode of production, but clings on to it like a parasite and impoverishes it. It sucks it dry, emasculates it and forces reproduction to proceed under ever more pitiable conditions. Hence the popular hatred against usurers..."
> *Marx; Volume 3; London 1991; Chapter 36, Pre-capitalist relations' Ibid; p. 731*

Usury helps give birth to capital. With the rise of capital, money becomes a true commodity, which can command *'surplus labour*' as '*capital'* – in which capacity, it goes beyond being simply wealth:

> "Usury is historically important, in contrast to wealth devoted entirely to consumption, as being itself a process giving rise to capital. Usurer's capital and mercantile wealth bring about the formation of a monetary wealth independent of landed property...
> What is sought from the hoard-owner is not capital but rather money as money; but through interest he transforms this money hoard, as it is in itself, into capital - into a means by which he takes partial or complete command of surplus labour, and in this way of a portion of the conditions of production themselves, even if these nominally still confront him as someone else's property"".
> *Marx; Volume 3; Penguin edition; London 1991 Chapter 36, Pre-capitalist relations' Ibid; p 731-2.*

As the industrialist was still arising, "usurer capital and merchant capital" was initially predominant in finance:

> "The genesis of the industrial capitalist did not proceed in such a gradual way as that of the farmer. Doubtless many small guild-masters, and yet more independent small artisans, or even wage labourers, transformed themselves into small capitalists, and, by gradually extending exploitation of wage labour and corresponding accumulation, into full-blown 'capitalists' without qualification. In the period when capitalist production was in its infancy.... the Middle Ages had handed down two distinct forms of capital, which ripened in the most varied economic social formations, and which, before the era of the capitalist mode of production, nevertheless functioned as capital— usurer's capital and merchant's capital".
> *Marx, Karl. Capital Volume 1; London; 1976; Penguin edition; Chapter 31; p.914.*

(ii) Rise of the 'Bankocracy' - the financial capitalist

But both usurer's and merchant's capital, were overtaken during the rise of industrial capitalism. Marx used the rise of capitalism in England, as his key example to unveil the origins and operation of capitalism. A relentless, merciless and brutal accumulation in England finally, completely dispossessed the peasantry, and forced them off hitherto 'common lands', into the factories or work-houses. Marx called this process *'primitive accumulation'*. During this process, several new classes were created, in addition to the the proletariat and the capitalist. The process also led to the '*new bankocracy*', and a renewed '*landed aristocracy'* - after William of Orange took power in England in 1688:

> "The 'Glorious Revolution' brought into power, along with William of Orange, the landlord and capitalist appropriators of surplus-value. They inaugurated the new era by practising on a colossal scale thefts of state lands, thefts that had been hitherto managed more modestly. These estates were given away, sold at a ridiculous figure, or even annexed to private estates by direct seizure. All this happened without the slightest observation of legal etiquette. The crown lands thus fraudulently appropriated, together with the robbery of the Church estates, as far as these had not been lost again during the republican revolution, form the basis of the to-day princely domains of the English oligarchy. The bourgeois capitalists favoured the operation with the view, among others, to promoting free trade in land, to extending the domain of modern agriculture on the large farm-system, and to increasing their supply of the free agricultural proletarians ready to hand. Besides, the new landed aristocracy was the natural ally of the new bankocracy, of the newly-hatched haute finance, and of the large manufacturers, then depending on protective duties".
> *Marx, Karl. Capital Volume 1; London; 1976; Penguin edition; Chapter 27 p.885.*

Usury continued after industrial capital developed. But its' primary role became for individual lending for small scale individual needs (*Marx; Capital; Volume 3; Ibid p.735*). Gradually banks, initially quite small, became dominant. The distinction between old-fashioned usurer capital and the newer, modern forms of interest bearing capital – was the use the lender intended to put the money to. Capitalists use the loaned capital to '*function'* in a new way – in order to '*appropriate unpaid labour'* – to generate surplus value (profit):

> "What distinguishes the interest-bearing capital, in so far as it forms an essential element of the capitalist mode of production, from usurer's capital is in no way the nature or character of this capital itself. It is simply the changed conditions under which it functions, and hence also the totally transformed figure of the borrower who confronts the money-lender. Even where a man without means obtains credit as an industrialist or a merchant, it is given in the expectation that he will use the capital borrowed to appropriate unpaid labour. He is given credit as a potential capitalist"
> consequently the totally changed character of the borrower …".
> *Marx, Ibid; Capital Volume III, Chapter 36; pp. 735.*

Financial capitalists, just like the usurer, derive profit from loans and they charge an interest on them. As industrial capital becomes the '*basic form of the capital relations'*, it dominates the capitalist mode of production. Industrial capital develops in opposition to commercial financiers, who were initially reluctant to loan to the new-fangled industrialists. Industrialists, had to confront old forms of '*commercial and interest-bearing forms of capital*', and '*subjugate'* them, and finally to '*dominate them*':

> "The commercial and interest bearing forms of capital are older than industrial capital, which in the capitalist mode of production is the *basic form* of the capital relations dominating bourgeois society…. The commercial and interest-bearing forms of capital are older than industrial capital, but … in the course of its evolution, industrial capital must therefore subjugate these forms and transform them into derived or special functions of itself. It encounters these older forms in the epoch of its formation and development. It encounters them as antecedents

> … not as forms of its own life-process. … Where capitalist production has developed all its manifold forms and has become the dominant mode of production, interest-bearing capital is dominated by industrial capital, and commercial capital becomes merely a form of industrial capital, derived from the circulation process”.
> *Karl Marx; Theories of Surplus Volume; Volume III; Moscow, 1971. Chapter 36, pp. 468-9*

The term **Central Bank** is a modern terminology. It refers to a Bank that controls the currency of a state, meaning the printing and issuing of notes and its coinage. This means it manages the country's money supply. In addition it sets the interest rate by which lenders of money accrue more capital. Such banks also oversee the more ordinary commercial banks, supposedly ensuring they are solvent and not fraudulent. The first Central Banks, were the Bank of Amsterdam (1609), the Bank of Sweden (1668), followed by the Bank of England in 1694.

It was only during the Napoleonic war with France, that the Bank of England was started:

> "William Paterson... backed by a powerful group of merchants in the City of London who were afraid that the new Protestant king (William of Orange) might capitulate to the French (*in the Nine Years war with France, that had started in 1688 - Ed*) because he could not afford to fight them, Patterson offered a loan to the government of Pounds 1.2 million at 8% interest. In return the subscribers to the loan were to be incorporated as the Governor and Company of the Bank of England, the first joint stock (i.e. capitalized by public subscription) bank in the country .. to be given certain privileges.. The charter was sealed on 27 July 1694.. it was given a monopoly of joint stock banking, the handling of the government’s account, the right to deal in bullion, to discount approved bills of exchange (these IOUs were already a common means of settling international trade accounts) and to issue notes..":
> *Deane, Marjorie, & Pringle, Robert; "The Central Banks"; London; 1994; p.39.*

(iii) Banks and fictitious capital - the role of credit.

Most loans in Marx’s day, and still today, are made by banks, or by the state. Generally the first step in a loan, is that banks must hold a hoard of money, which has been deposited by clients. These clients seek to save in a safe manner. But in effect, clients 'lend' money to the bank, but will receive at best only a small interest. Now the bank is free to use the money, so long as it can return it, if and when the client demands.

Of course, the bank total store of money is limited at any one time. But it is not at this point ‘being put to use’, it is ‘*un-productive’*. Banks do not like to do this, as they prefer to lend it out at an interest. This makes ‘their’ hoard of money from their point of view profitable (productive). But what if the depositors demand their money back? Banks assume and rely, on the fact that it is very unlikely in most circumstances, that all the money will be demanded back by these clients-lenders, at the same time (*See Marx Volume 3 Ibid; p. 594-596*). This means the banks, can safely become lenders themselves to other clients - now borrowers from the bank – in a centralized manner:

> "A bank represents a centralisation of money-capital, of the lenders, on the one hand, and on the other a centralisation of the borrowers. Its profit is generally made by borrowing at a lower rate of interest than it receives in loaning."
> *Marx, Ibid; Capital Volume III, Chapter 36; pp. 735.*

The banks lend out the loan, usually in the form of an I.O.U. (as a paper form, a script, a document, or a bond). In reality, that loan may never become more than a paper transaction. It likely never needs to be translated into its real, actual money-form (cash) by the bank. Yet the bank also relies on the likelihood of the IOU being paid back to it, often in the form of actual, real money (cash). Again, rather than allowing its growing stock of money being un-used, the bank puts it into further use. This process can almost be ad-infinitum. It led Marx to call the bank's monies '*fictitious capital*' - made of bits of paper:

> "The formation of fictitious capital is known as capitalization. Any regular periodic income can be capitalized by reckoning it up, on the basis of the average rate of interest as the sum that a capital lent out at this interest rate would yield...
> The greater portion of the banking capital is, purely fictitious and consists of certificates of indebtedness (bills of exchange), government securities (which represent spent capital), and stocks (claims on future yields of production)."
> *Marx, Ibid; Volume III Penguin edition; p. 597; 601.*

This un-ending cycle, allows the loaner (either the state, or the bank) to create *'fictitious'* capital by double-counting, or as Engels notes, 'triplication':

> "With the development interest-bearing capital and the credit system, all capital seems to be duplicated, and at some points triplicated, by the various ways in which the same capital, or perhaps even the same claim, appears in various hands in different guises. The greater part of this "money-capital" is purely fictitious. With the exception of the reserve fund, deposits are never more than credits with the banker, and never exist as real deposits. In so far as they are used in clearing-house transactions, they function as capital for the bankers, after these latter have lent them out. The bankers pay one another reciprocal drafts on these non-existent deposits drafts upon the non-existing deposits by balancing these credits against each other".
> *Footnote by Frederick Engels; in Marx, Ibid; Volume III, Chapter 29; p.601*

Credit is essential to the individual producing manufacturing capitalist. It is really in total, a pooling of the entire capital of the whole class – to be distributed by the needs ('*production requirements*') of each sector ('*sphere*'):

> *"Credit* therefore is the means by which the capital of the whole capitalist class is placed at the disposal of each sphere of production, not in proportion to the capital belonging to the capitalists in a given sphere but in proportion to their production requirements—whereas in competition the individual capitals appear to be independent of each other. Credit is both the result and the condition of capitalist production and this provides us with a convenient transition from the *competition between capitals* to *capital as credit"*.
> *Theories of Surplus Value, Marx 1861-3; [CHAPTER X] Ricardo's and Adam Smith's Theory of Cost-price (Refutation) [5.] Average or Cost-Prices and Market-Prices [b) Ricardo Confuses the Process of the Formation of Market-Value and the Formation of Cost-Prices]; or at: https://www.marxists.org/archive/marx/works/1863/theories-surplus-value/ch10.htm*

The 'fictitious' system of money creation, reaches a height in the so-called *'National Debt'*. Usually a National Debt is portrayed as wholly a bad thing. But it played a crucial historic role in assisting industrial capital to come into being. In reality it was again, a

way of using ‘unproductive’ capital to make it ‘capital’. This process brings into existence a class of ‘idle *rentiers’.* The *Oxford English Dictionary* defines a *rentier*, as “a person living on income from property or investments“.

Marx relates how the growth of a ‘National Debt’, allows the capitalist to enter debts into the national account, but never enter a wealth. Alongside it grows the far as it the regime of the ‘*idle rentier class’* and *bankocracy*:

> "The system of public credit, *i.e.,* of national debts, the origins of which are to be found in Genoa and Venice as early as the Middle Ages, took possession of Europe as a whole during the period of manufacturing. The colonial system with its maritime trade and commercial wars served as a forcing-house for the credit system. Thus it first took root in Holland. National debts, *i.e.*, the alienation [Verauuserung] of the state – whether despotic, constitutional or republican – marked the capitalistic era with its stamp. The only part of the so-called national wealth that actually enters into the collective possessions of modern peoples is their national debt.
>
> Hence, quite consistently with this, the modern doctrine that a nation becomes the richer the more deeply it is in debt. Public credit becomes the *credo* of capital. And with the rise of national debt-making, want of faith in the national debt takes the place of the blasphemy against the Holy Ghost, which may not be forgiven.
> The public debt becomes one of the most powerful levers of primitive accumulation. As with the stroke of an enchanter’s wand, it endows unproductive money with the power of creation and thus turns it into capital, without forcing it to expose itself to the troubles and risks inseparable from its employment in industry or even in usury. The state's creditors actually give nothing away, for the sum lent is transformed into public bonds, easily negotiable, which go on functioning in their hands just as so much hard cash would. But furthermore, and quite apart from the class of idle *rentiers* thus created, the improvised wealth of the financiers who play the role of middlemen between the government and the nation, and the tax-farmers, merchants, private manufacturers, for whom a good part of every national loan performs the service of a capital fallen from heaven, apart from all these people, the national debt has given rise to joint-stock companies, to dealings in negotiable effects of all kinds, and to speculation: in a word to stock-exchange gambling and the modern bankocracy."
> *Marx, Ibid; Volume III, Chapter 31; p.919*

For Marx, both the public debt and private capital hordes of paper-money are an ‘*illusion’*. They enable speculations whereby the financier’s aim is to enhance the hoard of money, and may involve “*fraud*”:

> “Even when the promissory note — the security — does not represent a purely fictitious capital, as it does in the case of state debts, the capital-value of this security is still pure illusion. We have already seen how the credit system produces joint-stock capital. Securities purport to be ownership titles representing this capital. The shares in railways, mining, shipping companies, etc, represent real capital, i.e, capital invested and functioning in these enterprises, or the sum of money that was advanced by the shareholders to be spent in such enterprises

> as capital. It is no way ruled out here that these shares may be simply a fraud. But the capital does not exist twice over, once as the capital value of the ownership titles, the shares, and then again as the capital actually invested, or to be invested, in the enterprises in question. It exists only in the latter form, and the share is nothing but an ownership title, pro rata, to the surplus-value which this capital is to realize. A may sell this title to B, and B to C. These transactions have no essential effect on the matter. A or B has then transformed his title into capital, but C has transformed his capital into a mere ownership title to the surplus-value expected from this share capital.
> The independent movement of these ownership titles' values, not only those of government bonds but also of shares, strengthens the illusion that they constitute real capital besides the capital or claim to which they may give title. They become commodities, their prices having a specific movement and being specifically. Their market-values receive a determination differing from their nominal values, without any change in the value of the actual capital (even if its valorization does not change). On the one hand, their market-value fluctuates with the level and security of the receipts to which they give a legal title. .... The market-value of these securities is partly speculative, since it is determined not just by the actual revenue but rather by the anticipated revenue as reckoned in advance. But if we take the valorization of the actual capital to be constant, or, where no such capital exists, as in the case of national debts, if we take the annual yield to be fixed by law as sufficiently guaranteed, the prices of these securities rise and fall in inverse proportion to the rate of interest. If the interest rate rises from 5% to 10%, a security that ensures a yield of £5 now represents a capital of only £50.
> If the rate of interest falls to 2½%; the same security represents a capital of £200. Its value is always simply the capitalized yield, i.e. the yield as reckoned on the basis of an illusory capital at the existing rate of interest. In times of pressure on the money market, therefore these securities fall in price for two reasons: first, because the interest rate rises, and secondly, because they are put up for sale in massive quantities, to be converted into money. This fall in price occurs irrespective of whether the yield these securities ensure for their owner is constant, as in the case of government bonds, or whether the valorization of the real capital that they represent maybe affected by the disturbance in the reproduction process, as in the case of industrial undertakings. In the latter case, we simply have a further devaluation besides that already mentioned. Once the storm is over, these securities rise again to their former levels, in so far as the undertakings they represent have not come to grief and are not fraudulent. Their depreciation in a crisis is a powerful means of centralizing money wealth......
> In so far as the rise or fall in value of these securities is independent of the movement of value of the real capital that it represents, the wealth of the nation is just as great afterwards as before".
> *Marx, Ibid; Volume III, Chapter 31; p.597-599*

In fact so independent of any real value is this new quantity of securities, that Marx called interest bearing capital '*insane*':

> "Moving from the capital of the national debt, where a negative quantity appears as capital —interest-bearing capital always being the mother of every insane form, so that debts, for instance, can appear to the banker as commodities..."
> *Marx Ibid Volume 3: Chapter 29; p. 596.*

Such vortices of illusory money-spirals stimulate '*a whole system of swindling and speculation*' run by '*parasites... a new financial aristocracy*' - that calls out for '*state interference*':

> "This is the abolition of the capitalist mode of production within the capitalist mode of production itself, and hence a self-dissolving contradiction, which *prima facie* represents a mere phase of transition to a new form of production. It manifests itself as such a contradiction in its effects. It establishes a monopoly in certain spheres and thereby requires state interference. It reproduces a new financial aristocracy, a new variety of parasites in the shape of promoters, speculators and simply nominal directors; a whole system of swindling and cheating by means of corporation promotion, stock issuance, and stock speculation. It is private production without the control of private property".
> *Marx, 'Capital"; Chapter 27; Volume 3: Penguin Edition; London 1981; p.569.*

> "The easier it is to obtain advances on unsold commodities, the more such advances are taken, and the greater the temptation to manufacture commodities, or dump those already manufactured on distant markets, simply to obtain advances of money on them. As to how the entire business community in a country may be caught up in swindling of this kind, and where it ends up, we have a striking example in the history of English commerce between 1845-47."
> *Marx 'Capital" Volume 3 Ibid (Penguin edition); Chapter 25; p. 533.*

Of course we must re-visit such vortices in 2008, in the modern era.

(iv) Does trade – even of money, or lending of money – itself create value?

Since a major goal of this article is to explain the role of modern day financiers, we must understand how they derive a profit. Money lenders – both ancient and modern, appear as very rich persons. But how do they become rich? How do they make their money, do they actually create a profit directly from their labour? Marx maintains that while labour creates surplus value, but he is adamant that labour is not the only, or *sole*, source of wealth:

> "Labor is *not the source* of all wealth. *Nature* is just as much the source of use values (and it is surely of such that material wealth consists!) as labour, which itself is only the manifestation of a force of nature, human labor power... And insofar as man from the beginning behaves toward nature, the primary source of all instruments and subjects of labor, as an owner, treats her as belonging to him, his labor becomes the source of use values, therefore also of wealth. The bourgeois have very good grounds for falsely ascribing *supernatural creative power* to labor; since precisely from the fact that labor depends on nature it follows that the man who possesses no other property than his labor power must, in all conditions of society and culture, be the slave of other men who have made themselves the owners of the material conditions of labor. He can only work with their permission, hence live only with their permission."
> *Karl Marx Critique of the Gotha Programme – I.*
> *https://www.marxists.org/archive/marx/works/1875/gotha/ch01.htm*

In fact it is only by '*incorporating*' itself with *both* labour-power and land (here as a

component of 'nature', that capital '*expands'*:

> "By incorporating with itself the two primary creators of wealth, labour-power and the land, capital acquires a power of expansion that permits it to augment the elements of its accumulation beyond the limits apparently fixed by its own magnitude, or by the value and the mass of the means of production, already produced, in which it has its being".
> *Karl Marx. Capital Volume One Chapter Twenty-Four: Conversion of Surplus-Value into Capital SECTION 4. Circumstances that, independently of the proportional division of surplus-value into capital and revenue, determine the amount of accumulation. Degree of exploitation of labour-power. Productivity of labour. Growing difference in amount between capital employed and capital consumed. Magnitude of capital advanced*

So how does capital extract profit from the worker? Because the capitalist controls the means of production (e.g. machines, factories) the worker cannot use their labour of any ability to exercise its ability to work (*labour pow*er) independently. Instead the labourer has to sell her labour power to the capitalist. It is that labour power that creates surplus value (profit). Capital seizes the profit by tricking the worker, by paying only for a *part* of the time that the labourer (proletarian) works. That paid labour is for that that time the labourer spends at work making a commodity whose value equals "*the values of those necessaries which he himself consumes*". But the remaining portion of the working day, goes beyond the average "*necessary labour time*". This is unpaid – and creates surplus value – a "*creation out of nothing*" for the capitalist:

> "the labourer, during one portion of the labour-process, produces only the value of his labour-power, that is, the value of his means of subsistence. Now since his work forms part of a system, based on the social division of labour, he does not directly produce the actual necessaries which he himself consumes; he produces instead a particular commodity, yarn for example, whose value is equal to the value of those necessaries or of the money with which they can be bought. The portion of his day's labour devoted to this purpose, will be greater or less, in proportion to the value of the necessaries that he daily requires on an average, or, what amounts to the same thing, in proportion to the labour-time required on an average to produce them. If the value of those necessaries represent on an average the expenditure of six hours' labour, the workman must on an average work for six hours to produce that value…
> during that portion of his day's labour in which he produces the value of his labour-power, say three shillings, he produces only an equivalent for the value of his labour-power already advanced by the capitalist; the new value created only replaces the variable capital advanced. It is owing to this fact, that the production of the new value of three shillings takes the semblance of a mere reproduction. That portion of the working-day, then, during which this reproduction takes place, I call "*necessary*" labour time, and the labour expended during that time I call "*necessary*" labour. Necessary, as regards the labourer, because independent of the particular social form of his labour; necessary, as regards capital, and the world of capitalists, because on the continued existence of the labourer depends their existence also.
> During the second period of the labour-process, that in which his labour is no longer necessary labour, the workman, it is true, labours, expends labour-power; but his labour, being no longer necessary labour, he creates no value for himself. He creates surplus-value which, for the capitalist, has all the charms of a creation out of nothing. . The essential difference between the various economic forms of

> society, between, for instance, a society based on slave-labour, and one based on wage-labour, lies only in the mode in which this surplus-labour is in each case extracted from the actual producer, the labourer.
> *Karl Marx. Capital Volume One; Chapter Nine: The Rate of Surplus-Value; Section 1. The Degree Of Exploitation Of Labour-Power*

How then, does the money lender or any trader, come into the picture? The labourer has created a profit, which has been taken, expropriated, or unpaid. But the '*first appropriator*' capitalist, has to share the profit (surplus value). With whom does he share it? With other '*capitalists, with landowners, &c., who fulfil other functions in the complex of social production',* and this includes '*interest, merchant's profit*'':

> "The capitalist who produces surplus-value — *i.e.*, who extracts unpaid labour directly from the labourers, and fixes it in commodities, is, indeed, the first appropriator, but by no means the ultimate owner, of this surplus-value. He has to share it with capitalists, with landowners, &c., who fulfil other functions in the complex of social production. Surplus-value, therefore, splits up into various parts. Its fragments fall to various categories of persons, and take various forms, independent the one of the other, such as profit, interest, merchants' profit, rent, &c." *Karl Marx. Capital Volume One. Part VII: The Accumulation of Capital*

So part of the original surplus-value extracted from the worker is '*shared'* with other capitalists. Particularly since the profit can only be '*realised*' in the market place, or by the '*process of circulation*'. In fact the market-place makes it "appear" even more unlikely that the worker has created the profit - *"it appears all the more readily to have arisen from the process of circulation".* The circulation process becomes another veil that hides the reality of the worker's original role.

> "Although the excess value of a commodity over its cost-price is shaped in the immediate process of production, it is realised only in the process of circulation, and appears all the more readily to have arisen from the process of circulation, since in reality, under competition, in the actual market, it depends on market conditions whether or not and to what extent this surplus is realized".
> *Capital Vol. III Part I*; *The Conversion of Surplus-Value into Profit and of the Rate of Surplus-Value into the Rate of Profit*; *Chapter 2. The Rate of Profit; p.134*

In the market-place, the original expropriated surplus-value (profit) is shared between different types of capitalist. What appropriation of the total surplus value, accrues to the '*first appropriator*' depends upon the "*sharpness of his business wits*". That is merely the 'cost of doing business'. But the whole profit - was created by the labourer in the first place:

> "if a commodity is sold above or below its value, there is merely another kind of division of surplus-value, and that this different division, this changed proportion in which various persons share in the surplus-value, does not in any way alter either the magnitude or the nature of that surplus-value. It is not alone the metamorphoses… that take place in the process of circulation; they fall in with actual competition, the sale and purchase of commodities above or below their value, so that the surplus-value realised by the individual capitalist depends as much on the sharpness of his business wits as on the direct exploitation of labour."

Capital Vol. III Part I; *The Conversion of Surplus-Value into Profit and of the Rate of Surplus-Value into the Rate of Profit*; *Chapter 2. The Rate of Profit; p.134*

In this process of transforming the produced commodity – into money – the "*merchant*" and "*commercial capital*" acquire a degree of independence:

> "Here we thus have palpable evidence that the operations of the merchant are nothing more than those operations that must always be performed to transform the producer's commodity capital into money, operations which accomplish the functions of commodity capital in the circulation and reproduction process. If selling were the exclusive business of a mere agent of the producer, instead of being performed by an independent merchant, and purchase likewise, this connection would not be obscured for one moment.
> Commercial capital is, therefore, is absolutely nothing more than the commodity capital of the producer which has to go through the process of transformation into money, to perform its function as commodity capital on the market; only instead of being an incidental operation carried out by the producer himself, this function now appears as the exclusive operation of a particular species of capitalist, the merchant, and acquires independence as the business of a particular capital investment."
> *Capital Vol. III Part IV. Conversion of Commodity-Capital and Money-Capital into Commercial Capital and Money-Dealing Capital (Merchant's Capital) Chapter 16. Commercial Capital; p.382*

To be clear, traders and money dealers, '*add no value*. In fact they only '*deduct'* value:

> *"Money* itself, to the extent that it consists of precious metals, or its production generally – e.g. in paper circulation – creates expense, to the extent that it also costs labour time, adds no value to the exchanged objects – to the exchange values; rather, its costs are a deduction from these values, a deduction which must be borne in proportional parts by the exchangers".
> *Grundrisse*: Notebook VI – The Chapter on Capital. Turnover of capital. *Circulation process. Production process. Turnover. Capital circulates. Likewise fixed capital. Circulation costs. Circulation time and labour time. (Capitalists free time) (transport costs);* February 1858; Ibid; London 1973; p. 625;

> "If commodities, or commodities and money, of equal exchange-value, and consequently equivalents, are exchanged, it is plain that no one abstracts more value from, than he throws into, circulation. There is no creation of surplus-value." *Karl Marx. Capital Volume One; Chapter Five: Contradictions in the General Formula of Capital*

> "Regarded in both of the aspects in which it occurs in the circulation of capital, both as medium of circulation and as the realized value of capital, money belongs among the costs of circulation in so far as it is itself labour time employed to abbreviate circulation time on the one hand, and, on the other hand, to represent a qualitative moment of circulation – the retransformation of capital into itself as value-for-itself. In neither aspect does it increase the value. In one aspect it is a precious form of representing value, i.e. a costly form, costing labour time, hence representing a deduction from surplus value. In the other aspect it can be regarded as a machine which saves circulation time, and hence frees time for production. But, in so far as it itself, as such a machine, costs labour and is a product of labour, it represents for capital *faux frais de production.*

> It figures among the costs of circulation”
> *Grundrisse; Ibid; difference between production time and labour time. –Storch. Money. Mercantile estate. Credit. Circulation. p.670-1;*

Since the various capitalists have to ‘share out’ the surplus value, inevitably the ‘*competition*’ between them ‘*creates the rate of interest*’:

> “It is in fact only the division of capitalists into money capitalists and industrial capitalists that transforms a part of the profit into interest, and creates the category of interest at all; and it is only the competition between these two kinds of capitalists which creates the rate of interest”. *Capital Vol. III Part V – The Division of Profit into Interest and Profit of Enterprise. Interest-Bearing Capital; Chapter 23. Interest and Profit of Enterprise; Ibid; p. 492*

v) The monopolization of industry – Marx proposes a dominance of industrial capital over financial capital

As some industrialists fail to pay their debts, they are swallowed by the bigger fish. The impulse to monopolization ‘*restricts ever more the small number*’ who will actually form the monopoly capitalist class. Yet this bears the seeds of the future socialisation of industry under socialism the ‘*transition to a new mode of production*’:

> “The credit system has a dual character immanent in it: on the one hand it develops the motive of capitalist production, enrichment by the exploitation of others’ labour, into the purest and most colossal system of gambling and swindling, and restricts ever more the small number of the exploiters of social wealth; on the other hand however it constitutes the form of transition to a new mode of production. It is this dual character that gives the principal spokesmen of credit, from Law to Isaac Péreire with the pleasant character mixture of swindler and prophet”.
> *Marx Capital Volume 3 Ibid; Chapter 27; p. 573.*

As Marx witnessed in *'Das Kap*ital', there had been a complete change in the relationship between commerce (trade) and industry. An industrial “*predominance*” directly led to the colonial system:

> "Today industrial supremacy brings with it commercial supremacy. In the period of manufacture, it is the reverse, the commercial supremacy produces industrial predominance. Hence the preponderant role played by the colonial system at that time. It was “the strange God” who perched himself side by side with the old Gods of Europe on the altar, and one fine day threw them all overboard with a shove and a kick. It proclaimed the making of profit as the ultimate and the sole purpose of humanity."
> *Marx Capital Volume 1, Ibid; Chapter 31; p. 918.*

A key feature of capitalist production is an unplanned, anarchic system driven by the profit motive. This leads to crises of **over-production** of goods that cannot be sold by the capitalists. At the same time it leads to **under-consum**ption by the proletariat, whose wages have been driven down and do not allow the proletariat to buy the capitalist’s excess goods. Finally in addition the capitalist has at non-crisis times, an ‘excess’ of capital.. But what was to happen to this excess capital? In some instances, capital is

sent overseas to obtain the highest rate of profit. The colonial system was able to absorb for a time, the over-production of capital:

> "Over-production of capital is never anything more than over-production of means of production — of means of labour and necessities of life — which may serve as capital, *i.e.*, may serve to exploit labour at a given degree of exploitation; a fall in the intensity of exploitation below a certain point, however, calls forth disturbances, and stoppages in the capitalist production process, crises, and destruction of capital. It is no contradiction that this over-production of capital is accompanied by more or less considerable relative over-population. The circumstances which increased the productiveness of labour, augmented the mass of produced commodities, expanded markets, accelerated accumulation of capital both in terms of its mass and its value, and lowered the rate of profit — these same circumstances have also created, and continuously create, a relative over-population, an over-population of labourers not employed by the surplus-capital owing to the low degree of exploitation at which alone they could be employed, or at least owing to the low rate of profit which they would yield at the given degree of exploitation.
> If capital is sent abroad, this is not done because it absolutely could not be applied at home, but because it can be employed at a higher rate of profit in a foreign country. But such capital is absolute excess capital for the employed labouring population and for the home country in general. It exists as such alongside the relative over-population, and this is an illustration of how both of them exist side by side, and mutually influence one another.
> On the other hand, a fall in the rate of profit connected with accumulation necessarily calls forth a competitive struggle."
> *Marx K; Volume 3 Capital; Ibid; Chapter 15; p. 364.*

Marx envisaged that finance capital would fall under the sway of industrial capital - aided by the state:

> "Interest bearing capital is dominated by industrial capital, and commercial capital becomes merely a form of industrial capital, derived from the circulation process. But, both of them must first be destroyed as independent forms, and subordinated to industrial capital. Violence (the State) is used against interest-bearing capital by means of compulsory reduction of interest rates, so that it can no longer able to dictate terms to industrial capital":";
> *Marx Ibid; Theories of Surplus Value Volume III (Moscow 1971); Addenda: Revenue and its sources. Vulgar political economy. : 468.*

In this forecast, Marx was **incorrect**.

In fact financial capital came to dominate industrial capital, as Lenin later pointed out (see below). However, Marx had written *Capital* in the nascent years of financial capital. Volume 1 was only published in 1867. Only after Marx's death in 1883, Engels put Marx's notebooks into publishable form for volumes 2 and 3. Volume 2 was only published in 1885; and Volume 3 as late as 1894 – 11 years after Marx's death in 1883. These dates of Marx's researches, predate the dates that Lenin estimated as the established dominance of finance capital. Lenin writes:

> "I shall take the year 1876—a year very aptly selected, for it is precisely by that

> time that the pre-monopolist stage of development of West-European capitalism can be said to have been, in the main, completed";
> *Lenin V.I. "Imperialism the Highest Stage of Capitalism"; Collected Works; Volume 22; Moscow 1964;p. 257.*

So the developments of "in the main, completed" finance capitalist domination, went on for 9 years beyond the publishing of Volume 1. As it was, Engels, wrote a *Supplement* that amongst other matters, took up in sketch form, key new aspects of finance capital (See below).

Marx linked the export of '*excess capital*' - to the growth of colonialism following the rise of industrial capital. This carried lessons for the international working class. Marx's explicitly warned about the need for international working peoples solidarity, in the declaration adopted by the International Workingmen's Association (the First International) in 1867:

> "In order to oppose their workers, the employers either bring in workers from abroad or else transfer manufacture to countries where there is a cheap labor force. Given this state of affairs, if the working class wishes to continue its struggle with some chance of success, the national organizations must become international."
> *Marx, Karl; Trade Unions: Their Past, Present, and Future, a founding document of the First International (1866).*

Naturally colonialism was expanding, and finance itself was evolving. Marx's comrade-in-arms – Engels –pointed out new developments within years of Marx's death.

(vi) Marx's views of crisis in capital

We can here only briefly discuss key features of Marx's views of this. However such a truncated discussion is warranted, since it is sometimes alleged that a lack of availability of credit, <u>causes</u> crises. Moreover, since the creation of unemployment remains a feature in modern capitalism, its link with crises are topical.

In fact, Marx thought that crisis was an ever-present feature of capitalism, akin to a natural phenomenon. Moreover its presence was bound up with a *'surplus population'* - in other words unemployment:

> "As the heavenly bodies, once thrown into a certain definite motion, always repeat this, so is it with social production as soon as it is once thrown into this movement of alternate expansion and contraction. Effects, in their turn, become causes, and the varying accidents of the whole process, which always reproduces its own conditions, take on the form of periodicity. When this periodicity is once consolidated, even Political Economy then sees that the production of a relative surplus population — *i.e.*, surplus with regard to the average needs of the self-expansion of capital — is a necessary condition of modern industry".
> *Marx, Karl. Capital Volume 1; London; 1976; Penguin edition; Chapter 25;* Chapter Twenty-Five: The General Law of Capitalist Accumulation"; Section 3. Progressive Production of a Relative surplus population or Industrial Reserve Army; *p.786.*

This aspect of capitalism, rendered portions of the population '*relatively superfluous'*:

> "relatively superfluous and... to an extent that is always increasing":
> *Marx Capital I; Ibid; Chapter 25; Chapter Twenty-Five: The General Law of Capitalist Accumulation"; Section 3. Progressive Production of a Relative surplus population or Industrial Reserve Army p. 783.*

Of course this *'reserve army of unemployed'* helped capitalists to reduce wages:

> "Capital works on both sides at once. If its accumulation, on the one hand, increases the demand for labour, it increases on the other the supply of labourers by 'setting them free', while at the same time the pressure of the unemployed compels those that are employed to furnish more labour, and therefore makes the supply of labour, to a certain extent independent of the supply of workers"; *Volume I; Ibid; Chapter 25; Chapter Twenty-Five: The General Law of Capitalist Accumulation"; Section 3. Progressive Production of a Relative surplus population or Industrial Reserve Army p. 793.*

This was a law of population '*peculiar to capitalism'* (*Capital Volume III; Ibid p. 783*). Though the army of unemployed was always present, upon this was super-imposed a cyclic variation of approximately ten years, a ***'decennial cycle'***:

> "The path characteristically described by modern industry, which takes the form of a decennial cycle (interrupted by smaller oscillations), of periods of average activity, production at high pressure, crisis and stagnation, depends on the constant formation, the greater or less absorption, and the re-formation of the industrial reserve army or surplus population. In their turn, the varying phases of the industrial cycle recruit the surplus population, and become one of the most energetic agents of its reproduction". *Karl Marx. Capital Volume 1; London; 1976; Penguin edition; Chapter 25;* Chapter Twenty-Five: The General Law of Capitalist Accumulation"; Section 3. Progressive Production of a Relative surplus population or Industrial Reserve Army; *p.785*

This cyclic crisis, was one **intrinsic** to the mechanics of capitalism:

> "The industrial cycle is of such a nature that the same circuit must periodically reproduce itself, once the first impulse has been given. In the slack phase, production falls below the level it had attained in the previous cycle and for which the technical basis is now laid. in the phase of prosperity — the middle period — it develops further on this basis. In the period of overproduction and swindling, the productive forces are stretched to their limit, even beyond the capitalist barriers to the production process". Capital: Volume III; Penguin edition translated Fernbach D; London; 1991; Chapter 30. Money-Capital and Real Capital.p.620-1.

Historically, there has been considerable debate about Marx's view on the ultimate causes of capitalist crises. Marx did, it is true, state this:

> "The ultimate reason for all real crises always remains the poverty and restricted consumption of the masses, in the face of the drive of capitalist production to develop the productive forces as if only the absolute consumption capacity of society set a limit to them."
> Capital: Volume III; Penguin edition translated Fernbach D; London; 1991; Chapter 30. Money-Capital and Real Capital.p.615.

But Marx in this passage, is ending a refutation of an alleged shortage of productive capital, and credit, as the combined underlying cause of the capitalist crisis. He is therefore, in this passage, offering a diagnosis of the 'ultimate cause' - while trying to re-direct attention to the cycle itself:

> "The maximum of credit is the same thing here as the fullest employment of industrial capital, i.e, the utmost taxing of its reproductive power irrespective of the limits of consumption. These limits of consumption are extended by the stretching of the reproduction process itself; on the one hand, this increases the consumption of revenue by workers and capitalists, while on the other, it is itself identical with the stretching of productive consumption.
> As long as the reproduction process is fluid and, therefore, so that returns remain assured, this credit persists and expands, and its extension is based on the extension of the reproduction process itself. As soon as any stagnation occurs, as a result of delayed returns, overstocked markets or fallen prices, there is a surplus of industrial capital, but in a form in which it cannot accomplish its function. A great deal of commodity capital; but unsaleable. A great deal of fixed capital; but in large measure unemployed as a result of the stagnation in reproduction. Credit contracts, (1) because this capital is unoccupied, i.e congealed in one of its phases of reproduction, because it cannot complete its metamorphosis; (2) because confidence in the fluidity of the reproduction process is broken; 3) because the demand for this commercial credit declines. The spinner, who restricts his production and has a lot of unsold yarn in stock, does not need to buy cotton on credit; the merchant does not need to buy any goods on credit, as he already has more than enough.
>
> So, if there is a disturbance in this expansion, or even in the normal exertion of the reproduction process, there is also a lack of credit; it is more difficult to obtain goods on credit. The demand for cash payment and distrust of credit selling are especially characteristic of the phase in the industrial cycle that follows the crash. In the crisis itself, since everyone has goods to sell and cannot sell, even though they have to sell them in order to pay, the quantity of capital blocked in its reproduction process, though not of unoccupied capital to be invested, is precisely at its greatest, even if the lack of credit is also most acute (and hence, as far as bank credit goes, the discount rate at its highest). Capital already invested is in fact massively unemployed, since the reproduction process is stagnant. Factories stand idle, raw materials pile up, finished products flood the market as commodities. Nothing could be more wrong, therefore, than to ascribe such a situation to a lack of productive capital. It is precisely then that there is a surplus of productive capital, partly in relation to the normal though temporarily contracted scale of reproduction, and partly in relation to the crippled consumption".
> *Marx, K: Capital Volume 3; Chapter 30; Ibid; pp. 613, 614, 615;*

Marx did not himself believe that the final 'cause' of crisis, was the inability of the workers to buy goods. It is possible to say this as he himself states in *Capital Volume 2*, that:

> "It is a pure tautology to say that crises are provoked by a lack of scarcity of effective demand, or effective consumption. The capitalist system does not recognize any forms of consumer other than those who can pay, if we exclude

> the consumption of paupers and swindlers. The fact that commodities are unsaleable means no more than that no effective buyers have been found for them, i.e., no consumers (no matter whether the commodities are ultimately sold to meet the needs of productive or individual consumption). If the attempt is made to give this tautology the semblance of greater profoundity, by the statement that the working-class receives too small a portion of its own product, and the evil would be remedied if it received a bigger share i.e. if its wages rose, we need only note that crises are always prepared by a period in which wages generally rise, and the working-class actually does receive a greater share in the part of the annual product destined for consumption. From the standpoint of these advocates of sound and "simple" (!) common sense, such periods should rather avert the crisis. It thus appears that capitalist production involves certain conditions independent of people's good or bad intentions, which permit the relative prosperity of the working-class only temporarily, and moreover always only as a harbinger of crisis. [*Engels writes footnote: "for possible followers of the Rodbertian theory of crises.—F.E.*]

How is Marx's apparent inconsistency to be resolved? He argued that the lack of a market for goods, was only an expression of an underlying problem of **disproportionality** as, *'between the different branches of production and by the society's power of consumption*':

> "It is the creation of this surplus-value that forms the immediate process of production, and this faces no other barriers that those just mentioned. As soon as all the surplus-labour it has proved possible to extort has been objectified in commodities, the surplus-value has been produced. But this production of surplus-value is only the first act of the capitalist process of production, and its completion only brings to an end the direct production process. Capital has absorbed a given amount of unpaid labour. With the development of this process, as expresses in the fall in the profit rate, the mass of surplus-value thus produced swells to monstrous proportions. Now comes the second act in the process. The total mass of commodities, the total product, must be sold, both that portion which replaces constant and variable capital and that which represents surplus-value. If this does not happen, or happens only partly, or only at prices that are less than the price of production, then although the worker is certainly exploited, his exploitation is not realized as such for the capitalist and may not even involve any realization of the surplus-value extracted, or only a partial realization; indeed it may even a partial or complete loss of his capital. The conditions for immediate exploitation, and for the realization of that exploitation, are not identical. Not only are they separate in time and space, they are also separate in theory. The former is restricted only by the society's productive forces, the latter by the proportionality between the different branches of production and by the society's power of consumption. And this is determined neither by the absolute power of production nor by the absolute power of consumption but rather by the power of consumption within a given framework of antagonistic conditions of distribution, which reduce the consumption of the vast majority of society to a minimum level, only capable of varying within more or less narrow limits. It is further restricted by the drive for accumulation, the drive to expand capital and produce surplus-value on a larger scale. This is law governing capitalist production, arising from the constant revolutions in methods of production themselves, from the devaluation of the existing capital which is always associated with them, and from the general

> competitive struggle and the need to improve production and extend its scale, merely as a means of self-preservation and on pain of going under. The market therefore, must be continually extended, so that its relationships and the conditions governing them assume ever more the form of a natural law independent of the producers and become ever more uncontrollable. The internal contradiction seeks resolution by extending the external field of production. But the more productiveness develops, the more it comes into conflict with the narrow basis on which the relations of consumption rest. It is no way a contradiction, on this self-contradictory basis, that excess capital coexists with a growing surplus population; for although the mass of surplus-value produced would rise if these were brought together, yet this would heighten the contradiction between the conditions in which this surplus-value was produced and the conditions in which it is realized". *Marx; Ibid Volume 3; p. 352.*

The length of the business cycle has been changing. We saw that Marx had empirically observed a business cycle of approximately ten years ('*decennial*'). But this was amended by Frederick Engels, on the basis of changes after Marx's death. In fact Engels pointed to a *'chronic stagnation'* and '*an extension of the cycle's duration'.* In referring to the decennial cycle, Engels said:

> "At least this was the case until recently. Since England's monopoly of the world market is being increasingly shattered by the participation of France, Germany and, above all, America in world trade, a new form of evening-out appears to come into operation. The period of general prosperity preceding the crisis still fails to appear. If it should remain absent altogether, then chronic stagnation must necessarily become the normal condition of modern industry, with only insignificant fluctuations".
> Note by Frederick Engels; to Karl Marx 1847; 'The Poverty of Philosophy Answer to the *Philosophy of Poverty';* by M. Proudhon*; In the* Preface to the First German Edition by Frederick Engels ; London, October 23, 1884*. at: https://www.marxists.org/archive/marx/works/1847/poverty-philosophy/pre-1885.htm#9b.*

> "[As I have already noted elsewhere [*English edition: Vol. I. preface to the English edition; Pelican edition; p.113*).], the last great general crisis represented a turning point. The acute form of the periodic process with its former ten-year cycle, seems to have given way to a more chronic and drawn out alternation, affecting the various industrial countries at different times, between a relatively short and weak improvement in trade and a relatively long, indecisive depression. Perhaps what is involved is simply an extension of the cycle's duration. When world trade was in its infancy, 1815-47, cycles of approximately five years could be discerned: Between 1847 to 1867 the cycle was definitely ten-year one; might we now be in the preparatory phase of a new world crash of unheard-of severity? Many things seem to point this way. Since the last general crisis of 1867 many great changes have taken place. The colossal expansion of means of communication — ocean going steamships, railways, electrical telegraphs, the Suez Canal — has genuinely established the world-market for the first time. Alongside England, which formerly had a monopoly of industry, we have a whole series of competing industrial countries; the investment of surplus European capital in all parts of the globe is infinitely greater and more widespread, so that this is far more broadly distributed and local over-speculation is more easily overcome. All these things mean that most of the former breeding-grounds of crises and occasions for crisis formation have been abolished or severely weakened. At the

same time, competition in the domestic market recedes before the cartels and trusts, while in the foreign market it is restricted by protective tariffs, with which all major industrial countries, England excepted, surround themselves. But these protective tariffs are nothing but preparations for the ultimate general industrial war, which shall decide who has supremacy on the world-market. Thus every factor, which works against a repetition of the old crises, carries within itself the germ of a far more powerful future crisis. *F. E.*]".
Frederick Engels; Footnote no.8 to Karl Marx, Capital: Volume III; Penguin edition translated Fernbach D; London; 1991; Chapter 30; p.620-1.

We again apologize, however we cannot here discuss in full detail the Marxist theory of crisis. But one other aspect does have to be discussed, since we later discuss the present day rate of profit. Marx's firm view was that there was a **Law of the Falling Rate of Profit**, in capitalist society. This has again become controversial in some Marxist circles.

To follow Marx's argument, we first revise Marx's explanation of the **organic composition of labour** in '***Capital Volume 1'***. First we will rely on Marx's verbal, detailed summary, rather than an algebraic formulation. The crux of Marx's argument lies on the ratio of the two components that make up the composition of capital. These are *constant capital* (or the value of the total means of production) and *variable capital* (or the total value of wages of '*living labour power')* :

"In this chapter we consider the influence of the growth of capital on the lot of the labouring class. The most important factor in this inquiry is the composition of capital and the changes it undergoes in the course of the process of accumulation.
The composition of capital is to be understood in a two-fold sense. On the side of value, it is determined by the proportion in which it is divided into constant capital or value of the means of production, and variable capital or value of labour power, the sum total of wages. On the side of material, as it functions in the process of production, all capital is divided into means of production and living labour power. This latter composition is determined by the relation between the mass of the means of production employed, on the one hand, and the mass of labour necessary for their employment on the other. I call the former the *value-composition*, the latter the *technical composition* of capital.
Between the two there is a strict correlation. To express this, I call the value composition of capital, in so far as it is determined by its technical composition and mirrors the changes of the latter, the *organic composition* of capital. Wherever I refer to the composition of capital, without further qualification, its organic composition is always understood."
Marx, Capital; Volume 1; Penguin ed; Chapter Twenty-Five: The General Law of Capitalist Accumulation; Section 1. The Increased Demand for labour power that Accompanies Accumulation, the Composition of Capital Remaining the Same

Across the national economy, there are many industries, each with a varying different ratio of the 2 component parts of the organic composition of capital. As the amount of capital grows, the capitalist is always turning part of it into obtaining new labour-power. If it's relationship to the amount of constant capital remains the same, the organic composition of capital remains the same:

"The many individual capitals invested in a particular branch of production have,

> one with another, more or less different compositions. The average of their individual compositions gives us the composition 575 of the total capital in this branch of production. Lastly, the average of these averages, in all branches of production, gives us the composition of the total social capital of a country, and with this alone are we, in the last resort, concerned in the following investigation. Growth of capital involves growth of its variable constituent or of the part invested in labour power. A part of the surplus-value turned into additional capital must always be re-transformed into variable capital, or additional labour fund. If we suppose that, all other circumstances remaining the same, the composition of capital also remains constant (*i.e*., that a definite mass of means of production constantly needs the same mass of labour power to set it in motion), then the demand for labour and the subsistence-fund of the labourers clearly increase in the same proportion as the capital, and the more rapidly, the more rapidly the capital increases".
>
> *Marx, Capital; Volume 1; Penguin ed; Chapter Twenty-Five: The General Law of Capitalist Accumulation; Section 1. The Increased Demand for labour power that Accompanies Accumulation, the Composition of Capital Remaining the Same*

But as the capitalist puts a portion of the accumulated capital into the constant part (i.e. the means of production), the improved productivity following with improved technology will reduce the commensurate need for more labour power. Marx even states this a law of itself, the "*law of the progressive increase in constant capital, in proportion to the variable*". The underlying reason for this is the "*increasing productivity of labour*":

> "This change in the technical composition of capital, this growth in the mass of means of production, as compared with the mass of the labour power that vivifies them, is reflected again in its value composition, by the increase of the constant constituent of capital at the expense of its variable constituent. There may be, *e.g.,* originally 50 per cent of a capital laid out in means of production, and 50 per cent in labour power; later on, with the development of the productivity of labour, 80 per cent in means of production, 20 per cent in labour power, and so on. This law of the progressive increase in constant capital, in proportion to the variable, is confirmed at every step… by the comparative analysis of the prices of commodities, whether we compare different economic epochs or different nations in the same epoch. The relative magnitude of the element of price, which represents the value of the means of production only, or the constant part of capital consumed, is in direct, the relative magnitude of the other element of price that pays labour (the variable part of capital) is in inverse proportion to the advance of accumulation.
>
> This diminution in the variable part of capital as compared with the constant, or the altered value-composition of the capital, however, only shows approximately the change in the composition of its material constituents. If, *e.g.,* the capital-value employed today in spinning is 7/8 constant and 1/8 variable, whilst at the beginning of the 18th century it was ½ constant and ½ variable, on the other hand, the mass of raw material, instruments of labour, &c., that a certain quantity of spinning labour consumes productively today, is many hundred times greater than at the beginning of the 18th century. The reason is simply that, with the increasing productivity of labour, not only does the mass of the means of production consumed by it increase, but their value compared with their mass diminishes. Their value therefore rises absolutely, but not in proportion to their mass. The increase of the difference between constant and variable capital, is,

> therefore, much less than that of the difference between the mass of the means of production into which the constant, and the mass of the labour power into which the variable, capital is converted. The former difference increases with the latter, but in a smaller degree”. *Marx, Capital; Volume 1; Penguin ed; Chapter Twenty-Five: The General Law of Capitalist Accumulation; Section 2; Relative Diminution of the Variable Part of Capital Simultaneously with the Progress of Accumulation and of the Concentration that Accompanies it*

Marx put all this into an algebraic formulation, which even to the mathematics averse individuals, may help to make matters clear. Marx calculated the rate of profit as follows:
The surplus value which was generated by the entire labour force over the economy, is divided by:
The combined cost of employing that labour force, plus, the cost of physical or tangible assets and raw materials used up by the labour force during the production process.

As a formula - this is: **$P = s/c+v$**
Where P is the rate of profit; s is surplus value; c is constant capital (means of production) and v is the cost of the labour power.
It can be readily seen that if the denominator rises (i.e. as the constant capital rises) the formula dictates that P – the rate of profit is smaller.

Later in **Volume III of Capital**, Marx provides a worked example to illustrate the effect of the rising composition of capital. In this it becomes evident that indeed, the rate of profit falls as the organic composition of capital rises, i.e. becomes heavier on the constant capital side. This example, serves as his prelude to stating the Law:

> “Assuming a given wage and working-day, a variable capital, for instance of 100, represents a certain number of employed labourers. It is the index of this number. Suppose £100 are the wages of 100 labourers for, say, one week. If these labourers perform equal amounts of necessary and surplus-labour, if they work daily as many hours for themselves, *i.e.*, for the reproduction of their wage, as they do for the capitalist, *i.e.*, for the production of surplus-value, then the value of their total product = £200, and the surplus-value they produce would amount to £100. The rate of surplus-value, s/v, would = 100%. But, as we have seen, this rate of surplus-value would nonetheless express itself in very different rates of profit, depending on the different volumes of constant capital c and consequently of the total capital C, because the rate of profit = s/C. The rate of surplus-value is 100%:
> If c = 50, and v = 100, then p' = 100/150 = 66⅔%;
> c = 100, and v = 100, then p' = 100/200 = 50%;
> c = 200, and v = 100, then p' = 100/300 = 33⅓%;
> c = 300, and v = 100, then p' = 100/400 = 25%;
> c = 400, and v = 100, then p' = 100/500 = 20%.
>
> This is how the same rate of surplus-value would express itself under the same degree of labour exploitation in a falling rate of profit, because the material growth of the constant capital implies also a growth — albeit not in the same proportion — in its value, and consequently in that of the total capital.
> If it is further assumed that this gradual change in the composition of capital is not confined only to individual spheres of production, but that it occurs more or less in all, or at least in the key spheres of production, so that it involves changes

> in the average organic composition of the total capital of a certain society, then the gradual growth of constant capital in relation to variable capital must necessarily lead to *a gradual fall of the general rate of profit*, so long as the rate of surplus-value, or the intensity of exploitation of labour by capital, remain the same. Now we have seen that it is a law of capitalist production that its development is attended by a relative decrease of variable in relation to constant capital, and consequently to the total capital set in motion. This is just another way of saying that owing to the distinctive methods of production developing in the capitalist system the same number of labourers, *i.e.*, the same quantity of labour-power set in motion by a variable capital of a given value, operate, work up and productively consume in the same time span an ever-increasing quantity of means of labour, machinery and fixed capital of all sorts, raw and auxiliary materials — and consequently a constant capital of an ever-increasing value. This continual relative decrease of the variable capital vis-a-vis the constant, and consequently the total capital, is identical with the progressively higher organic composition of the social capital in its average. It is likewise just another expression for the progressive development of the social productivity of labour, which is demonstrated precisely by the fact that the same number of labourers, in the same time, *i.e.*, with less labour, convert an ever-increasing quantity of raw and auxiliary materials into products, thanks to the growing application of machinery and fixed capital in general".
> *Marx, Capital, Volume III; Penguin ed; Part III. The Law of the Tendency of the Rate of Profit to Fall; Chapter 13. The Law As Such*

It is important to note that Marx does not state that this is inevitable. Instead he states it is a '**tendency'**:

> "The progressive tendency of the general rate of profit to fall is, therefore, just *an expression peculiar to the capitalist mode of production* of the progressive development of the social productivity of labour. This does not mean to say that the rate of profit may not fall temporarily for other reasons. But proceeding from the nature of the capitalist mode of production, it is thereby proved logical necessity that in its development the general average rate of surplus-value must express itself in a falling general rate of profit".
> *Marx, Capital, Volume III; Penguin ed Ibid; Part III. The Law of the Tendency of the Rate of Profit to Fall; Chapter 13. The Law As Such*

> "The law operates therefore simply as a tendency, whose effect is decisive *only under particular circumstances and* over long periods." *Marx K, Capital Vol. III; Penguin ed; Ibid; p. 346.*

The law is a "*tendency'*, because it can be negated by several potential conditions, including a higher rate of exploitation. Nonetheless, Marx is clear that this tendency, is "*over long periods*" – a law. This by no means makes the fall of capitalism 'inevitable' as some pontificators have tried to assert. They assert this in order to under-mine Marx. Two summaries expose one of the main pontificators, **Michael Heinrich** – who try to undermine Marx on this matter. For now the reader, is pointed to **Andrew Kliman** and colleagues (*Andrew Kliman, Alan Freeman, Nick Potts, Alexey Gusev, Brendan Cooney; "The Unmaking of Marx's Capital Heinrich's Attempt to Eliminate Marx's Crisis Theory"; Social Science Research Network website, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2294134),* and **Michael Roberts** *(Michael Roberts; 'Michael Heinrich, Marx's law and crisis theory'; May 19, 2013; https://thenextrecession.wordpress.com/2013/05/19/michael-heinrich-marxs-law-and-crisis-theory/).*

We will return to the Falling Rate of Profit today, in the final part of this article.

(vii) Further amendments by Engels: The financiers grow stronger - Growth of the Stock Exchange

Frederick Engels edited and brought to completion for publication, Volume 3 of *Capital*. In a Supplementary note, he made some important modifications, on observing the changes after Marx's death. Engels noted at least *three significant changes*.

These were in the role of the Stock Exchange ("*In 1865 the stock exchange was still a secondary element in the capitalist system… Now it is otherwise*");
The advent of joint-stock companies with share-holders ("*Thereafter, gradual conversion of industry into stock companies*"); with formation of large scale trusts; and,
Further growth of the colonial system and its interaction with finance capital ("*Then colonization - this is purely a subsidiary of the stock exchange*"):

> "2. In 1865 the stock exchange was still a *secondary* element in the capitalist system. Government bonds represented the bulk of exchange securities, and even their sum-total was still relatively small. Besides, there were joint-stock banks, predominant on the continent and in America, and just beginning to absorb the aristocratic private banks in England, but still relatively insignificant *en masse.* Railway shares were still comparatively weak compared to the present time. There were still only few directly productive establishments in stock company form — and, like the banks, most of all in the *poorer* countries: Germany, Austria, America, etc. The "minister's eye" was still an unconquered superstition.
> At that time, the stock exchange was still a place where the capitalists took away each other's accumulated capital, and which directly concerned the workers only as new proof of the demoralising general effect of capitalist economy and as confirmation of the Calvinist doctrine that predestination (alias chance) decides, even in this life, blessedness and damnation, wealth, i.e., enjoyment and power, and poverty, i.e., privation and servitude.
>
> 3. Now it is otherwise. Since the crisis of 1866 accumulation has proceeded with ever-increasing rapidity, so that in no industrial country, least of all in England, could the expansion of production keep up with that of accumulation, or the accumulation of the individual capitalist be completely utilised in the enlargement of his own business; English cotton industry as early as 1845; the railway swindles. But with this accumulation the number of *rentiers,* people who were fed up with the regular tension in business and therefore wanted merely to amuse themselves or to follow a mild pursuit as directors or governors of companies, also rose. And third, in order to facilitate the investment of this mass floating around as money-capital, new legal forms of limited liability companies were established wherever that had not yet been done, and the liability of the shareholder, formerly unlimited, was also reduced ± [more or less] (joint-stock companies in Germany, 1890. Subscription 40 per cent!).
>
> 4. Thereafter, gradual conversion of industry into stock companies. One branch after another suffers this fate. First iron, where giant plants are now necessary (before that, mines, where not already organised on shares). Then the chemical industry, likewise machinery plants. On the continent, the textile industry; in

> England, only in a few areas in Lancashire (Oldham Spinning Mill, Burnley Weaving Mill, etc., tailor co-operatives, but this is only a preliminary stage which will again fall into the masters' hands at the next crisis), breweries (the American ones sold a few years ago to English capital, then Guinness, Bass, Allsopp). Then the trusts, which create gigantic enterprises under common management (such as United Alkali). The ordinary individual firm is more and more only a preliminary stage to bring the business to the point where it is big enough to be "founded."
> Likewise in trade: Leafs, Parsons, Morleys, Morrison, Dillon — all founded. The same in retail stores by now, and not merely under the cloak of co-operation *à la* "stores."
> Likewise banks and other credit establishments even in England. A tremendous number of new banks, all shares delimited. Even old banks etc., are converted, with seven private shareholders, into limited companies.
>
> 5. The same in the field of agriculture. The enormously expanded banks, especially in Germany under all sorts of bureaucratic names, more and more the holders of mortgages; with their shares the actual higher ownership of landed property is transferred to the stock exchange, and this is even more true when the farms fall into the creditors' hands. Here the agricultural revolution of prairie cultivation is very impressive; if it continues, the time can be foreseen when England's and France's land will also be in the hands of the stock exchange.
>
> 6. Now all foreign investments in the form of shares. To mention England alone: American railways, North and South (consult the stock exchange list), Goldberger, etc.
>
> 7. Then colonisation. Today this is purely a subsidiary of the stock exchange, in whose interests the European powers divided Africa a few years ago, and the French conquered Tunis and Tonkin. Africa leased directly to companies (Niger, South Africa, German South-West and German East Africa), and Mashonaland and Natal seized by Rhodes for the stock exchange.
> *Engels, F; Supplement to Volume 3 of Capital; p. 1045-7 volume 3.*

We were now in the era of mature fully developed capitalism. But were therefore in the era of a tendency of the '*law of the falling rate of pro*fit', and the '*law of the progressive devaluation of capital-value itself':*

> "Value is originally determined by the original costs of production… but one it is produced, the price of the product is determined by costs which are necessary to produce it. And the costs of reproduction fall constantly, and all the more rapidly, the more industrial is the age. Hence law of the progressive devaluation of capital-value itself…"
> Marx to Engels; Letter 14 September 1851. MEW vol 27; p. 313.

Summary:
By the eve of the 20th Century – and the coming of the First World War, the Marxist founders had described the initial relationship between finance capital, industrial capital and colonialism. Engels had already modified Marx, following some major changes.

Finance capital was already starting to move beyond what Marx himself had predicted. Lenin continued to map these changes.

2. The predominance of finance capital over industrial capital – Imperialism and monopoly capitalism

Marx and Engels had described the colonial period, but Lenin was confronted by imperialism. By the time Lenin came to lead the Russian workers towards the 1917 revolution, the relationship between industrial and financial capital had changed. The role of finance capital was critical to imperialism. This entailed a '*merger'* of finance capital with industrial capital, and then a '*domination' by finance capitalism*.

i) Finance capital forms giant monopoly

The relationship between industrial and finance captism at the early 1900s was characterised by Lenin, from the start of the 20th century, as a '*merging*' or '*coalescence'* of the two wings. Lenin, used the prior work of Rudolph Hilferding, and considerable other data, to describe modern capitalism. This had by now formed a complete monopoly function, the culmination of the process Marx had observed arising. Lenin dated this development from the end of the 19th century:

> "For Europe, the time when the new capitalism *definitely* superseded the old can be established with fair precision; it was the beginning of the twentieth century.........
> Thus, the principal stages in the history of monopolies are the following: (1) 1860-70, the highest stage, the apex of development of free competition; monopoly is in the barely discernible, embryonic stage. (2) After the crisis of 1873, a lengthy period of development of cartels; but they are still the exception. They are not yet durable. They are still a transitory phenomenon. (3) The boom at the end of the nineteenth century and the crisis of 1900-03. Cartels become one of the foundations of the whole of economic life. Capitalism has been transformed into imperialism."
> *V.I.Lenin; "Imperialism the Highest Stage of Capitalism"; 1. Concentration, of production and monopolies; Volume 22; Moscow 1964; p.200;202; or; via https://www.marxists.org/archive/lenin/works/cw/volume22.htm#1916-imp-hsc-index*

Banks had been, instead of being '*numerous middleman'* in the '*making of payments*' serving at '*the disposal of the capitalist class*'. Now they were able to '*command almost the whole of the money capital of all the capitalists and... the larger parts of the means of produc*tion.' This allowed banks to further concentrate, and become '*a handful of monopolists'*:

> "The principal and primary function of banks is to serve as middlemen in the making of payments. In so doing they transform inactive money capital into active, that is, into capital yielding a profit; they collect all kinds of money revenues and place them at the disposal of the capitalist class".
> As banking develops and becomes concentrated in a small number of establishments, the banks grow from modest middlemen into powerful monopolies having at their command almost the whole of the money capital of all the capitalists and small businessmen and also the larger part of the means of production and sources of raw materials in any one country and in a number of countries. This transformation of numerous modest middlemen into a handful of

monopolists is one of the fundamental processes in the growth of capitalism into capitalist imperialism."
V.I.Lenin; "Imperialism the Highest Stage of Capitalism"; 1. Concentration, of production and monopolies; Volume 22; Moscow 1964; p.210;

This handful of monopolists rose to dominance, because of the scale of their operations:

"...The concentration of capital and the growth of bank turnover are radically changing the significance of the banks. Scattered capitalists are transformed into a single collective capitalist. When carrying the current accounts of a few capitalists, a bank, as it were, transacts a purely technical and exclusively auxiliary operation. When, however, this operation grows to enormous dimensions we find that a handful of monopolists subordinate to their will all the operations, both commercial and industrial, of the whole of capitalist society; for they are enabled-by means of their banking connections, their current accounts and other financial operations—first, to *ascertain exactly* the financial position of the various capitalists, then to *control* them, to influence them by restricting or enlarging, facilitating or hindering credits, and finally to *entirely determine* their fate, determine their income, deprive them of capital, or permit them to increase their capital rapidly and to enormous dimensions, etc".
Lenin; Imperialism, the Highest Stage of Capitalism; Volume 22; Moscow; 1977; p.214;

Lenin also pointed to a new source of savings – the monies of the petit bourgeoisie and a small fraction of the workers themselves – into savings banks and post-office accounts. These monies entered the banking system. They were the harbingers of the huge money pools of pension funds in the 20-21st century:

"The banking system "possesses, indeed, the form of universal book-keeping and distribution of means of production on a social scale, but solely the form", wrote Marx in *Capital* half a century ago (Vol. III, part II). The figures we have quoted on the growth of bank capital, on the increase in the number of the branches and offices of the biggest banks, the increase in the number of their accounts, etc., present a concrete picture of this "universal book-keeping" of the *whole* capitalist class; and not only of the capitalists, for the banks collect, even though temporarily, all kinds of money revenues—of small businessmen, office clerks, and of a tiny upper stratum of the working class...
In the matter of socialising capitalist economy the savings-banks and post-offices are beginning to compete with the banks; they are more "decentralised", i.e., their influence extends to a greater number of localities, to more remote places, to wider sections of the population. Here is the data collected by an American commission on the comparative growth of deposits in banks and savings-banks"

DEPOSITS (000,000,000 marks)							
Year	Britain		France		Germany		
	Banks	Savings-banks	Banks	Savings-banks	Banks	Credit Societies	Savings-banks
1880...	8.4	1.6	?	0.9	0.5	0.4	2.6
1888...	12.4	2.0	1.5	2.1	1.1	0.4	4.5

1908...	23.2	4.2	3.7	4.2	7.1	2.2	13.9

As they pay interest at the rate of 4 per cent and 4 1/4 per cent on deposits, the savings-banks must seek "profitable" investments for their capital, they must deal in bills, mortgages, etc. The boundaries between the banks and the savings-banks "become more and more obliterated".
Lenin; Chapter 2; p. 217; Ibid.

All this created giant cartels, and monopolies, continuing the process described by Marx:

"Germany is *governed* by not more than three hundred magnates of capital, and the number of these is constantly diminishing. At all events, banks greatly intensify and accelerate the process of concentration of capital and the formation of monopolies in all capitalist countries, notwithstanding all the differences in their banking laws".
Lenin; 'Imperialism'; Ibid; Volume 22; p.216;

As the enormous amounts of money were centralised, into monopolies, the role for '*free competition*' was eroded. Lenin pointed to the changing role of the stock-exchange – now no longer the "indispensible regulator":

"The change from the old type of capitalism, in which free competition predominated, to the new capitalism, in which monopoly reigns, is expressed, among other things, by a decline in the importance of the Stock Exchange. The review, *Die Bank*, writes: "The Stock Exchange has long ceased to be the indispensable medium of circulation that it formerly was when the banks were not yet able to place the bulk of new issues with their clients… the old capitalism, the capitalism of free competition with its indispensable regulator, the Stock exchange, is passing away."
Lenin; 'Imperialism'; Ibid; Volume 22; p.218-9.

Naturally, the process also concentrated the power of banks themselves:

"Among the few banks which remain at the head of all capitalist economy as a result of the process of concentration, there is naturally to be observed an increasingly marked tendency towards monopolist agreements, towards a *bank trust*. In America, not nine, but *two* very big banks, those of the multimillionaires Rockefeller and Morgan, control a capital of eleven thousand million marks. In Germany the absorption of the Schaaffhausenscher Bankverein by the Disconto-Gesellschaft to which I referred above, was commented on in the following terms by the *Frankfurter Zeitung*, an organ of Stock Exchange interests:

"The concentration movement of the banks is narrowing the circle of establishments from which it is possible to obtain credits, and is consequently increasing the dependence of big industry upon a small number of banking groups. In view of the close connection between industry and the financial world, the freedom of movement of industrial companies which need banking capital is restricted. For this reason, big industry is watching the growing trustification of the banks with mixed feelings. Indeed, we have repeatedly seen the beginnings of certain agreements between the individual big banking concerns, which aim at

> restricting competition….
> Again and again, the final word in the development of banking is monopoly”.
> *Lenin; 'Imperialism'; Ibid; Volume 22; p.219-20.*

The power of the banks now transcended their prior role as '*middlemen'*. Banks now had made industrial capital '*more completely dependent upon them'*:

> “As regards the close connection between the banks and industry, it is precisely in this sphere that the new role of the banks is, perhaps, most strikingly felt. When a bank discounts a bill for a firm, opens a current account for it, etc., these operations, taken separately, do not in the least diminish its independence, and the bank plays no other part than that of a modest middleman. But when such operations are multiplied and become an established practice, when the bank “collects” in its own hands enormous amounts of capital, when the running of a current account for a given firm enables the bank—and this is what happens—to obtain fuller and more detailed information about the economic position of its client, the result is that the industrial capitalist becomes more completely dependent on the bank.
> At the same time a personal link-up, so to speak, is established between the banks and the biggest industrial and commercial enterprises, the merging of one with another through the acquisition of shares, through the appointment of bank directors to the Supervisory Boards (or Boards of Directors) of industrial and commercial enterprises, and vice versa. The German economist, Jeidels, has compiled most detailed data on this form of concentration of capital and of enterprises. Six of the biggest Berlin banks were represented by their directors in 344 industrial companies; and by their board members in 407 others, making a total of 751 companies. In 289 of these companies they either had two of their representatives on each of the respective Supervisory Boards, or held the posts of chairmen. We find these industrial and commercial companies in the most diverse branches of industry: insurance, transport, restaurants, theatres, art industry, etc. On the other hand, on the Supervisory Boards of these six banks (in 1910) were fifty-one of the biggest industrialists, including the director of Krupp, of the powerful “Hapag” (Hamburg-Amerika Line), etc., etc. From 1895 to 1910, each of these six banks participated in the share and bond issues of many hundreds of industrial companies (the number ranging from 281 to 419).
> The “personal link-up” between the banks and industry is supplemented by the “personal link-up” between both of them and the government. “Seats on Supervisory Boards,” writes Jeidels, “are freely offered to persons of title, also to ex-civil servants, who are able to do a great deal to facilitate (!!) relations with the authorities.” . . . “Usually, on the Supervisory Board of a big bank, there is a member of parliament or a Berlin city councillor.”
> *Lenin; 'Imperialism'; Ibid; Volume 22; p.221-2.*

As this proceeded, specialisation enabled financiers '*supervise'* industrialists, and thereby '*several hundred kings of finance reign(ed) over modern capitalist society'*:

> “A sort of division of labour is being systematically developed amongst the several hundred kings of finance who reign over modern capitalist society… Capitalism has already reached the stage of organised supervision of individual enterprises. One specialises in German industry, sometimes even in West German industry alone.... …the growth in the dimensions and diversity of the big

> banks' operations is accompanied by an increase in the division of labour among their directors with the object (and result) of, so to speak, lifting them somewhat out of pure banking and making them better experts, better judges of the general problems of industry and the special problems of each branch of industry, thus making them more capable of acting within the respective bank's industrial sphere of influence". *Lenin; 'Imperialism'; Ibid; Volume 22; p.221-2.*

Lenin, citing **Nikolai Bukharin**, called the net result says a "*merger*" or a "*coalescence*":

> "The result is, on the one hand, the ever-growing merger, or, as N. I. Bukharin aptly calls it, coalescence, of bank and industrial capital and, on the other hand, the growth of the banks into institutions of a truly "universal character". On this question I find it necessary to quote the exact terms used by Jeidels, who has best studied the subject:
>
> > "An examination of the sum total of industrial relationships reveals the universal *character* of the financial establishments working on behalf of industry. Unlike other kinds of banks, and contrary to the demand sometimes expressed in the literature that banks should specialise in one kind of business or in one branch of industry in order to prevent the ground from slipping from under their feet—the big banks are striving to make their connections with industrial enterprises as varied as possible in respect of the locality or branches of industry and are striving to eliminate the unevenness in the distribution of capital among localities and branches of industry resulting from the historical development of individual enterprises." "One tendency is to make the connections with industry general; another tendency is to make them durable and close. In the six big banks both these tendencies are realised, not in full, but to a considerable extent and to an equal degree."
> > *'Imperialism'; Ibid; Volume 22; p.223.*

We must note that while Lenin cites Bukharin here, later on as the latter adopted Kautskyite notions of over-coming capitalist contradictions, Lenin sharply critiqued him.

This process of take-over by the financiers, is by no means entirely pleasant to the smaller industrialists or commercial traders, or indeed the older style of banker. But the "old capitalism has had its day":

> "Quite often industrial and commercial circles complain of the "terrorism" of the banks. And it is not surprising that such complaints are heard, for the big banks "command"… The old struggle between small and big capital is being resumed at a new and immeasurably higher stage of development. It stands to reason that the big banks' enterprises, worth many millions, can accelerate technical progress with means that cannot possibly be compared with those of the past. The banks, for example, set up special technical research societies, and, of course, only "friendly" industrial enterprises benefit from their work. To this category belong the Electric Railway Research Association, the Central Bureau of Scientific and Technical Research, etc. ..

> The directors of the big banks themselves cannot fail to see that new conditions of national economy are being created; but they are powerless in the face of these phenomena….. Between these new men and the old bank directors, disagreements on this subject of a business and often of a personal nature are growing. The issue is whether or not the banks, as credit institutions, will suffer from this intervention in industry, whether they are sacrificing tried principles and an assured profit to engage in a field of activity which has nothing in common with their role as middlemen in providing credit, and which is leading the banks into a field where they are more than ever before exposed to the blind forces of trade fluctuations. This is the opinion of many of the older bank directors, while most of the young men consider active intervention in industry to be a necessity as great as that which gave rise, simultaneously with big modern industry, to the big banks and modern industrial banking. The two parties are agreed only on one point: that there are neither firm principles nor a concrete aim in the new activities of the big banks.
> The old capitalism has had its day. The new capitalism represents a transition towards something. It is hopeless, of course, to seek for "firm principles and a concrete aim" for the purpose of "reconciling" monopoly with free competition.
> *Lenin; 'Imperialism'; Ibid; Volume 22; p.224-5.*

Again, Lenin finds it is important to date the new developments:

> "At precisely what period were the "new activities" of the big banks finally established? Jeidels gives us a fairly exact answer to this important question:
>
> > "The connections between the banks and industrial enterprises, with their new content, their new forms and their new organs, namely, the big banks which are organised on both a centralised and a decentralised basis, were scarcely a characteristic economic phenomenon before the nineties; in one sense, indeed, this initial date may be advanced to the year 1897, when the important mergers took place and when, for the first time, the new form of decentralised organisation was introduced to suit the industrial policy of the banks. This starting-point could perhaps be placed at an even later date, for it was the crisis of 1900 that enormously accelerated and intensified the process of concentration of industry and of banking, consolidated that process, for the first time transformed the connection with industry into the actual monopoly of the big banks, and made this connection much closer and more active."
> > Thus, the twentieth century marks the turning-point from the old capitalism to the new, from the domination of capital in general to the domination of finance capital.
> > *Lenin; 'Imperialism'; Ibid; Volume 22; p.225-6.*

ii) The dominance of financial capital and export of capital

Having established the fact of monopoly, Lenin cites Hilferding – as we stated above, to the effect that:

> "Finance capital is capital controlled by banks and employed by industrialists":
> *Ibid; p.226.*

But Lenin rapidly amends this to explicitly include monopoly, which '*penetrates into every sphere of public life*':

> "The concentration of production; the monopolies arising therefrom; the merging or coalescence of the banks with industry—such is the history of the rise of finance capital and such is the content of that concept… A monopoly, once it is formed and controls thousands of millions, inevitably penetrates into *every* sphere of public life, regardless of the form of government and all other "details"."
> *Lenin; Ibid; p.226; 237.*

The extraction of profit by the financial capitalists is because it is a '*virtual monopoly*' and is now a '*gigantic usury capital*' – by virtue of issuing bonds:

> "Finance capital, concentrated in a few hands and exercising a virtual monopoly, exacts enormous and ever-increasing profits from the floating of companies, issue of stock, state loans, etc., strengthens the domination of the financial oligarchy and levies tribute upon the whole of society for the benefit of monopolists… Capitalism, which began its development with petty usury capital, is ending its development with gigantic usury capital… The extraordinarily high rate of profit obtained from the issue of bonds, which is one of the principal functions of finance capital, plays a very important part in the development and consolidation of the financial oligarchy."
> *Lenin Ibid; p.232-3; 235.*

All this is coupled with land speculation. Altogether, this establishes the '*domination of finance capitalism*':

> "It is characteristic of capitalism in general that the ownership of capital is separated from the application of capital to production, that money capital is separated from industrial or productive capital, and that the rentier who lives entirely on income obtained from money capital, is separated from the entrepreneur and from all who are directly concerned in the management of capital. Imperialism, or the domination of finance capital, is that highest stage of capitalism in which this separation reaches vast proportions. The supremacy of finance capital over all other forms of capital means the predominance of the rentier and of the financial oligarchy; it means that a small number of financially "powerful" states stand out among all the rest":
> *Lenin; Ibid; p. 238.*

This is all closely linked to the same '*surplus of capital'*, that had been observed by Marx:

> "Typical of the old capitalism, when free competition held undivided sway, was the export of goods. Typical of the latest stage of capitalism, when monopolies rule, is the export of capital.
> Capitalism is commodity production at its highest stage of development, when labour-power itself becomes a commodity. The growth of internal exchange, and, particularly, of international exchange, is a characteristic feature of capitalism. The uneven and spasmodic development of individual enterprises, individual branches of industry and individual countries is inevitable under the capitalist system. England became a capitalist country before any other, and by the middle

> of the nineteenth century, having adopted free trade, claimed to be the "workshop of the world", the supplier of manufactured goods to all countries, which in exchange were to keep her provided with raw materials. But in the last quarter of the nineteenth century, this monopoly was already undermined; for other countries, sheltering themselves with "protective" tariffs, developed into independent capitalist states. On the threshold of the twentieth century we see the formation of a new type of monopoly: firstly, monopolist associations of capitalists in all capitalistically developed countries; secondly, the monopolist position of a few very rich countries, in which the accumulation of capital has reached gigantic proportions. An enormous "surplus of capital" has arisen in the advanced countries…
> As long as capitalism remains what it is, surplus capital will be utilised not for the purpose of raising the standard of living of the masses in a given country, for this would mean a decline in profits for the capitalists, but for the purpose of increasing profits by exporting capital abroad to the backward countries. In these backward countries profits are usually high, for capital is scarce, the price of land is relatively low, wages are low, raw materials are cheap. The export of capital is made possible by a number of backward countries having already been drawn into world capitalist intercourse; main railways have either been or are being built in those countries, elementary conditions for industrial development have been created, etc. The need to export capital arises from the fact that in a few countries capitalism has become "overripe" and (owing to the backward state of agriculture and the poverty of the masses) capital cannot find a field for "profitable" investment."
> *Lenin Ibid; p.240-2*

The ensuing export of capital is of massive portions, and has a side-effect of '*accelerating the development of capitalism in those countries to which it is exported*':

> "the export of capital reached enormous dimensions only at the beginning of the twentieth century. Before the war the capital invested abroad by the three principal countries amounted to between 175,000 million and 200,000 million francs… The export of capital influences and greatly accelerates the development of capitalism in those countries to which it is exported. While, therefore, the export of capital may tend to a certain extent to arrest development in the capital-exporting countries, it can only do so by expanding and deepening the further development of capitalism throughout the world."
> *Lenin; Ibid; p.242-3.*

The exporting country (naturally) extracts concessions, and the export of its own commodities from the recipient country. In this way:

> "Finance capital literally, one might say, spreads its net over all countries of the world. An important role is played by banks founded in the colonies and their branches"; *Lenin; Ibid; p. 245*

The capital exporting countries and their financiers have '*divided the world among themselves*' (p. 245). There is now a '*new stage of world concentration of capital and production*', with a '*supermonopoly*':

> "Monopolist capitalist associations, cartels, syndicates and trusts first divided the home market among themselves and obtained more or less complete possession of the industry of their own country. But under capitalism the home market is inevitably bound up with the foreign market. Capitalism long ago created a world market. As the export of capital increased, and as the foreign and colonial connections and "spheres of influence" of the big monopolist associations expanded in all ways, things "naturally" gravitated towards an international agreement among these associations, and towards the formation of international cartels. This is a new stage of world concentration of capital and production, incomparably higher than the preceding stages... supermonopoly".
> *Lenin; Ibid; Chapter V. p. 246*

Recently, there has been Trotskyite criticism that Lenin based his analysis largely on German information. It is alleged that this makes it less relevant to the remainder of the world. As an example, we cite Panitch and Gindin, who have become prominent Left commentators:

> "Moreover, the notion of "finance capital" (was) (extrapolated far too generally form the monopoly trusts formed between industrial and financial firms at the turn of the century in Germany) was a hindrance to understanding the much looser, relationship between production and finance that increasingly became the norm, along American lines, through the course of the century".
> *Panitch Leo, Gindin Sam; 'The making of Global capitalism. The political economy of American empire"; London; 2013; p. 6*

However a simple re-read of Lenin's original work, shows that Panitch & Gindin are were incorrect that an over-reliance upon German capitalist data is seen. Even an update by Varga F and Mendelsohn L in 1940, had already shown that Lenin's analysis applied to USA capitalism (*Varga E, Mendelsohn L. New Data for Lenin's Imperialism"; New York; 1940; see for eg: pp.17-1877; 93 etc*). We will not here discuss further this allegation, except to note that we will return to this matter later, citing more recent USA data from Greta R Kripnner.

iii) The division of the world

The eternal search of capitalists for higher profits brings with the struggle for each others corners of the world. Lenin uses the example of the big electric and oil companies. But once divided, the world is always open to '*re-division*':

> "But the division of the world between two powerful trusts does not preclude redivision if the relation of forces changes as a result of uneven development, war, bankruptcy, etc". *Lenin; p. 248.*

It is here that Lenin attacks **Karl Kautsky** – for his opinion that these developments '*give the hope of peace*':

> "Karl Kautsky, who has completely abandoned the Marxist position he had held, for example, in 1909) have expressed the opinion that international cartels, being one of the most striking expressions of the internationalisation of capital, give the hope of peace among nations under capitalism. Theoretically, this opinion is

absolutely absurd, while in practice it is sophistry and a dishonest defence of the worst opportunism. International cartels show to what point capitalist monopolies have developed, and *the object* of the struggle between the various capitalist associations".
Lenin; Ibid; p.252.

Kautsky postulates even a phase of '*ultra-imperialism*' where '*wars shall cease under capitalism*':

"From the purely economic point of view," writes Kautsky, "it is not impossible that capitalism will yet go through a new phase, that of the extension of the policy of the cartels to foreign policy, the phase of ultra-imperialism," i.e., of a superimperialism, of a union of the imperialisms of the whole world and not struggles among them, a phase when wars shall cease under capitalism, a phase of "the joint exploitation of the world by internationally united finance capital".
Kautsky, cited by Lenin Ibid; p. 271.

In contrast to Kautsky, Lenin argues '*the struggle for the territorial division of the world becomes extraordinarily sharp'*:

"Hence, we are living in a peculiar epoch of world colonial policy, which is most closely connected with the "latest stage in the development of capitalism", with finance capital… We saw above that the development of pre-monopoly capitalism, of capitalism in which free competition was predominant, reached its limit in the 1860s and 1870s. We now see that it is *precisely after that period* that the tremendous "boom" in colonial conquests begins, and that the struggle for the territorial division of the world becomes extraordinarily sharp. It is beyond doubt, therefore, that capitalism's transition to the stage of monopoly capitalism, to finance capital, *is connected* with the intensification of the struggle for the partitioning of the world…. Kautsky's utterly meaningless talk about ultra-imperialism encourages, among other things, that profoundly mistaken idea which only brings grist to the mill of the apologists of imperialism, i.e., that the rule of finance capital *lessens* the unevenness and contradictions inherent in the world economy, whereas in reality it increases them. "
Lenin; Ibid; p.254-5; 272.

Kautsky's notions were obviously contradicted both by the First World War, but also by the Second World War. But here we should note that the same idea has been re-born several times. It has also invaded the Marxist-Leninist movement more than once, as with Bukharin. We cite **W.B.Bland** against the neo-Kautskayian **Michael Hudson** below. At another stage, we will more fully address **Leo Panitch** and **Sam Gindin**. Recently **Diethard Möller** has critiqued **Stefan Engel** of the MLPD *('What About the International Revolution? See here April 2018 index Revolutionary Democracy New Delhi; http://www.revolutionarydemocracy.org/*)

Lenin continues, that the characteristic feature of monopolisation is colonial possession, because only this gives "complete guarantee against all contingencies in the struggle against competitors":

> "The principal feature of the latest stage of capitalism is the domination of monopolist associations of big employers. These monopolies are most firmly established when *all* the sources of raw materials are captured by one group, and we have seen with what zeal the international capitalist associations exert every effort to deprive their rivals of all opportunity of competing, to buy up, for example, ironfields, oilfields, etc. Colonial possession alone gives the monopolies complete guarantee against all contingencies in the struggle against competitors, including the case of the adversary wanting to be protected by a law establishing a state monopoly. The more capitalism is developed, the more strongly the shortage of raw materials is felt, the more intense the competition and the hunt for sources of raw materials throughout the whole world, the more desperate the struggle for the acquisition of colonies… Finance capital is interested not only in the already discovered sources of raw materials but also in potential sources, because present-day technical development is extremely rapid, and land which is useless today may be improved tomorrow if new methods are devised (to this end a big bank can equip a special expedition of engineers, agricultural experts, etc.), and if large amounts of capital are invested. This also applies to prospecting for minerals, to new methods of processing up and utilising raw materials, etc., etc. Hence, the inevitable striving of finance capital to enlarge its spheres of influence and even its actual territory."
> *Ibid p. 260-1.*

iv) What is modern imperialism?

Lenin points out that imperialism was a feature even under previous rules, such as under Imperial Rome. But what characterizes modern capitalist imperialism? He answers the main thing is "the displacement of capitalist free competition by capitalist monopoly":

> "Imperialism emerged as the development and direct continuation of the fundamental characteristics of capitalism in general. But capitalism only became capitalist imperialism at a definite and very high stage of its development, when certain of its fundamental characteristics began to change into their opposites, when the features of the epoch of transition from capitalism to a higher social and economic system had taken shape and revealed themselves in all spheres. Economically, the main thing in this process is the displacement of capitalist free competition by capitalist monopoly. Free competition is the basic feature of capitalism, and of commodity production generally; monopoly is the exact opposite of free competition, but we have seen the latter being transformed into monopoly before our eyes, creating large-scale industry and forcing out small industry, replacing large-scale by still larger-scale industry, and carrying concentration of production and capital to the point where out of it has grown and is growing monopoly: cartels, syndicates and trusts, and merging with them, the capital of a dozen or so banks, which manipulate thousands of millions. At the same time the monopolies, which have grown out of free competition, do not eliminate the latter, but exist above it and alongside it, and thereby give rise to a number of very acute, intense antagonisms, frictions and conflicts. Monopoly is the transition from capitalism to a higher system… monopoly under capitalism can never completely, and for a very long period of time, eliminate competition in the world market (and this, by the by, is one of the reasons why the theory of ultra-imperialism is so absurd)."
> *Lenin; Ibid; p. 265; 276*

At its briefest, imperialism could be defined as follows:

> "If it were necessary to give the briefest possible definition of imperialism we should have to say that imperialism is the monopoly stage of capitalism. Such a definition would include what is most important, for, on the one hand, finance capital is the bank capital of a few very big monopolist banks, merged with the capital of the monopolist associations of industrialists; and, on the other hand, the division of the world is the transition from a colonial policy which has extended without hindrance to territories unseized by any capitalist power, to a colonial policy of monopolist possession of the territory of the world, which has been completely divided up."
> *Lenin; Ibid; p. 266.*

But Lenin says even this is inadequate. An economic definition of imperialism is:

> "a definition of imperialism… will include the following five of its basic features: (1) the concentration of production and capital has developed to such a high stage that it has created monopolies which play a decisive role in economic life; (2) the merging of bank capital with industrial capital, and the creation, on the basis of this "finance capital", of a financial oligarchy; (3) the export of capital as distinguished from the export of commodities acquires exceptional importance; (4) the formation of international monopolist capitalist associations which share the world among themselves, and (5) the territorial division of the whole world among the biggest capitalist powers is completed. Imperialism is capitalism at that stage of development at which the dominance of monopolies and finance capital is established; in which the export of capital has acquired pronounced importance; in which the division of the world among the international trusts has begun, in which the division of all territories of the globe among the biggest capitalist powers has been completed". *Lenin; Ibid; p. 266.*

v) parasitism – and rentiers in imperialism – decay in capitalist states

Immediately on this question, Lenin states bluntly, that:

> "Parasitism… is characteristic of imperialism. P.276

What does this '*parasitism'* mean? We defined it above. Lenin defines it effectively as the '*clipping of coupons'* , or the cashing in of stock dividends. The rentier, is the otherwise un-employed rich:

> "Imperialism is an immense accumulation of money capital in a few countries, amounting, as we have seen, to 100,000-50,000 million francs in securities. Hence the extraordinary growth of a class, or rather, of a stratum of rentiers, i.e., people who live by "clipping coupons", who take no part in any enterprise whatever, whose profession is idleness. The export of capital, one of the most essential economic bases of imperialism, still more completely isolates the rentiers from production and sets the seal of parasitism on the whole country that lives by exploiting the labour of several overseas countries and colonies.
> "In 1893," writes Hobson, "the British capital invested abroad represented about 15 per cent of the total wealth of the United Kingdom." Let me remind the reader

> that by 1915 this capital had increased about two and a half times. “Aggressive imperialism,” says Hobson further on, “which costs the tax-payer so dear, which is of so little value to the manufacturer and trader ... is a source of great gain to the investor.... The annual income Great Britain derives from commissions in her whole foreign and colonial trade, import and export, is estimated by Sir R.Giffen at £18,000,000 (nearly 170 million rubles] for 1899, taken at 2 1/2 per cent, upon a turnover of £800,000,000.” Great as this sum is, it cannot explain the aggressive imperialism of Great Britain, which is explained by the income of £90 million to £100 million from “invested” capital, the income of the rentiers.
> The income of the rentiers is five *times* greater than the income obtained from the foreign trade of the biggest “trading” country in the world! This is the essence of imperialism and imperialist parasitism”.
> *Lenin Ibid. p.277*

Such a wide-spread phenomenon goes beyond the individuals, and gives rise to the *“rentier state”* that display all the features of ‘*decaying capitalism*’. It is closely tied to a change from an industrial state to a ‘creditor’ state:

> “For that reason the term “rentier state” (Rentnerstaat), or usurer state, is coming into common use in the economic literature that deals with imperialism. The world has become divided into a handful of usurer states and a vast majority of debtor states. “At the top of the list of foreign investments,” says Schulze-Gaevernitz, “are those placed in politically dependent or allied countries: Great Britain grants loans to Egypt, Japan, China and South America. Her navy plays here the part of bailiff in case of necessity. Great Britain’s political power protects her from the indignation of her debtors.” Sartorius von Waltershausen in his book, *The National Economic System of Capital Investments Abroad,* cites Holland as the model “rentier state” and points out that Great Britain and France are now becoming such. Schilder is of the opinion that five industrial states have become “definitely pronounced creditor countries”: Great Britain, France, Germany, Belgium and Switzerland. He does not include Holland in this list simply because she is “industrially little developed”. The United States is a creditor only of the American countries.
> “Great Britain,” says Schulze-Gaevernitz, “is gradually becoming transformed from an industrial into a creditor state. Notwithstanding the absolute increase in industrial output and the export of manufactured goods, there is an increase in the relative importance of income from interest and dividends, issues of securities, commissions and speculation in the whole of the national economy. In my opinion it is precisely this that forms the economic basis of imperialist ascendancy. The creditor is more firmly attached to the debtor than the seller is to the buyer….
> The rentier state is a state of parasitic, decaying capitalism, and this circumstance cannot fail to influence all the socio-political conditions of the countries concerned”;
> *Lenin Ibid; p. 277-8*

These ‘*decayed… socio-political conditions’*, Lenin contends, includes several features, that cannot be fully discussed here. These include:
1) the rise of a privileged stratum of labour aristocrats (This was small as was pointed out by Lenin himself, and corroborated empirically by Bland; *‘Classes in Modern Britain’; 1966;*

at: http://ml-review.ca/aml/BLAND/WBBSIZECLASS.html), and its associated rise of labour social chauvinism. As Lenin states:

> "Opportunism cannot now be completely triumphant in the working-class movement of one country for decades as it was in Britain in the second half of the nineteenth century; but in a number of countries it has grown ripe, overripe, and rotten, and has become completely merged with bourgeois policy in the form of "social-chauvinism"; *Lenin Ibid; p. 285.*

2) A switch of productive agricultural land to non-productive land devoted entirely for pleasure to the aristocracy; and,

3) Increased immigration of migrant workers from colonial dependent countries into the metropolitan states (this latter is now in the renewed racist climate, again very important. This demands separate treatment).

vi) The Uneven Law of Economic Development

It follows from much of the analysis of imperialism that not only large firms (monopolies) rise and fall - so do the rise and fall in relative power of different imperialist countries. This "*uneven and spasmodic development*" is "*inevitable*":

> "Capitalism is commodity production at its highest stage of development, when labour-power itself becomes a commodity. The growth of internal exchange, and, particularly, of international exchange, is a characteristic feature of capitalism. **The uneven and spasmodic development of individual enterprises, individual branches of industry and individual countries is inevitable under the capitalist system.** England became a capitalist country before any other, and by the middle of the nineteenth century, having adopted free trade, claimed to be the 'workshop of the world', the supplier of manufactured goods to all countries, which in exchange were to keep her provided with raw materials. But in the last quarter of the nineteenth century, this monopoly was already undermined; for other countries, sheltering themselves with 'protective' tariffs, developed into independent capitalist states. On the threshold of the twentieth century we see the formation of a new type of monopoly: firstly, monopolist associations of capitalists in all capitalistically developed countries; secondly, the monopolist position of a few very rich countries, in which the accumulation of capital has reached gigantic proportions. An enormous 'surplus of capital' has arisen in the advanced countries. It goes without saying that if capitalism could develop agriculture, which today is everywhere lagging terribly behind industry, if it could raise the living standards of the masses, who in spite of the amazing technical progress are everywhere still half- starved and poverty-stricken, there could be no question of a surplus of capital. This 'argument' is very often advanced by the petty-bourgeois critics of capitalism. But if capitalism did these things it would not be capitalism; for both uneven development and a semi-starvation level of existence of the masses are fundamental and inevitable conditions and constitute premises of this mode of production.
> *V.I. Lenin, 'Imperialism, The Highest Stage Of Capitalism' (1916), in LCW, op. cit., Vol. 22, pp. 240–241.*

Indeed, this unevenness, is exacerbated by financial capital - not lessened - and ? "*increases contradictions*":

> "If, however, we are discussing the 'purely economic' conditions of the epoch of finance capital as a historically concrete epoch which began at the turn of the twentieth century, abstractions of 'ultra-imperialism' (which serve exclusively a most reactionary aim: that of diverting attention from the depth of existing antagonisms) is to contrast them with the concrete economic realities of the present-day world economy. Kautsky's utterly meaningless talk about ultra-imperialism encourages, among other things, that profoundly mistaken idea which only brings grist to the mill of the apologists of imperialism, i.e., that the rule of finance capital lessens the unevenness and contradictions inherent in the world economy, whereas in reality it increases them.
>
> *Ibid., pp. 271–272.*

Summary:
By 1916, Lenin had found that not only was finance capital dominant, but it had '*merged'* or '*coalesced'* with industrial capital. This coincided with an intense monopolization, and the intense battle for colonies as sumps of "surplus" capital and other commodities. This led to the First World War. The Bolshevik revolution of 1917, formed the developing socialist state of the USSR in 1917.

3. The period of socialism in the USSR

In 1917, the Bolshevik revolution formed the USSR. This removed one of the former imperialist states – Russia. It had for capitalists a dual feature. On the one hand it lessened inter-imperialist struggle. However, at the same time, the loss of the Russian market also intensified inter-imperialist competition, and of course posed a threat to their own imperialism. Initially after the end of the first world war, there was a '*stabilisation'* of capitalism. But this was only temporary. This was confirmed by the advent of the Second World War. In general Stalin's readily known and available published writings, point to his view – that Western finance capitalism was dominant over industrial capital, up to 1952. Under his watch, the only country of the non-Western capitalist block that joined the Bretton Woods Accord – was Yugoslavia. That country was not a part of the evolving People's Democracies, also known as the Socialist Bloc. We will review the Dawes Plan (post First World War), and the Marshall Plan after the Second World War.

i) Post World War I, the Dawes Plan – temporary stabilisation of capital with new dominance of the USA

Stalin followed Lenin's analysis of imperialisms, so much so that he expressly states that:

> "Finance capital is ousting and will completely oust a particular country from the ranks of the Great Powers, will deprive it of its colonies and spheres of influence".
> *Stalin J.V.; '7th Enlarged Plenum; Report of the ECCI' Works Moscow 1954; Volume 7; p. 107.*

By 1925, the bulwark of socialism in the USSR forced a '*certain lull'*, which as Stalin put it, brought a '*temporary stabilisation of capitalism'* with an '*ebb'* in the revolution. But in this respite the contradictions of capitalism continued unabated:

> "The new feature that has revealed itself lately, and which has laid its impress upon the international situation, is that the revolution in Europe has begun to ebb, that a certain lull has set in, which we call the temporary stabilisation of capitalism, while at the same time the economic development and political might of the Soviet Union are increasing".
> *Stalin J.V.: The Results of the Work of the Fourteenth Conference of the R.C.P.(B.)I Report Delivered at a Meeting of the Active of the Moscow Organisation of the R.C.P.(B.) 1. The International Situation* May 9, 1925; Works*, Vol. 7, Moscow, 1954; p. 91.*

But this capitalist '*ebb'* was balanced by an '*impetuous'* growth of the '*economic development of the USSR*':

> "But the ebb is only one aspect of the matter. The other aspect is that simultaneously with the ebb of the revolution in Europe we have the impetuous growth of the economic development of the Soviet Union and its increasing political might. In other words, we have not only the stabilisation of capitalism; we also have the stabilisation of the Soviet system. Thus, we have two stabilisations: the temporary stabilisation of capitalism and the stabilisation of the Soviet system. A certain temporary equilibrium between these two stabilisations has been reached — such is the characteristic feature of the present international situation".
> *Ibid; p. 94. Vol 7*

This meant there was a '*temporary equilibrium'* of forces:

> "The basic and new feature, the decisive feature that has affected all the events in the sphere of foreign relations during this period, is the fact that a certain temporary equilibrium of forces has been established between our country, which is building socialism, and the countries of the capitalist world, an equilibrium which has determined the present period of "peaceful co-existence" between the Land of Soviets and the capitalist countries. What we at one time regarded as a brief respite after the war has become a whole period of respite. Hence a certain equilibrium of forces and a certain period of "peaceful co-existence" between the bourgeois world and the proletarian world.
> At the bottom of all this lies an internal weakness, the weakness and infirmity of world capitalism, on the one hand, and the growth of the workers' revolutionary movement in general, and particularly the growth of strength in our country, the Land of Soviets, on the other".
> What lies at the bottom of this weakness of the capitalist world?
> At the bottom of this weakness lie the contradictions which capitalism cannot overcome, and within the framework of which the entire international situation is taking shape — contradictions which the capitalist countries cannot overcome…
> The general picture is that the post-war economic crisis in Europe is passing away, production and trade are approaching the pre-war level. One of the European countries, France, has already surpassed the pre-war level in the sphere of trade and production, while another European country — I refer to Britain — still remains at one and the same, or almost one and the same, level

> without reaching the pre-war level..."
> *Stalin JV; The 14th Congress of the CPSU(B); December 18-31, 1925; Political Report of the Central Committee; Works; Moscow; 1954; Volume 7; p.267-268; or via:*
> https://www.marxists.org/reference/archive/stalin/works/1925/12/18.htm#I_

Nonetheless, in the capitalist world, at the same time there was a new found dominance of the USA. This now owned '*about 5,000 millions*' of the world's total gold reserve of 9,000 millions. The '*former center of the financial exploitation of the world had been France, Germany and Britain*' – but this was no longer the case:

> "*Thirdly.* The centre of financial power in the capitalist world, the centre of the financial exploitation of the whole world, has shifted from Europe to America. Formerly, France, Germany and Britain usually formed the centre of the financial exploitation of the world. That cannot be said now without special reservations. Now, the centre of the financial exploitation of the world is mainly the United States of America. That country is growing in every respect: as regards production, as regards trade, and as regards accumulation. I shall quote some figures. The production of grain in North America has risen above the pre-war level; it is now 104 per cent of that level. Coal output has reached 90 per cent of the pre-war level, but the deficit is compensated for by an enormous increase in the output of oil. And it must be pointed out that the oil output of America amounts to 70 per cent of world output. Steel production has risen to 147 per cent — 47 per cent above the pre-war level. The national income amounts to 130 per cent of pre-war — exceeding the pre-war level by 30 per cent. Foreign trade has reached 143 per cent of the pre-war level and has an enormous favourable balance in relation to the European countries. Of the total world gold reserve amounting to 9,000 millions, about 5,000 millions are in America. United States currency is the most stable of all currencies. As regards export of capital, America, at the present time, is almost the only country that is exporting capital in ever-growing proportions. The amount exported by France and Germany is terribly small; Britain has also considerably reduced her export of capital."
> *Stalin JV; The 14th Congress of the CPSU(B); December 18-31, 1925; Ibid; p.*270; 272;

The degree of European indebtedness to the USA was such as to '*subordinate it to the USA*', which situation led the European capitalists to screw down on workers even more. This would undoubtedly lead to an increase in a '*definite swing to the Left of the working class in Europe*' :

> "*Fourthly.* The temporary stabilisation of European capitalism to which I referred above has been achieved mainly with the aid of American capital, and at the price of the financial subordination of Western Europe to America. To prove this, it is sufficient to quote the figure of Europe's state indebtedness to America. That figure amounts to no less than 26,000 million rubles. This is apart from private debts to America, i.e., American investments in European enterprises, amounting for Europe to the sum of several thousand millions. What does that show? It shows that Europe has begun to get on its feet, more or less, as a result of the influx of capital from America (and partly from Britain). At what price? At the price of Europe's financial subordination to America".
> *Stalin JV; The 14th Congress of the CPSU(B); December 18-31; Ibid;* p.273.

Fifthly. In view of this, in order to be able to pay interest and principal, Europe is forced to increase the burden of taxation on the population, to worsen the conditions of the workers. That is precisely what is happening now in the European countries. Already, before the payment of principal and interest has properly started, in Britain, for example, the burden of taxation as a percentage of the total national income has increased from 11 per cent (in 1913) to 23 per cent in 1924; in France it has increased from 13 per cent of the national income to 21 per cent, and in Italy — from 13 per cent to 19 per cent. Needless to say, in the very near future the burden of taxation will grow still heavier. In view of this, the material conditions of the working people in Europe, and primarily those of the working class, will certainly deteriorate and the working class will inevitably become revolutionised. Symptoms of this revolutionisation are already to be observed in Britain and in other European countries. I have in mind the definite swing to the Left of the working class in Europe.
Such are the principal facts which show that the temporary stabilisation of capitalism which Europe has achieved is a putrid stabilisation that has grown up on putrid soil".
Stalin JV; The 14th Congress of the CPSU(B); December 18-31; Ibid p. 273-4.

The role of financial capital was emphasized by Stalin. He emphasises that the victory of the USA was achieved by using a new method – the method of '*financial intervention.. exploitation… enslavement'*, rather than the prior method of '*strangulation.. by occupation*' or '*military intervention'*. This was first achieved by the **Dawes Plan**:

"Of a number of phenomena of decisive significance in the international situation, the following basic facts should be noted:
1. Undoubtedly, capital has succeeded in extricating itself from the quagmire of the post-war crisis. The stabilisation of the currency in a number of capitalist countries, the growth of world trade and the expansion of production in individual countries, the export and investment of capital, especially Anglo-American capital, in Europe and Asia — all this testifies to the successes capital has achieved in its "constructive work." As is known, that "work" is being conducted under the aegis of the Anglo-American bloc. Of the results of this "work," the so-called "Dawesation" of Germany, i.e., the transition from the method of military intervention to the method of financial intervention, to the method of financial enslavement of Germany, must be regarded as one of the most important".
Stalin J.V.; The International Situation and the Tasks of the Communist Parties; *March 22, 1925; Works*, Vol. 7, p. 53.

Even the European countries using a repartions policy, rendered the main 'v*anquished*' countries, subject to 'financial exploitation'. This squeezing of Germany, was designed in fact by the USA capitalists. The USA wanted its debts paid by the 'vicotrious' European cpaitlists.. But these 'victors' were in such a parlous fiscal state that they could only pay back to the USA by bleeding Germany:

"I pass to the third series of contradictions, those between the victor countries and the defeated countries.
The basic facts in this sphere are the following. Firstly, after the Versailles Peace, Europe found herself split up into two camps — the camp of the vanquished (Germany, Austria and other countries) and the camp of the victors (the Entente plus America). Secondly, the circumstance must be noted that the victors, who

> had previously tried to strangle the defeated countries by means of occupation (I remind you of the Ruhr), have abandoned this line and have adopted a different method, the method of financial exploitation — of Germany in the first place, and of Austria in the second place. This new method finds expression in the Dawes Plan"….
> The intention of the Dawes Plan is that Germany must pay the Entente no less than some 130,000 million gold marks in several instalments. The results of the Dawes Plan are already making themselves felt in the deterioration of Germany's economic position, in the bankruptcy of a whole group of enterprises, in growing unemployment, etc. The Dawes Plan, which was drawn up in America, is as follows: Europe is to pay her debts to America at the expense of Germany, who is obliged to pay Europe reparations; but as Germany is unable to pump this sum out of a vacuum, she must be given a number of free markets, not yet occupied by other capitalist countries, from which she could gain fresh strength and fresh blood for the reparation payments.
> *Stalin JV; The 14th Congress of the CPSU(B); December 18-31; Ibid; p. 277-78*

Stalin estimated that this bleeding of Germany would lead to German revolution. He also identified that the imperialists were urging Germany East to Russia – for a market. The hope was this would both destroy the USSR, while also renewing capital's market. However, he pointed out this was a futile hope. The USSR would not meekly acquiesce:

> "The second part of this plan, which says that Germany must squeeze money out of the Russian markets for the benefit of Europe, is also a decision that reckons without the host. Why? Because, we have not the least desire to be converted into an agrarian country for the benefit of any other country whatsoever, including Germany. We ourselves will manufacture machinery and other means of production. Therefore, to reckon that we shall agree to convert our Motherland into an agrarian country for the benefit of Germany, means reckoning without the host. In this respect, the Dawes Plan stands on feet of clay".
> *Stalin JV; The 14th Congress of the CPSU(B); December 18-31; Ibid; p. 277-78*

One consequence of the German bleeding was the rise of German fascism, leading directly to the Second World War.

ii) The 1929 Great Crash

In contrast to the situation of 'temporary stabilization' earlier - by 1930, Stalin commented on the great crisis in capitalist countries. Stalin characterizes this as a *'crisis of over-production'*. In the midst of this was *'mass poverty and a colossal growth of unemployment"*:

> "Recall the state of affairs in the capitalist countries two and a half years ago. Growth of industrial production and trade in nearly all the capitalist countries. Growth of production of raw materials and food in nearly all the agrarian countries. A halo around the United States as the land of the most full-blooded capitalism. Triumphant hymns of "prosperity." Grovelling to the dollar. Panegyrics in honour of the new technology, in honour of capitalist rationalisation. Proclamation of an era of the "recovery" of capitalism and of the unshakable firmness of capitalist stabilisation. "Universal" noise and clamour about the

"inevitable doom" of the Land of Soviets, about the "inevitable collapse" of the USSR That was the state of affairs yesterday.

And what is the picture today?

Today there is an economic crisis in nearly all the industrial countries of capitalism. Today there is an agricultural crisis in all the agrarian countries. Instead of "prosperity" there is mass poverty and a colossal growth of unemployment. Instead of an upswing in agriculture there is the ruin of the vast masses of the peasants. The illusions about the omnipotence of capitalism in general, and about the omnipotence of North American capitalism in particular, are collapsing. The triumphant hymns in honour of the dollar and of capitalist rationalisation are becoming fainter and fainter. Pessimistic wailing about the "mistakes" of capitalism is growing louder and louder. And the "universal" clamour about the "inevitable doom" of the USSR is giving way to "universal" venomous hissing about the necessity of punishing "that country" that dares to develop its economy when crisis is reigning all around.
Such is the picture today."
J. V. Stalin; Political Report of the Central Committee to the Sixteenth Congress of the C.P.S.U.(B.);June 27, 1930; Volume 12; p. 243-4.

"**World Economic Crisis**
a) In studying the crisis, the following facts, above all, strike the eye:
1. The present economic crisis is a crisis of *over-production.* This means that more goods have been produced than the market can absorb. It means that more textiles, fuel, manufactured goods and food have been produced than can be purchased for cash by the bulk of the consumers, i.e., the masses of the people, whose incomes remain on a low level. Since, however, under capitalism, the purchasing power of the masses of the people remains at a minimum level, the capitalists keep their "superfluous" goods, textiles, grain, etc., in their warehouses or even destroy them in order to bolster up prices; they cut down production and discharge their workers, and the masses of the people are compelled to suffer hardship because too many goods have been produced.

> *2.* The present crisis is the first post-war *world* economic crisis. It is a world crisis not only in the sense that it embraces all, or nearly all, the *industrial* countries in the world; even France, which is systematically injecting into her organism the billions of marks received as reparations payments from Germany, has been unable to avoid a certain depression, which, as all the data indicate, is bound to develop into a crisis. It is a world crisis also in the sense that the *industrial* crisis has coincided with an *agricultural* crisis that affects the production of all forms of raw materials and food in the chief *agrarian* countries of the world.
> 3. The present world crisis is developing *unevenly*, notwithstanding its *universal* character; it affects different countries at different times and in different degrees. The industrial crisis began first of all in Poland, Rumania and the Balkans. It developed there throughout the whole of last year. Obvious symptoms of an incipient agricultural crisis were already visible at the end of 1928 in Canada, the United States, the Argentine, Brazil and Australia. During the whole of this period United States industry showed an upward trend. By the middle of 1929 industrial production in the United States had reached an almost record level. A break began only in the latter half of 1929, and then a crisis in industrial production swiftly developed, which threw the United States back to the level of 1927. This was followed by an industrial crisis in Canada and Japan. Then came bankruptcies and crisis in China and in the colonial countries, where the crisis was aggravated by the drop in the price of silver, and where the crisis of overproduction was combined with the ruination of the peasant farms, which were reduced to utter exhaustion by feudal exploitation and unbearable taxation. As regards Western Europe, there the crisis began to gain force only at the beginning of this year, but not everywhere to the same degree, and even in that period France still showed an increase in industrial production. *J. V. Stalin; Political Report of the Central Committee to the Sixteenth Congress of the C.P.S.U.(B.);June 27, 1930; Volume 12; p. 244-43*

In Western capitalist countries, in especial the USA - there was agreement that indeed, there was a crisis. Amidst the unemployment and social turmoil of The Crash of 1929 in the USA, class hostility to the Banks came from the workers. This led to reforms designed to placate and fob off workers. One aim was ostensibly to ensure that banks were more likely to hold increased levels of adequate currency reserves to cover demands; and other restrictions to attempt to guard against their being tempted to 'gamble'. To do the latter, it was necessary to separate commercial banks from investment banks. This was the purpose of the **Glass-Stegall Act** of 1933.

> "Glass-Steagall was sponsored by Senator Carter Glass, a former Treasury secretary, and Rep. Henry Steagall, a member of the House of Representatives and Chairman of the House Banking and Currency Committee. The act was passed as an emergency measure to counter the failure of almost 5,000 banks during the Great Depression. Glass-Steagall lost its potency in subsequent decades and was partially repealed in 1999.... The *Glass-Steagall Act's* primary objectives were twofold: to stop the unprecedented run on banks and restore public confidence in the U.S. banking system; and to sever the linkages between commercial and investment banking that were believed to have been responsible for the 1929 market crash. The rationale for seeking the separation was the conflict of interest that arose when banks were engaged in both commercial and investment banking (e.g. the tendency of such banks to engage in excessively

> speculative activity)." *Investopedia; accessed 26 August 2018, at: https://www.investopedia.com/terms/g/glass_steagall_act.asp*

> "The **Glass–Steagall legislation** describes four provisions of the U.S.A Banking Act of 1933 separating commercial and investment banking. The article 1933 Banking Act describes the entire law, including the legislative history of the provisions covered here... The separation of commercial and investment banking prevented securities firms and investment banks from taking deposits, and commercial Federal Reserve member banks from: dealing in non-governmental securities for customers, investing in non-investment grade securities for themselves, underwriting or distributing non-governmental securities, affiliating (or sharing employees) with companies involved in such activities";
> *Wikepedia; accessed 26 August 2018.*

One critical reform was the imposition of ceilings on debt, the so-called **Regulation Q**:

> "Of all the proposed ills... none garnered as much attention... as the alleged abuses stemming from the combination of commercial and investment banking activities... The New Deal financial legislation comprised several distinct bills that would remake the modern financial system and therefore shape the contours of deregulation effort in subsequent decades. The most significant legislation... was the Banking Act of 1933, which created a national system of deposit insurance administered by the Federal Deposit Insurance Corporation, liberalized bank branching rights, made it illegal to pay interest on demand deposits, imposed ceiling on the interest that could be paid on time and savings deposits (**Regulation Q**), and divorced commercial banking and investment banking functions (the Glass-Stegall Act). and the Securities Act of 1934, which allowed the Federal Reserve to regulate the extension of bank credit for securities purchases (so-called margin loans widely held to be responsible for the dizzying run up in the stock market in the 1920s). The Banking Act of 1935 centralized control over monetary policy at the Federal Reserve Board, diminishing the influence of regional Federal Reserve Banks": *Krippner, Greta R: 'Capitalizing on Crisis. The political Origins of the Rise of Finance. Cambridge Mass; 2011; p. 60-61*

> "Regulation Q which imposed interest rate ceilings on time and savings deposit held at depository institutions was at the heart.. (it) drew a bright line between a tightly controlled credit market, which was subject to strict limits on what financial institutions could pay for funds, and an uncontrolled capital market in which rates of return reflected the unbridled forces of supply and demand.. the manifest reason... was to keep the cost of funds to depository institutions low so as to avoid tempting lenders into reckless spending.." *Krippner Ibid p. 61*.

In contrast to the USA, the markets elsewhere now became much less regulated:

> "After the crash of 1929, a populist backlash against Wall Street led to the introduction of the Glass-Stegall Act, which forced banks to split off their capitals market operations - the trading of debt and equity securities - for their commercial banking operations... Glass-Steagall regulations prohibited the main New York bankers from playing the capital markets. Glass-Steagall didn't apply overseas. London's regulatory prohibitions took a more laissez-faire attitude, generally permitting banks to engage in a wider range of services...

> The Federal Reserve also imposed rules specifically on American commercial banks - with investment banks left outside this purview - including the stipulation that the total size of their liabilities could not exceed twenty times the size of their equity. If banks over-expanded their assets and failed to keep adequate reserve capital to cover potential losses, they were at risk of collapse, as had happened so spectacularly after the Crash of 1929."
> *Tett p.14, 16, 25.*

We will return to these features of a failed attempt to reform or remedy the worst features of the capitalist crisis of the 1929-30 era, later.

iii) Post Second World War and the continued domination of the USA

After the Second World War, Marxists-Leninists led by Stalin, quickly recognized the predominant role of the USA. But Stalin attacked notions that this was a permanent state of affairs '*for eternity*'; and that countries under the '*jackboot*' of the USA would not with time fight again. Thus '*wars between capitalist countries*' were inevitable:

> "Some comrades hold that, owing to the development of new international conditions since the Second World War, wars between capitalist countries have ceased to be inevitable. They consider that the contradictions between the socialist camp and the capitalist camp are more acute than the contradictions among the capitalist countries; that the U.S.A. has brought the other capitalist countries sufficiently under its sway to be able to prevent them going to war among themselves and weakening one another; that the fore-most capitalist minds have been sufficiently taught by the two world wars and the severe damage they caused to the whole capitalist world not to venture to involve the capitalist countries in war with one another again - and that, because of all this, wars between capitalist countries are no longer inevitable.
> These comrades are mistaken. They see the outward phenomena that come and go on the surface, but they do not see those profound forces which, although they are so far operating imperceptibly, will nevertheless determine the course of developments.
> Outwardly, everything would seem to be "going well": the U.S.A. has put Western Europe, Japan and other capitalist countries on rations; Germany (Western), Britain, France, Italy and Japan have fallen into the clutches of the U.S.A. and are meekly obeying its commands. But it would be mistaken to think that things can continue to "go well" for "all eternity," that these countries will tolerate the domination and oppression of the United States endlessly, that they will not endeavour to tear loose from American bondage and take the path of independent development.
> Take, first of all, Britain and France. Undoubtedly, they are imperialist countries. Undoubtedly, cheap raw materials and secure markets are of paramount importance to them. Can it be assumed that they will endlessly tolerate the present situation, in which, under the guise of **"Marshall plan aid",** Americans are penetrating into the economies of Britain and France and trying to convert them into adjuncts of the economy, and American capital is seizing raw materials in the British and French colonies and thereby plotting disaster for the high profits of the British and French capitalists? Would it not be truer to say that capitalist Britain, and, after her, capitalist France, will be compelled in the end to break

> from the embrace of the U.S.A. and enter into conflict with it in order to secure an independent position and, of course, high profits?
> Let us pass to the major vanquished countries, Germany (Western) and Japan. These countries are now languishing in misery under the jackboot of American imperialism. Their industry and agriculture, their trade, their foreign and home policies, and their whole life are fettered by the American occupation "regime." Yet only yesterday these countries were great imperialist powers and were shaking the foundations of the domination of Britain, the U.S.A. and France in Europe and Asia. To think that these countries will not try to get on their feet again, will not try to smash the U.S. "regime," and force their way to independent development, is to believe in miracles".
> *J.V.Stalin, "Economic Problems of Socialism in the USSR"; September 28, 1952; Foreign Languages Press, Peking: 1972 (First Edition); p.32-34; or at: https://www.marxists.org/reference/archive/stalin/works/1951/economic-problems/index.htm*

Stalin pointed to the prior factual example, that of Germany's resurgence after the First World War – even despite the Dawes Plan and its bleeding out of Germany's finances:

While Stalin was still alive, the world as divided into two parts – the socialist sector and those countries of the People's Democracies developing toward socialism, and the capitalist world. Had the revisionists - led by Khruschev - not taken over, there would have been the prospect of further socialist changes especially in the People's Democracies. But of course, this never happened. This failure left the worlds toilers and workers at the mercy of the onset of new developments in capitalist industry and finances.

Summary: By the end of World War II, the division of he world between the capitalist camp and the socialist camp, ensured the diminished market for capitalist penetration. Nonetheless, the rebuilding of Western Europe – lent a new lease for capital in general. In especial it enabled the USA to finally overtake its erst-while rivals, the British and French imperialists. This was sealed under the Marshall Plan, and its associated monetary reforms in the Bretton Woods Agreement.

4. The USA and the hegemony of the US dollar - to ‘Neo-Liberalism’.

Immediately after Second World War, the Western European countries, had turned their back on the prior alliance with the democratic forces. Once the German and Japanese fascists had been defeated, the guiding force became to turn back the advance of socialist forces.

Instead of the democratic alliance of yester-year, the imperialists vented about the descent of a so-called ‘Iron Curtain’. This phrase was originally coined in relation to the USSR by others (Vasily Rozanov, Ethel Snowden, G.K. Chesterton), but made infamous by **Winston Churchill** - in his Fulton speech of March 5, 1946. The imperialists joined a USA formation. This explicitly aimed to resist the Soviet Block. But the USA intended it to also achieve another end. This was to ensure that Europe bought American exports. Naturally this aim meant to restrict native European industry and capitalists. The goal was spectacularly achieved. But over time these European countries, as predicted by Stalin, tried to gain more autonomy from the USA.

Struggles between the USA and its allies, over trade and profits, took the form of exchange and currency advantages. This had been established by the Bretton Woods agreement post-War. This stamped the superiority of the USA dollar. But struggles over its consequences reached a climax in the **Plaza Agreement** of **Richard Nixon** in August 1971. In this the USA came off the Bretton Woods Gold Standard. But even then, the USA was able to maintain supremacy by financial means. During this period the partnership between financial capital and industrial capital continued.

We here trace the financial strategy of dollar hegemony, achieved by a ‘confidence trick’. This enabled it to blithely ignore its own mounting deficits, as it spent on overseas military adventures. To understand how the USA seized world monetary control, understanding the **Gold Standard** is pivotal.

i) Post-Second World War USA domination

At the end of the Second World War, the USA planned to rebuild European capitalism through the USA Marshall Plan for its own ends. Their aims were facilitated by the European devastation in Second World War. **President Roosevelt** explained the plan, in November 1942, when anticipating the end of the war:

> “Sure we are going to rehabilitate them (i.e. Europe). Why?... Not only from the humanitarian point of view – you needn’t stress that unless you want to – there’s something to it – but from the point of view of our own pocket-books, and our safety from future wars”;
> *Cited, Hudson, Michael; ‘Super Imperialism. The Origin and Fundamentals of US World Dominance’; 2nd edition; London 2003; p. 142.*

Such far-sighted representatives of the USA capitalist class, needed to persuade the slower USA capitalists, why they should infuse Europe with money. **Assistant Secretary of State Dean Acheson** put it to the US congress in 1945, that:

> “We have the greatest productive plant in the world. While the rest of the world has been undergoing destruction, we have been building this plant in order to carry the great burden of the war. One of the problems in the future will be to

> keep that great plant employed and to keep the people employed who are now working in it… Very well. We all profit by enabling those countries which have been destroyed, or which need development, to make purchases form those who can produce the goods they need".
> *Cited Hudson Ibid; p. 147.*

European countries were completely in debt to the USA. But they had no monetary surpluses after the war. Just as importantly, they could not export in order to make surpluses, that they could use to repay USA debt. Britain, for example was now completely indebted to its former major competitor – the USA:

> "When sales of foreign investments and of gold and dollars are added in, the net change on capital account between the outbreak of war and the end of 1945 amounted to no less than Pounds Sterling 4,700 million. The United Kingdom ended the war with the largest debt in history."
> *A.Cairncross. Years of Recovery, British Economic Policy. 1945-51. London, 1985. p.7.*

The British imperialists tried to maintain their own colonies. But in addition to debts to the USA under Lend-Lease, Britain for example, owed nearly $10 billion in sterling to India, Egypt and Argentina, which were:

> "Effectively frozen because Britain could not provide a commercial export surplus out of current production. Nor did it have a current account surplus out of which to amortize (*Editor* – to pay off debt over time) its longer term debts, owed mainly to the US… To amortize its foreign debts and sustain the military costs of the empire, some external source of funding had to be found. Otherwise these debts would remain blocked credits restricted to the purchases of British exports at the expense of American products";
> *Hudson, Michael 2nd edition; p.145.*

The USA was prepared to spend monies to assist re-building Europe. But it wanted to ensure that these loans were not simply written off, but paid back. Yet, at the same time the USA did not want these countries to become quickly self-sufficient industrially, to ensure that Europe would sop up exports from the USA. As **Harry Dexter White** a senior US treasury department official, head of the USA negotiations, and a co-chair with Maynard Keynes at Bretton Woods, said to congress:

> "We want our exports to increase… but we want other countries to be in a position to pay".
> *Cited Hudson 2nd Edition; Ibid; p. 147.*

Therefore, American imperialists needed a market. Even the former colonies could not simply absorb exports, as for one thing - they were owed monies that had not been paid to them. The USA goals were straight-forward: the Europeans would buy American goods, and they would sign the Bretton Woods agreemnts. Amongst themselves, American capitalists were quite open about their goals, as the above quotes show.

Apart from absorbing USA exports, there was another calculation at work in helping to rebuild Europe. Only in this way, could Europe be made into a bulwark against further socialist upheavals. This was especially important as the Bolshevik revolution had inspired workers and peasants world-wide, and the Soviet conduct of WW II had been so

impressive. The USA imperialists, here personified by **James Warburg** (part owner of the **House of Morgan**, a controller of USA international finance and industrial and utility trusts), remarked:

> "Germany was the hub of the weak German economy 'the largest single compact mass of skilled labour on the Continent', it should be transformed from 'the present poor-house and plague-center'... 'into a powerhouse for a rapid reconstruction of Europe, without letting the powerhouse acquire too broad a permanent franchise and – above all – without letting the powerhouse ever again become an arsenal'…. 'The Westward thrusting of communism will not be stopped by a physical frontier. It can be only stopped by a planned, US-Aided reconstruction so liberal and even revolutionary as to meet the challenge on its own grounds, and to strike the meaning from the accusation of American "dollar diplomacy."
> *Van Der Pijl, K. 'The Making of an Atlantic Ruling Class"; pp. 42-43,146; London 2nd edition, 2012.*

To achieve their goals, the USA planned to form several new institutions. The **Marshall Plan** was only one of three trade and economic strategic instruments to take advantage of the crippled European powers. The other two were the **International Monetary Fund (IMF)** and its associated **World Bank**; and the **General Agreement of Trades and Tariffs (GATT)**. Finally, the military instrument to back these up was **North Atlantic Treaty Organization (NATO)**. The Marshall Plan was conceived as an anti-communist and anti-nationalist weapon, and a means to erode European independence:

> "The establishment of American hegemony in the North Atlantic area was directed simultaneously against the spread of planned economy and social revolution beyond the Soviet-controlled area in Europe and against the national, self-contained reconstruction programs pursued by most West European states in the immediate post-war period. These programs in which local Communists parties participated, were judged unsuited for maintaining capitalist rule in the long run. 'Europe would have been Communistic if it had not been for the Marshall Plan', Marshall Aid administrator Paul Hoffman claimed in February 1950."
> *Van Der Pijl, K. Ibid; p.148-9*

Van Pijil pithily summarises that:

> "Through the Marshall offensive, the Pax Americana was imposed on the economic ruins of the defunct Pax Britannica in Europe."
> *van Pijl Ibid p. 167.*

The formation of the **International Monetary Fund (IMF)**, at **Bretton Woods**, ensured the financial seizure of the world currency by a fiscal confidence trick.

ii) The Gold Standard and the Dollar Confidence Trick of Bretton Woods

Marx described how gold became the universal exchange value. This allowed a fixed quantity of gold to stand as a measure of a quantity of money. It also became a standard, to act as an exchange rate between different national currencies. For a brief period, silver served the same function but became superseded.

There are several forms of such a Gold Standard. In all of these, a fixed quantity of gold is exchanged upon demand, for a currency. If the gold was to be rendered on demand, in the form of circulating coins, this was known as the **gold specie standard**. If the exchange was bullion, it was termed the **gold bullion standard**. Lastly, if the equivalent was to be given as a **reserve currency** (where a government states that it will exchange a fixed quantity of money for a fixed quantity of gold) it is known as the **gold exchange standard**. The latter became increasingly the mechanism. After the Bretton Woods, this was he universal mechanism, exchanging on the basis of the dollar. This enabled the USA to become the **currency reserve** nation.

Most countries adopted a universal exchange rate based on gold in 1821, following the British release of the gold sovereign, which was therefore a gold specie standard. These arrangements came to an end after World War I, in 1925. Under 'The British Gold Standard Act of 1925' the gold bullion standard replaced the gold specie standard. (*Wikiepedia*). Britain despite its objective weakness, wanted to retain its position as effectively the world currency reserve. British imperialists had understood however, that this position meant control of world monetary resources. This position gives a country a significant advantages. The most immediate one, is a significant boost to its own gold reserves, as international monies flow in.

But Churchill as Britain's leader, over-played the British hand. He insisted on a pre-war rate of $4.86 for a unit of British currency, the sterling pound. As the 1929 'Great Depression' began, international financiers began to speculate on the pound, recognising that it was objectively over-valued. A **run** on the Bank of England, ensued. In such 'runs' the depositors and investors in banks, demand their cash or its exchange gold value back. This erodes the Bank's monetary base, and if large runs develop, it cannot honour these demands. Recall that banks rely upon most clients being content with fictitious I.O.U.s and paper transcripts, not actual cash or gold. Speculation forced Britain into initial attempts to maintain its sterling value. To do this the Bank has to buy the currency at going market rates, exchanging gold in the process. Obviously this drains the gold reserve. But this could not be supported for ever by the weak British economy. After a period, the task was taken over by the USA, just before the Second World War.

Despite the advantages of being in the control of the world monetary reserve, the USA hesitated for a while. The reason was having observed how modern international financial speculation against the pound had hit Britain. The USA therefore only cautiously, initially adopted the '*modified gold standard*':

> "In 1931… the Bank of England struggled on through August trying to barricade gold reserves against foreign raiders… Britain gave up the struggle to defend sterling and abandoned the gold standard on 21 September 1931. In the previous two months it had lost Pounds Sterling 200 million in gold and foreign exchanges… An overvalued currency had become vulnerable to recurring poor trade figures and to waning confidence… It had always been an illusion that the pound could be returned to its former supremacy. The dollar was now the gold exchange standard's major reserve currency and the Federal Reserve faced a conflict. Its new international responsibilities and the threat of gold exports called for a tightening of credit, recession, and unemployment begged for stimulus… President **Roosevelt** solved (the) dilemma…

> On 19 April 1933, he took the dollar gold… he fixed a new parity on January 31 1934, of $35.00 an ounce… The Federal Reserve called it "our modified gold standard"…
> the new system brought back gold as the primary source of money growth in the US for several years. It's new price was high enough to attract gold from abroad, which the Treasury monetized by issuing gold certificates… the money supply (grew) accordingly... unprecedented holdings of excess reserves built up in the system.."
> *Deane & Pringle; Ibid; p. 68-9.*

The US surplus accumulation of gold, became enormous from the end of the first World War onwards. The Dawes Plan, had been instrumental in this. One consequence was that the USA, had to conserve the value of that gold in some way. After all the decorative use of gold has its limits! As Senator Downey had realised in 1928, this was a potent reason why the USA, ***had*** to become the gold reserve currency.

> "Unless that gold can be used as the foundation for international trade, it really has no actual value at all, more than its value for commerce. In putting up a few billions of fold in this great enterprise we are merely attempting to salvage the value of that gold itself… that gold just isn't worth anything unless it becomes the foundation of international trade…"
> *Cited Hudson 'Super Imperialism"; Edition 2; Ibid; p. 150.*

That argument was even more valid by 1945, as now the US held 59% of the world's gold supply. By 1948 this figure was 72%.

Bretton Woods was to be the USA capitalists' solution. Although the initiative was presented as coming from both the USA and Britain, it was largely at the USA's behest. In effect it enabled the USA to dismantle the British Empire hegemony. It was agreed to by Britain, as they were in no position to argue. Like other signator nations, they wanted American loans.

However, **Lord Maynard Keynes** on behalf of Britain, fought a rearguard, losing battle. In particular he resisted two principal tenets, and tried to amend these. He failed. Firstly, Keynes argued for a new currency to be established, to form the bank-note equivalent to the gold standard (the ***bancor***), rather than the dollar. But as seen above, the immense gold holdings of the USA, was not appealing to the USA. It refused.

The second tension between the British and the USA was over trade and markets. It took the form of a debate on 'free trade' principles. The British wanted to maintain trading by **Imperial Preferences**, to preserve their own empire advantages and seal its zone off from USA export penetration. In contrast, the USA wanted free trade to prise this zone open:

> "In a meeting at the State Department, Keynes asked if (a) provision "raised the question of imperial preferences and exchange and other trade controls in the post-war period" (Foreign Relations of the United States, 1941, 3: 11). Assistant Secretary Acheson acknowledged that it did, although it was not meant to impose unilateral obligations on the British Empire. Keynes strongly objected to this provision: "He said that he did not see how the British could make such a

> commitment in good faith… The search for a postwar settlement involving both a relatively open trading system and measures to ensure employment stability soon became the preoccupation of Keynes
> and other British planners."
> *G. John Ikenberry; "The Political Origins of the Bretton Woods Conference"; In; Michael D. Bordo and Barry Eichengreen, Editors; "A Retrospective on the Bretton Woods System: Lessons for International Monetary Reform"; Chicago; 1993; p.173;*

The Imperial Zones protected British Empire trading rights in "its" colonies. The USA pushed to open up the British Imperial zones for USA exports. This meant the USA urged "free trade":

> *"Divergent Interests at Bretton Woods:* In July 1944, delegates from 44 Allied nations gathered at a mountain resort in Bretton Woods, New Hampshire, to discuss a new international monetary order…
> Discussions were largely dominated by the interests of the two great economic superpowers of the time, the United States and Britain. But these two countries were far from united in their interests, with Britain emerging from the war as a major debtor nation and the U.S. poised to take on the role as the world's great creditor. Wanting to open the world market to its exports, the U.S. position, represented by Harry Dexter White, prioritized the facilitation of freer trade through the stability of fixed exchange rates. Britain, represented by John Maynard Keynes and wanting the freedom to pursue autonomous policy goals, pushed for greater exchange rate flexibility in order to ameliorate balance of payments issues".
> *The Bretton Woods System: How It Changed The World | Investopedia https://www.investopedia.com/articles/forex/122215/bretton-woods-system-how-it-changed-world.asp#ixzz5LpDvpgBp*

In fact ensuring the 'liberal' principles of free trade, *appeared* to over-ride even the antagonism between capitalism and communism, according to some observers. Though we disagree with this assessment, it indicates how significant the battle between the USA and Britain was on this matter:

> "The central conflict defining international political economy from World War I until about 1950 was not that between American and Soviet alternatives, between capitalism and communism... Viewed over the whole half century, the American international economic effort of the era of stabilization centered on overcoming British, Japanese and especially German alternatives to a pluralist, market-economy liberalism."
> *Maier, C 1987, p.183; cited by: Ikenberry; Ibid; 'The Political Origins of Bretton Woods"; p.159.*

But in reality, these two issues were closely linked. Pressures on the British to open up the British Imperial Preference Zones, came from top echelons of the USA administration:

> "The most vocal advocates within the Roosevelt administration of a system of free trade and multilateralism came from the State Department, led by Secretary **Cordell Hull**, his assistant, Leo Pasvolsky, and the Division of Commercial Policy and Trade Agreements, headed by Harry Hawkins. There is a consistency in the orientation of Cordell Hull and other State Department officials that runs throughout the Roosevelt period. This was the conviction that an open

> international trading system was central to American economic and security interests and that such a system was fundamental to the maintenance of peace. These liberal ideas, well anchored in American history, were given expression in the Atlantic Charter, signed by Roosevelt and Churchill during the war. The consistency of the State Department position could be found in its on-going opposition to the British imperial preference system. According to Cordell Hull, the 1932 **Ottawa Agreement**s (Ed – endorsing imperial preference) represented "the greatest injury, in a commercial way, that has been inflicted on this country since I have been in public life"). Hull believed that the bilateralism and economic blocs of the 1930s, practiced by Britain (but also by Germany and Japan), were a root cause of the instability of the period and the onset of war".
> *G. John Ikenberry; Ibid; p. 170*

Obviously, the USA was uniquely dominant. It had largely funded the war for the Western capitalist allies, detonated the Atom bomb showing its military strength; and moreover, its' home base-country was unaffected to any large extent by the war. Since the war was fought on USSR, European and Asian soil and sea.

Such dominance, allowed the USA to start, a very long running **Dollar Confidence Trick**. This financial squeeze by the USA on the world, was started at Bretton Woods. To understand it, we return to how the **Gold Standard** worked**.** The mechanism allowed an easy exchange of goods whereby citizenry of one country could pay for goods, via gold. Gold is an **'inelastic'** commodity. Meaning that its supplies are limited, and the quantities are therefore limited in its amount. Therefore, relying on gold meant that a country having a deficit in its trade, would be penalised by having to pay its debt from its own gold stocks. This discipline, of itself, imposed a '*contractionary basis*' for trade.

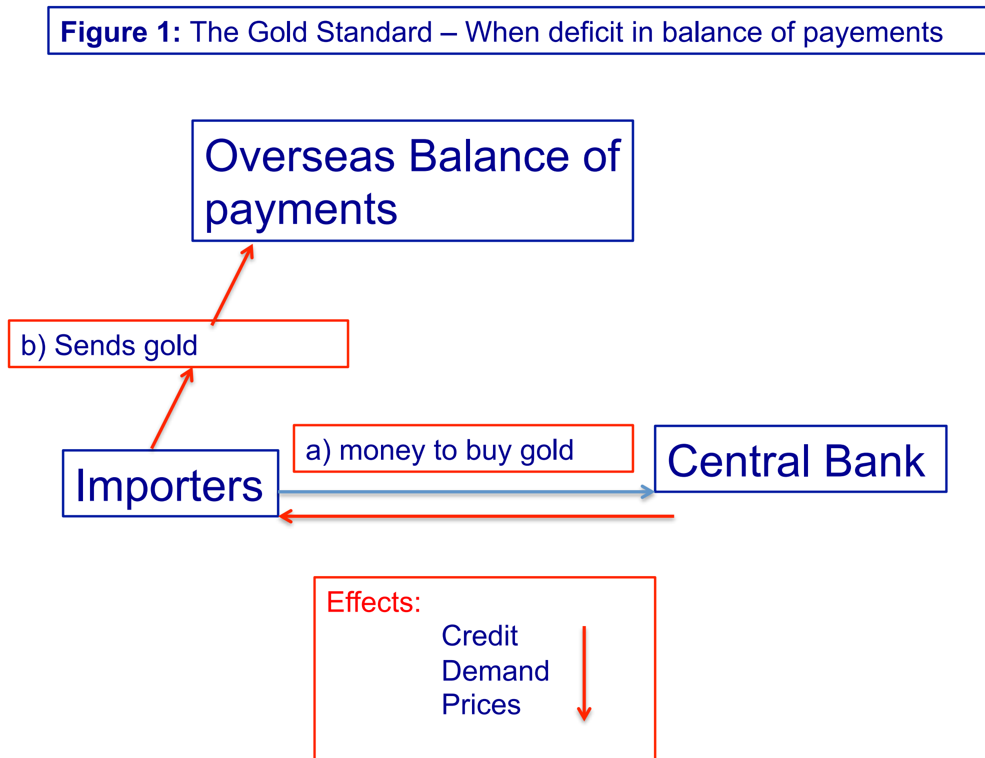
> "To the extent that citizens living in any one country consume the products of other countries, domestic means of payment must be fully convertible into all other currencies. Otherwise the citizens of a country that exports foods to another country and therefore receives payment in the currency of the importing country) would be obliged to spend their earning only in that country- hardly the basis for a multilateral international trading system... In the late 19th and first part of the 20th, this problem was solved by making all currencies convertible into gold, ... Such a solution imposed a necessary discipline of countries which would suffer depleted gold stocks if they persistently balance of payments deficits, but it also contained some well-known limitations as a basis for organizing world payments. The most important of these limitations is that the supply of gold is inelastic and hence cannot easily accommodate an expanding economy; under a gold base system, the growth of world trade would always be limited by new discoveries of gold stocks. For this reason, the gold standard tended to have a contractionary bias, and... instead... the Bretton Woods Hotel in New Hampshire meeting in 1044 (was convened):"
> *GR. Krippner, Capitalizing on Crisis; 2011; Ibid; p. 88-89.*

> "Under the gold standard, when in connection with the rise in prices in a country, a deficit emerged in the balance of payments and a drop in the exchange rate of the currency in relation to the set monetary parity, importers had to use their paper money to buy gold in the central bank and take it abroad. This was how a passive balance of external settlements was covered. The return of money to the banks prevented the channels of domestic circulation of paper means of payment

becoming overfilled, Moreover the outflow of gold automatically brought the mechanism of credit restrictions, and this in turn, promoted a limitation of effective demand, and consequently, a drop in the prices of goods and services”:
Nikitin SM Editor; ‘Inflation Under Capitalism today”; Moscow 1980; p. 109.

This forms a feed-back loop, which is shown diagrammatically here: **Figure 1**.

Figure 1: The Gold Standard – When deficit in balance of payements



In contrast, when no longer on a Gold exchange standard, but with a currency reserve (like the dollar) serving as an exchange rate mechanism:

“private legal and natural persons of a country with a balance of payments deficit no longer exports gold abroad to pay for their external liabilities. The citizens of a country... cover such liabilities with their own national paper money… (which) is not in practice, therefore removed from circulation channels…”:
Nikitin Editor Ibid; p. 109.

Without a formal direct gold exchange standard, ‘national paper money’ is more easily, simply printed at times of trade imbalance. There is no self-regulating brake on the circulation of the money supply, as in the feedback loop above. This can act as a spur to inflation by increasing the money-supply (*Economics; Inflation & Free Trade at: Alliance 3*). This can also provoke monetary instability because the reserve currency country can behave in “a euphoric” manner with ‘*financial irresponsibility*’. It enables a ‘*deficit without tears*’:

> "The American economist **Robert Triffin** wrote, concerning the USA, that a reserve currency country enjoying the privilege of covering its balance of payments deficit with its own short-term liabilities accumulated as currency reserves by the central banks of other countries, experiences from time to time a sort of euphoria and shows financial irresponsibility. This consists in in the country permitting itself to spend more means abroad than it receives back and doing nothing to restore the disturbed equilibrium. The French economist Jacques Reuff chose the very apt term "deficit without tears".
> *Nikitin Editor Ibid; p. 110*

How did the USA effect its Dollar Confidence Trick? **First** it ensures that all world currencies were tied to a fixed exchange rate to the USA dollar (itself as "good as gold"). This rate was to be "fixed", in order that countries could not unilaterally change their exchange rate. Thus countries could not at their own will, depreciate their currency, in order to gain an export advantage. Initially the rate was to be fixed at $35.00 per ounce:

> "Bretton Woods… shorthand for the system, designed by the US and Britain, that governed international monetary and economic relations in the decades following the Second World War… (it was) the launch of the post-war phase of super-dominance of the US and the dollar... All member countries pledged themselves to play by an internationally agreed set of rules… these rules were quite strict, and enforced by a new world economic policeman, the IMF. Countries had to declare a 'par value' – an exchange rate – of their currency in terms of the American dollar and/or gold, and change it only in consultation with the IMF. Various forms of currency manipulation were named … to prevent a return to the competitive devaluations and currency chaos of the 1930s. While countries could keep some controls on movements of capital, they basically undertook gradually to dismantle the wartime systems of exchange and trade controls and to move towards the free convertibility of their currencies… they also pledged themselves to adhere to the rules of the multilateral trades and payments scheme";
> *Dean, Marjorie & Pringle, Robert "The Central Banks"; London 1994 p.75.*

The **second step** was that, in a supposed return for this agreement, the USA would agree to become the "lender of last resort" to anchor the world currencies. This committed it to honour those creditors who wished to remove gold in exchange for dollars. It "pledged" that it would therefore:

> "Submit to discipline by its agreement to convert into gold any dollar balances presented to it by overseas central banks at the fixed price of $35 an ounce. The US was the only country to accept such a gold convertibility obligation and the only one in a position to do so, having ended the war owning about two-fifths of the world's stock of monetary gold";
> *Dean and Pringle; Ibid p. 76.*

But this pledge was only adhered to when it suited the USA. Later on the USA was to renege, as countries would try to redeem their dollar stocks for gold. But in the meantime, the Bretton Woods Agreement - got done. As part of the Agreement, the International Monetary Fund (IMF) was also established.

Together the above steps, ensured that the USA seized the British government's 'lender of last resort' position, held from 1924 to September 1931. (*Dean and Pringle Ibid p. 63*).

This meant that the USA would control international monetary policy, hereafter. For the signators of Bretton Woods, they had to maintain a '*fixed exchange rate with the dollar*'. This forced them to control their own money supply with care. Only France would refuse, always and completely, to obey the mandated constraint:

> "In these countries (Ed - ie. those agreeing to join the IMF) national central banks of countries other than the US had little influence on policy decisions. Domestic and economic policy came to be dominated by one objective – the maintenance of the fixed exchange rate against the dollar – and exchange rate policy, was of course entirely a matter for government… For the most part, a government would respond to an impending payments deficit by tightening fiscal policy (Ed-i.e. dropping the money supply, e.g. printing less money) or putting up interest rates; and a country with a surplus would ease fiscal policy or lower interest rates. Of the major countries only France resorted regularly to devaluation as way of maintaining its export competitiveness and growth."
> *Dean and Pringle; Ibid p. 76.*

At the outset, the USA wished to ensure that its plan to adopt a USA dollar reserve currency regime, was to be long lived. Therefore it argued that as the USA would pay most into the IMF, that its' vote, would carry a "*unique veto power*". It could then determine exchange '*currency value and tariffs*':

> "In order to finance European and other foreign purchases from America, that is to ensure adequate financial resources to sustain US exports, ("world trade")… Loans were provided by the U.S. Government and US credit markets via the World Bank to European governments, which used them mainly to pay for goods supplied by American exporters. The source of the original loan funds provided by the IMF came from foreign currency and gold subscriptions by the participating nations. America's subscription amounted to almost $3 billion and entitled it to nearly 30% of the voting power. The member nations agreed that an 80% majority vote would be required for most rulings, thus conceding unique veto power to the US… Europe was fully aware that it was ceding to America the option of determining its own currency values and tariffs. The US was the only nation with sufficient foreign exchange to finance a program of overseas investments, long term financing and foreign aid…"
> *Hudson, Michael. Global Fracture, the New International Economic Order. New York, 1977. p.11-12.*

The British government, then led by a Labour social-democratic party, fully capitulated to American wishes. The British Empire overall, was allowed a vote of 25% of the voting power. While this was also potentially a veto, it was only exercised subject to the USA. The USA gave Britain one sop. The only bilateral monetary agreements or protectionist areas in the IMF, were in the Sterling area. This was related to its military forces and bases. The USA appreciated that the British were fighting communist forces in Malaysia and Burma. This sop, forms the grand total of the so-called "**special relationship**" of Britain with the USA (*Hudson Ibid; 'Super Imperialism'; p.149*). To maintain its bases as a newly secondary imperialist, Britain's balance of payments would suffer. But the USA allowed it to continue borrowing from the IMF.

All other signators of the IMF agreements, were not allowed to make independent trade agreements, monetary agreements in any zones. All had to join what would become the

General Agreement on Tariffs and Trade (GATT). All payments of loans to the USA, were routed via the World Bank, which was also set up at Bretton Woods. This averted the appearance of the USA as money-raking, and anti-American sentiment.

At its core, the Dollar trick ensured that all countries had to acquire dollars. This subsidized the USA, as described below.

Any debts, or USA exports, could now only be repaid to the USA in dollars or gold:

> "If the dollar was to replace gold as the *numeraire* (for settling transactions) currency, other countries would have to dispose of a stock of dollars to use as a means of payment. To provide liquidity to the world economy, the USA government was consigned to inject dollars into the rest of the world by running deficits. Initially these were deficits government account: through the Marshall Plan and subsequent European rearmament... IN the 1950s and the 1960s, as American multinational corporations channeled increasing amounts of foreign direct investment abroad, US deficits on the capital account were added to these government transfers". *Krippner GR; Ibid; p. 89*.

This meant that the USA did not need to try to maintain a currency value. Since all countries had to acquire the dollar, there was no need for the USA to defend the exchange rate of the dollar. Instead foreign banks had to buy dollars, pushing the price of the dollar up. This enabled the USA to run up a deficit financing (as previously described with a '*euphoric, irresponsibility*') without any qualms. The USA adopted a lax monetary policy. This meant that it simply printed money to finance its expenditures:

> "Making the dollar a reserve currency meant that central bankers round the world had to have dollars. They had to buy dollars in the marketplace which pushed up the price of the dollar up, threatening the parity of the currency with the dollar. Thus they could only buy when the dollar was weak… This suited the US and the US Federal Reserve which could follow a very lax monetary policy to make sure that there were always dollars to go around. It worked wonders for post-war US domestic policy, helping promote the wartime dream of full employment."
> *Bose, Mihir "The Crash" London, 1988. p.135.*

> "The price of gold was kept artificially low at a time when the price of goods was rising. The dollar thus stayed as good as gold and the US was freed from the threat of having to support the gold parity of the dollar by itself."
> *Fiit,Yann, Faire, Alexandre, and Vigier, Jean-Pierre; "The World Economic Crisis, US imperialism at Bay"; London, 1980; p.76; p.83.*

In the mid 1890s, USA had formed its' first surplus in its international balance of payments. This was to establish a pattern till the Second World War. After Bretton Woods, the USA was hoarding gold, and by 1949 stocks had risen by $5 billion in 4 years, to a total of $24.8 billion (*Hudson Ibid; p. 158*). Until 1958 and the Korean war the gold stocks of the USA remained exceedingly high, in correspondence with the repayments on loans. But by 1960, this surplus was turning into a deficit.

The Korean War was of course, an imperialist adventure that was a vast expenditure for the USA. It ensured an outpouring of gold. But any American loans were still being

repaid in dollars. So although the USA was falling into a deficit, European banks still had to hold dollar reserves. At that stage, they started to demand exchange into gold, partly as this would entail a loss of their own interest yield on dollar deposits. On the whole the Europeans up to around 1960 period, had welcomed the added liquidity (money flow of dollar), and spurred further demand for US exports into Europe. As an unwanted side effect, this injection of money supply, produced an inflation into the world economy.

But as the USA continued to act "euphorically", it continued to print dollars to spend. The expenditure was mostly on arms and overseas bases, being now the chief imperialist power. After Korea, the Vietnam imperialist aggression became another USA spending spree. By this time, it began to dawn on the Europeans, that they were footing the USA bill for deficits – and importing inflation into their economies. In fact, the extent to which foreign governments "owned" the USA deficit can be seen below in **Figure 2.** *(Hudson M; "Super-Imperialism"; p. 21)*

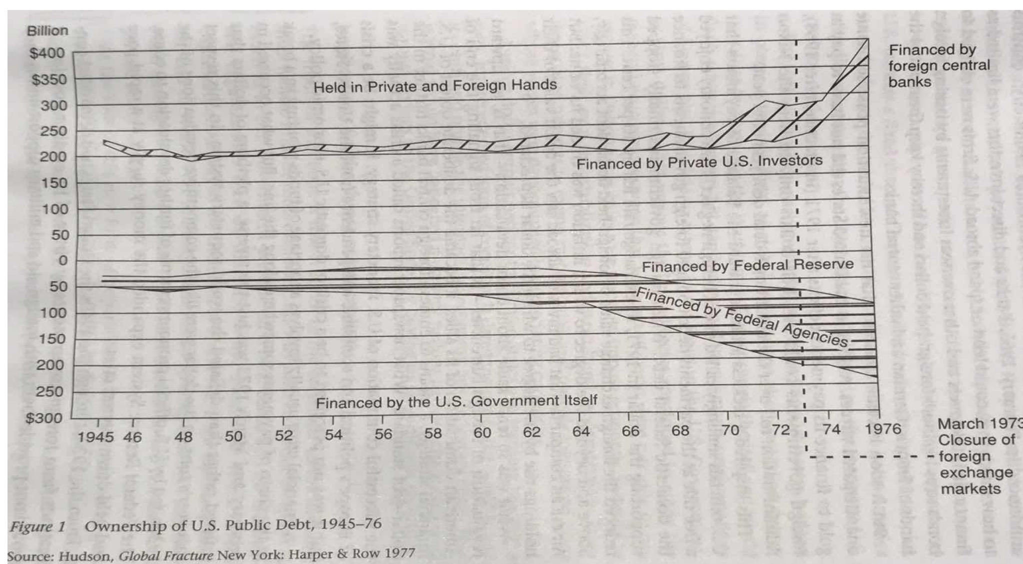


Figure 1 Ownership of U.S. Public Debt, 1945–76
Source: Hudson, *Global Fracture* New York: Harper & Row 1977

It is only left here, to point out that the USSR was an initial signator. But as negotiations proceeded, the USSR in the end recognized the real motivations of the agreement and did not sign. The only country from the countries in the 'Soviet Block', was **Yugoslavia**, which later openly adopted revisionism and a capitalist path.

iii) The division in the European bourgeoisie

As they seized world control, the USA firmly eclipsed the Britain as the foremost imperialist. Even the most stubborn British imperialists were forced by the Suez disaster of 1956, to recognise this. (*"The Gulf war – the USA Imperialists Bid To Recapture World Supremacy" at http://ml-review.ca/aml/allianceissues/alliance2-gulfwar.htm*)

European capitalists searched for ways to attain independence from the USA. But the USA continued to exert its' power. Within the major European states, some elements were more inclined towards the USA (the so-called **pro-'Atlantic' bourgeoisie**), some were more interested in maintaining an independent sovereignty (the so-called **'Euro-nationalists'**). These tensions played out over decades, spanning three waves of USA offensives:

> "Three successive strategies of Atlantic unity... corresponded to the different offensives periods of American capitalism. The first was Roosevelt's concept of Atlantic universalism, which derived its specific Atlantic dimension from the American focus of World War Two and the key position of the British Empire in the world America wanted to expand into. The second version of Atlantic unity was the Atlantic Union idea, which surfaced at the time of the Marshall Plan and combined a status quo approach to control of the periphery with a high-pitched Cold War unity against the Soviet Union. The third Atlantic strategy was the Atlantic partnership scheme promulgated by President Kennedy in an attempt to restore unity of purpose to an Atlantic world in which the establishment of a restrictive EEC demonstrated the degree to which Western European capital had emancipated itself from American tutelage and was intent on carving out a sphere-of-interest of its own."
> *Van Der Pijl, K; Ibid; p.xxxiv; London 2012.*

The so-called "**Atlanticists"**, were those more disposed to enabling or allowing subservience to the USA. In the colonial or semi-colonial countries, such elements are termed comprador capitalists by Marxist-Leninists. In Europe, these capitalists were representatives of **finance capital**. They were interested in the freedom of shipping capital reserves freely across international boundaries. They are also termed "liberal internationalists" by van der Pijil.

In contrast the **"Euro-nationalists"** represented **industrial capital**. They were more akin to national capitalists. They were interested in ensuring reinvestment in and redeveloping a European heavy industrial base. They supported single 'sovereign' or independent, state funding of heavy industry, and can also be termed state monopolists. Between 1945-1998, there were periods where the European Euronationalist capitalist powers waxed and waned.

This internal intra-European battle between these two segments of capital did not occur in a vacuum of course. The dominant capitalist state, the USA made its plays. The USA imperialists initially favoured steps towards a pan-European supra-national state, and guided its British subordinate allies accordingly. The fading British imperialists continued to rely and favour USA imperialism. In fact it was **Ernest Bevin**, British Foreign Secretary who first conveniently proposed the NATO alliance:

> "The actual initiative to found a North Atlantic military alliance was taken by Ernest Bevin in 1948 following a series of defence treaties between Western European states… Bevin... in early 1948, urged … formal Atlantic cohesion of a political nature… to USA Ambassador Lew Douglas… the treaty establishing the NATO was concluded in April 1949"
> *Van Pijl Ibid p. 157.*

Early rifts between pro and anti-USA European forces were clear. French imperialism, as represented by **General De Gaulle**, wished to utilise European strength to stand against the USA. The early events were summarised as below:

> "The war encouraged a proliferation of new schemes for European regional organisation. De Gaulle for instance repeatedly voiced the idea that European unity might be a bulwark against both the Soviet Union and the United States,

> and comparable arguments were heard in various segments of the German, Italian, and Dutch bourgeoisie Resistances….
> Churchill's proposal for a Council of Europe provides probably the best example of the (Atlanticist) concept of European unity… coupled to Britain's desire to maintain its special link with the Commonwealth and the United States.. "
> *Van Der Pijl, K. Ibid; p26; London 2012*

In contrast:

> "The Euronational concept combined a number of state-monopolisitic attributes like a strong emphasis on a "European" economic policy with a distinct rejection of Atlantic unity" ;
> *Van Der Pijl, K. Ibid; p26; London 2012.*

The first steps of the USA to control events and governments in Europe, were actually taken well before the Second World War. In most accounts, **Jean Monnet** the post-war Finance Minster of France figures prominently:

> "Jean Monnet… was perhaps one of the foremost in the European postwar leaders to see the necessity of a coalition of European countries…. As early as 1921 Monnet had advised **Eduard Benes**: To address the problem of the weakness of Central European economic by establishing a "federation because of the region formed a "natural economic unit."
> *James Laxer. "Inventing Europe"; Toronto, 1991.p. 27*

Later in the Second World War:

> "Writing on behalf of the French Committee of National Liberation, Monnet for the first time advocated the formation of a federation of European states to be established following the conflict.."
> *Laxer, Ibid, p. 27.*

But Jean Monnet was in reality, very much a pro-USA agent. He had spent many years working in banking in the USA and had married a scion of the US ruling classes. Ultimately he did not see any rivalry between the USA and pan-Europe, but a partnership, to check the Soviet Union. A strategy that later USA **President Kennedy** also espoused (*van Pijl p. 29*):

> "The most important representative of the Atlantic Partnership, or Euramerican concept in France was Jean Monnet. 1962 was Monnet's year of triumph, in which he thought the partnership of equals between the US and the EEC, by which the Soviet Union could be effectively checked, was actually materializing. In Monnet's view this would entail European military autonomy as well. 'Equal partnership must also apply to the responsibilities of common defense, it requires amongst other things, the organisation of a European atomic force including Britain and in partnership with the US."
> *Van der Pijl: Ibid; p. 225*

Monnet's relationship with the USA ruling class representatives of capital was close at even a personal level:

> "There is no doubt... Monnet's initiatives... owed much to American encouragement. His decisive advantage was the closeness of his association with the USA political elite... the **Dulles brothers, Acheson, Harriman, McCloy, Ball and Brice** and others... he was to become widely distrusted in his own country because of it."
> *Anderson, Perry. "The New Old World"; London 2009 p.15*

> "Monnet's strength as an architect of integration (i.e. of Europe – ed) did not lie in any particular leverage with European cabinets… but in his direct line to Washington."
> *Anderson, Perry. Ibid; p. 17*

By May 1949, the first concrete post-WW II steps for uniting Europe into a pro-Atlantic (i.e. pro-USA) bloc led to the **Statute of the Council of Europe**.

On 9 May 1950, the French Foreign Minister Robert Schuman proposed to integrate the coal and steel industries of Europe. The **Schumann Plan for the European Iron and Steel Community**, was designed to form a competitive market in iron and steel, using substantial public sector capital. Britain refused to join at that stage. By 1958, trade in the ECSC in steel had increased by 157% and steel output by 65% (*Laxer, p. 38*).

'Alliance Marxist-Leninist', had considered the Schumann Plan as an anti-American move; and Jean Monnet as a Euronationalist. However, Alliance was **incorrect** in this analysis. (*ALLIANCE (MARXIST-LENINIST (Number 3, October 1992) "Crisis In Capital And Their Solution – Free Trade And Protectionism In Developed Countries" http://ml-review.ca/aml/AllianceIssues/ALLIANCE3ECONOMICS.html*

The reality was far more complex. In fact USA leaders had argued that the Schumann Plan was '*useful'* since 1951:

> "Secretary of State Acheson in 1951 estimated that the Schumann Plan was useful… since it would "pull Germany, certainly Western Germany into economic relationship with Europe. It will tie it in and lay a foundation which will allay fears the Germany might come loose and go off on an independent or pro-Russian policy."
> *van Pijl Ibid p. 157*

Nonetheless later, the class character of the European formation was to shift from a pro-USA coalition to an anti-USA coalition. Ultimately this would end up being dominated by the German bourgeoisie.

The initial strategy of the USA was to reinforce Europe as a '*single market'*. This vision of many planners of USA strategy, was articulated by **Paul Hoffman** – a leading member of the Committee headed by **Averell Harriman** secretary of Commerce – speaking to the Senate Foreign Relations Committee in 1950:

> "We know that there is no possibility of Europe becoming the kind of an economy that will make it a great force of strength in the Atlantic community unless we break down the barriers between those 17 political subdivisions with which we are working… so that you have a single market, or something close to it, in which you will have large-scale manufacturing because you have a large market in

> which to sell it."
> *Van Pijl Ibid p. 197*

Britain after **Suez**, had accepted that in the immediate future, their role on the world stage was as a junior partner to USA imperialism. Therefore the British leaders threw their lot in with the Americans. In fact the USA wished to use the British to disrupt any attempts at forming a European defence force independent of the US. By 1957, the Treaty of Rome was signed which established the **European Economic Community (EEC).** Consistent with its overall European strategy, the formation of the EEC was supported by the USA. In fact:

> "**Eisenhower** (said)... that the Treaty of Rome would be one of the finest days in the history of the free world, perhaps even more so than winning the war";
> *Anderson; Ibid; p. 18*

A dramatic opening of the European market to USA financial penetration – to take over European industries, as well as their markets – now took place:

> "The shift from commercial to financial penetration (i.e. of Europe – by the USA - ed) was confirmed by the formation of the EEC. The Common Market dramatically changed American prospects for expansion in this respect."
> *Van der Pijil; Ibid, p.193*

But many including **De Gaulle** resisted USA incursion. As we have seen this development was forseen by J.V.Stalin**.** In reply to opposition, the USA changed tack. They now proposed to weaken the future European Union, again by using its stooge the weak British imperialists. Thereupon French General De Gaulle, vetoed the entry of Great Britain into the EEC for precisely this reason.

Later, by the time of Nixon and Kissinger, the situation had shifted. Now the USA perceived the threat in the now built up European Community:

> "(they) started to perceive the potential for a rival great power in Western Europe";
> *Anderson Ibid p. 21*

How had things changed so dramatically? The balance of power between the Euronationalists and the pro-US Atlanticists had changed after the rise of the dollar hegemony. As we saw above, by the 1960s, under USA **President Johnson**, inflation was deliberately created by simply printing more dollars. This enabled the USA to fund the Vietnam War and its limited social reforms of the so-called 'Great Society" (*Dean & Pringle; Ibid p.80; Palmer, John: "Europe without America? The crisis in Atlantic Relations"; Oxford; 1988; p.61*).

This had dire consequences, both internally in the USA but also in Europe:

> "The net result in the succeeding decades was a scale of Federal domestic budget deficit and increasingly, balance of payments deficit without precedent in US history. At first the deficits and consequential outflow of dollars into the world economy had been regarded as benign... The deficits initially helped to finance the mutual economic recovery of Americans' allied (and client) economies. But

> as the outflow of dollars turned into a might flood, American control over banks grew by leaps and bounds. Between 1970 and 1975 the assets of overseas branches of US banks grew from $47 billion to $166 billion. The over-valued US dollar came to be seen as the means by which European industry was being acquired cheaply by US interests… fears were expressed that Western Europe was being turned into a fiefdom of US multinationals... By the late 1960s the gap between the US dollar's internal purchasing power and its international value had widened alarmingly. The Europeans were faced with the choice of either accepting these depreciating dollars (and thus, in effect, of subsidizing the American economy and worldwide military and political commitments) or exploiting America's Bretton Woods commitment to swap dollars for gold at the fixed prices."
> *Palmer Ibid p. 62*

De Gaulle remarked that the effect of Bretton Woods had been to enable a USA attack using dollarization of the world economy, and warned graphically, that:

> "The Americans only used the atom device twice on Asia… but they use the dollar on Europe every day".
> *Cited Palmer, Ibid; p.62*

But the Europeans had to continue to amass dollars. Increasingly the dollars held by the Europeans was 'dead money'. Moreover they were concerned that the USA decefit indicated that the USA had become were less competitive. It might not then, be able to redeem the European stocks of accumulated dollars for gold. So the French virtually on a monthly basis demanded the USA exchange their dollar hoard into gold. Soon, the USA made it clear to both the French and others that this would be construed as a hostile act. By this time a sharp rise in the money supply was causing world-wide inflation. These complex movements have been reviewed by Alliance (Ibid October 1992).

iv) Modern Kautsky-ites

We followed the trail of Dollar Hegemony. Some otherwise insightful economists, and observers of Marxist persuasion, correctly see the dominance of the USA in the post-Bretton Woods world. As seen, we have cited Michael Hudson in this section a fair bit. Yet he, like others, view the USA dominance in a static manner.

This led Bland to critique **Michael Hudson's** first edition of his book (*Bland W.B.; 'Kautsky Rides Again – A review of Michael Hudson's "Super-Imperialism: The Economic Strategy of American Empire"; New York; 1972; first edition;" In 'Class Against Class'; Marxist Leninist Organisation of Britain; London, 1975).* In his critique, Bland praised Hudson's correct assessment of how the USA used its economic and military strength, after World War II. But Bland noted some fundamental problems.

Hudson correctly drew attention to a feature of contemporary capitalist society in the US: the taking over by the state of economic functions previously exercised by the private capital:

> "The great surge of US investments overseas was not by private investors, although this did occur. It was by government".
> *Hudson Ibid; First Edition; p.4*

However, in his original edition, Hudson claimed that:

> "This aspect of the evolution of American international finance capital, politically motivated and initiated by and dominated by government, was unique in history.. it was something new in international finance: accumulation and concentration of international assets in the hands of a government, not in the diverse holdings of private capital accretions… this unique development of US international finance capital departed … from what had been forseen… by Lenin".
> *Hudson*; *First Edition; Ibid p. 5.*

Hudson continues to criticize Lenin in the updated 2nd edition:

> "The emergence of the US as the overwhelming world creditor was at its very origin a governmental function. It was not the product of private investment abroad of surpluses earned through foreign trade, nor the result of self-expansion of private overseas investment through reemployment in foreign ventures of earnings and internally generated cash flow…. This aspect development of the evolution of American international finance capital, politically motivated and initiated and dominated by government, was unique in history… On no other occasion had any nation employed national capital to become unquestioned creditor vis-à-vis the world. It was something new in international finance. It represented the accumulation and concentration of international assets in the hands of a government, not in the diverse holdings of private capital accretions, however concentrated these might be.
> This unique development of US international finance capital departed from the norms of finance, certainly from what had been foreseen by Hobson, Kautsky and Lenin…
> Neither Kautsky nor Lenin anticipated or analyzed the unique aspects of emergence of the US as the one great creditor nation."
> *Michael Hudson "Super-Imperialism: The Economic Strategy of American Empire"; New York; 1972; first edition* 2nd edition; 2003; London; p. 53-5;

But as we saw in section 2, Lenin ***had*** anticipated that the State would step to the cause of its imperialists. We have also quoted Marx that the State would by force, ensure monopolisation. Bland retorted that:

> "Hudson correctly draws attention to a qualitatively new feature of contemporary capitalist society in the US: the taking over by the state of economic functions previously exercised by private capital… He is however incorrect when he describes this development as "unique" to US imperialism" and as "unforeseen by Lenin… In fact Lenin analysed state-monopoly capitalism as an inevitable sub-stage of development of capitalism, a stage of development of imperialism or monopoly capitalism characterised by 2 new features: Firstly by the fact that the state has ceased to be the machinery of rule of the capitalist class as a whole and has become that of the most powerful monopoly capitalist groups; and Secondly by the fact that there has been a great expansion of the apparatus and role of the state:

> "The imperialist war has greatly accelerated and intensified the process of transformation of monopoly capitalism into state-monopoly capitalism. The monstrous oppression of the masses of the toilers by the state – which is becoming more and more merged with the all-powerful capitalist combines – is becoming ever more monstrous"; *(Lenin: Preface to first edition of "The State and Revolution"; in Selected Works; Volume 7; London; 1946; p. 5).*
>
> "Imperialism – the era of bank capital, the era of gigantic capitalist monopolies, the era of the transformation of monopoly capitalism into state monopoly capitalism – has particularly witnessed an unprecedented strengthening of the 'state machine' and an unprecedented growth of its bureaucratic and military apparatus". *(Lenin "State and Revolution" Ibid; p. 32)".*
> *Bland Ibid.*

Despite the new edition of his book, Hudson retains illusions. The USA was pretty clear about what its goals were. Yet strangely, Hudson states '*no clear economic ends… could be gained*' by *'private US interests'* :

> "No clear economic ends for the collectivity of private US interests could be gained by the policy that was pursued by the US government. This distinguished its arrival on the world scene as the dominant creditor from, for example, the more gradual and military initiatives of Britain towards its earlier… status":
> *Hudson, 2nd Edition Ibid; p.56*

Moreover Hudson argues that '*economies can no longer afford conventional warfare'*:

> "Whereas the old capitalism was militarized, the new financial capitalism has led to such heavy national debts that economies no longer can afford conventional warfare (at least not the old fashioned kind; Vietnam ended that forever)". Contribution to The Other Canon Conference on Production Capitalism vs. Financial Capitalism; http://michael-hudson.com/1998/09/financial-capitalism-v-industrial-capitalism/

For the moment we conclude that Hudson provides a mine of data and information that elucidates what the USA was up to. However, he is hampered by a naiveté. Other current, leftist forms of Kautskyism, include that of *Leo Panitch and Sam Gindin ("The Making of Global Capitalism. The political Economy of American Empire"; New York; 2013*). These will be reviewed at another juncture.

v) Increasing Dollar Stocks outside of the USA - the Eurodollar market

In fact, as we noted above, the American economist **Robert Triffin** described the fundamental flaw in the Bretton Woods Agreement for world economics, as an inevitable unbalancing deficit in the reserve currency country:

> "The expansion of world liquidity required the USA to run chronic balance of payments deficits, yet these deficits undermined confidence in the dollar, ultimately shaking the stability of the world monetary order. Triffin argued that this problem was inherent in any monetary system that rested one single currency. For many of the same reasons, Keynes had urged the creation of an international

clearing house that would issue its own reserve unit - the **bancor** - to avoid dependence on the dollar or gold". *Krippner; Ibid p. 90*.

Of course, we saw that Keynes was also trying to ensure a role for Britain as an ailing imperialist nation. In any case the bancor was rejected. But Triffin's point was that a deficit was inevitable for the USA.

The dilemma for the Europeans was a poor choice:

"Either hold these dollars (preferably un the form of US treasury securities [Thus earning a small interest]) or sell them for other currencies. In the former case, foreigners would again be footing the bill for US defects; in the latter case, the resulting depreciation of the dollar would both erode the value of accumulated dollar assets and increase the competitiveness of US exporters." *Krippner; Ibid; p. 91.*

Ultimately the solution to the problem of holding an excess of dollars, for the European Central Banks was to lend it out. This transformed a problem into a profitable situation, and reconciled the European banks to accept more dollars for US debt:

"Thanks to the growth of this market, the USA managed from 1965 onwards to get the Europeans and Japanese to accept a massive increase in its indebtedness. It was thus because of the sheer volume of the American debt, that the European banks came to oppose, or at least to share in the disadvantages of any devaluation of the dollar, which had by then become a devaluation of their credit with the USA..."
Y.Fiit, A.Faire and J-P.Vigier "The World Economic Crisis, US imperialism at Bay"; London, 1980;, Ibid. p.85-7.

This Pool of dollars loaned from Europe, formed the **Eurodollar market**. It was the harbinger of the **'Sovereign Funds'** – which have continued to play a similar role right up to the present time. (We discuss those in Part 5). This huge dollar pool, became a new speculative force, because of Europe's relative freedom from restrictions:

"The essential feature that accounts for the rising role of the Eurocurrency Market is its relative lack of regulation. Within the US for example, the Government can and does control the amount of new loans that a bank can finance with a new dollar of deposits; by requiring that banks hold a certain percentage of deposits in reserve, the Government both places a limit on the expansion of loan activity and protects the banking system from putting itself in a position where the it cannot meet the demands of depositors for their funds. Moreover, government regulators establish restrictions that limit the degree of risk that can be undertaken by banks…
In the absence of such regulation, competition among banks could push them into risker and riskier loans and lead them to hold a smaller and smaller percentage of deposits as reserves. In the Eurocurrency Market such regulation, is fact virtually absent. Furthermore, without regulation, governments have much less control over the supply of their currencies. When for example, banks holding dollars abroad loan out those dollars they create new dollars; that is, new claims on goods and services in the US."

> *MacEwan A. Imperial Decline and International Disorder: an Illustration from the Debt Crisis. p. 209. In The "Imperiled Economy. Book One. " New York. 1987. p. 209.*

But the Euromarkets could not solve the underlying problems in the USA economy. Individual financiers and speculators, saw that gains could be made out of the ailing system. Britain had been as we saw, the first nation so attacked, when its battle to fight for gold parity of the pound came under pressure. Later it no longer had the ability to run up balance of payments deficits, unlike the USA. It devalued sterling in 1967.

International speculation now pounced and hit the dollar violently. While other European governments protected their own stock of dollars, and intervened frequently on the gold market – it was not enough. As their own gold stocks fell, foreign governments urged to the USA to swop the European dollars for gold ("as good as gold"). France in fact left the modified Gold Pool.

As the pressures mounted on the USA, in March 1968, the Federal Reserve System, abruptly removed all gold cover. This removed the assurance of a 25 % gold cover for all paper currency issued by the USA. Soon all the Western countries came off the Gold Pool. An uneasy stalemate developed as European bankers allowed speculators free rein in the private market, yet kept central banking trading fixed - at a '*ridiculously low fixed price of $35 an ounce*'. The central banks agreed not to trade their dollars at the Federal Reserve USA for gold:

> "The Gold Pool was replaced by a split gold market; all dealing in gold between central banks were to be conducted at the ridiculously low fixed price of $35 an ounce and there was to be no interconnection between such dealings and the state of the free market for gold...
> speculation was temporarily diverted into the free market, the European bankers were persuaded not to turn their dollars into gold, and the USA was allowed to pursue a policy leading to a systematic deficit in its balance of payments.."
> *Fitt et al, Ibid, p. 88.*

Despite this move, the growing American debt prompted a further international crisis of confidence. By the end of 1970, official dollar claims of foreigners, amounted to more than twice the US gold reserves. Even the stooge British government, in August 1971 now requested that the US swap a portion of the Bank of England's dollar holdings for sterling. This coupled with the growing recession in the Western world; added to the decision of the German Central Bank in 1971 to float the mark; and the devaluation of the pound sterling, all conspired to force further speculation on the dollar.

Finally in **August 1971, President Nixon** announced officially that it would no longer exchange dollars for gold, and he placed a 10% surcharge on imports, which effectively devalued the dollar. After this overt breakdown of the Bretton Woods System, the policy of the Federal Reserve Bank of the USA was to take advantage of **floating exchange rates** in order to increase industrial profit and international competitiveness. However the dollar, still continued to appreciate over this time.

As seen, European markets had invented the Eurodollar market to sop up excess funds, and use them for profit-making loans. Meanwhile, a new a concern began to be voiced in the USA, as a new fiscal imbalance soon developed, emanating from Japan. Japanese had always been known to have a high savings ratio. In 1979, as Japan's economy

swung into a surplus, its capitalists did not need as much monies to support Japanese industry. Japanese capital began to park surplus monies in the USA treasury Bill market. The **American Council of Economic Advisers** (**CEA**) member **William Niskanen** informed the USA cabinet **Council on Economic Affairs**, that the:

> "gap between domestic savings and domestic investment was necessarily equal to foreign borrowing": *Krippner ibid. 95.*

This was exactly what happened, as Japan stepped in, buying large reserves of US Treasury notes. In fact the US Treasury largely welcomed this, under the so-called "**Feldstein Doctrine**" - named after CEA Chairman **Martin Feldstein**, As Treasury reports stated:

> "The capital inflows to the US.. will permit interest rates to be lower here that they otherwise would be, preserving jobs in interest rate sensitive industries, and (allowing) more capital formation that would otherwise be the case".
> *October 4th, 1983; Cited Krippner Ibid p. 100.*

But this demand for the US dollar, led its continued rise, as expressed in exchange value against other currencies. This upset the industrial section of USA capitalism, as there was more expense to investments in industry, and it made exports harder.

> "The capital pouring in from aboard introduced another distortion into the economy of the 1980s: the dollar began to appreciate rapidly. To invest tin the US economy, foreigners had to exchange their currencies - yen, marks, francs - etc. - into dollars, with the result that the demand for the dollar on foreign exchange markets increased, driving up its price. This in turn placed American exports at a competitive disadvantage in foreign markets for the opposite reason: To sell in those markets, exporters converted dollar prices into local currencies which became more expensive as the value of the dollar rose... American producers steadily lost markets share to foreign competitors":
> *Krippner, GR; Ibid; p. 97.*

Industrialists wailed loudly in complaints... and private industry commissioned the "**Caterpillar Report**" in 1983:

> "It was spearheaded by the Business Round Table and its very vocal leader Caterpillar Tractor chairman Lee Morgan. In 1982, Morgan commissioned David Murchison and Ezra Solomon to study the causes of the strong dollar. Their report ... September 1983... argues strongly in favor of the view that the Japanese had taken deliberate steps to hold down the value of the yen to gain a competitive advantage in US markets... They argued that restricted capital market policies discouraged inflows of capital into the Japanese markets, thereby suppressing demand of the yen, and increasing demand for the dollar. As much the Caterpillar Report called for correcting the strong dollar by further opening Japanese financial markets. This analysis turned out to be erroneous. ... The most significant controls in the Japanese capital market restricted outflows, not inflows". *Krippner, GR; Ibid; p. 98.*

Nonetheless, the Regan administration bowed. After a period of uncertainty, the Federal Reserve drove the dollar down with the consent of the other Central Bankers of the

world (including of Japan) under the 1985 **Plaza Agreement**. This occurred in the Presidency of Ronald Reagan (1981-1989). Thus, the USA Federal Reserve basically depreciated (or devalued) the dollar, making its exports cheaper for countries to buy. This increased the money supply and the consequent problem of inflation. This enabled the USA to boost its export trade by successive devaluations.

But it decreased the effective worth of the enormous Eurodollar holdings.
There was a contradiction in US financial policy here. The US banks themselves had moved into the European Eurocurrency markets in a major way. In fact the banks now making their major profits abroad, rather than at home. This was despite a simultaneous drop in the rate of growth of US direct foreign investments (*MacEwan Ibid. p. 211*).

Financial capital objected. For the time being, this was to lead to the take over of the state by the sections of capital most wedded to finance capital, as "their money" was being made “cheap”, so they were losing profits:

> "The Federal reserve pursued an accommodating monetary policy which would allow the dollar to depreciate relative to other currencies and make United States products more competitive...The policy was successful in certain respects. The dollar depreciated dramatically and the US balance was stabilised after having been declining for years. Moreover the profitability of the non-financial corporations increased over the period. But...
> the problem was that accommodating monetary policy was highly inflationary... in the crisis ridden US economy… the resulting acceleration of inflation and the rapidly depreciating dollar undermined the profitability of financial institutions…
> **Paul Volcker**'s ascendancy at the Federal Reserve (in 1979) marked the end of the expansionary/depreciation era…
> it also marked a return to the historically more common dominance of the financial sector in the making of US monetary policy."
> *G.Epstein, ’Federal Reserve Behaviour and the limits of monetary policy in the Current Economic crisis”; in Union for Radical Political Economics, ‘The Imperiled economy’; New York; 1987; Ibid. p. 253.*

The Eurodollar Market's overall effect on the world economy was spectacularly enhanced by the emergence of the **Petrodollar** –the enormous dollar reserves held by the states of the Middle East. This was another drive to increase both the actual money supply – and the circulation of capital. Marxists have long recognised this is the key source of inflation (not the demand for workers wage rises – a response to rising prices).

There was a further contradiction, that was exposed when Volcker produced his famous 'Shock' driving interest rates higher. This is discussed in the next section.

vi) Neo-Liberalism and the renewed rise of finance capital - not 'an invisible hand'
This rising inflation in the world economies, led to the doctrine of a renewed attack on the working classes under the economic doctrine of **monetarism**. This in turn, saw the resurgence of conservative forces and the destruction of broad elements of trade unions and progressives. In fact the so-called neo-liberal resurgence, destroyed swathes of progressive reforms that had been won by workers over years of struggle.

During this phase, finance capital became able to launch money making ventures, even without the need to make tangible products for the market with the assistance of industrial capitalists.

These policies were led by the leading lights of 1980s capitalism (**Margaret Thatcher, Ronald Reagan, Milton Friedman**), and were dealt with by Alliance in 1992 (*See http://ml-review.ca/aml/AllianceIssues/ALLIANCE3ECONOMICS.html*).

Keynsian economists hold that **laissez-faire capitalism** leads to the stagnation of manufacturing industry and mass unemployment, and that a positive government policy of **"reflation"** - the injection of money into the circulation by the state - is necessary to maintain the profitability of industry. Apart from anything else it enables a workforce to be employed that earns a salary, in order to be able to buy the goods that capital produces; averting an "**underconsumption**" slump. It is admitted that such a policy produces a degree of inflation - rising price levels and a fall in the value of the currency (pound) - and monetarist economists regard this as completely unacceptable.

The Friedmanite school of monetarists take two small quotations of **Adam Smith**, (1723-1790) and elevate them to extraordinary extent. They use them in two main ways to bolster their policies:
(i) to extoll the 'free market' as guided by "*an invisible hand*" without external regulations imposed by governments; and,
ii) to support in particular, the selfishness of traders on the financial markets, bent on their own profits.

These are contained in the following two snippets from Smith.

> “By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was not part of it. By pursuing his own interest, he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good. It is an affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them from it”
> *Smith, Adam. 2001. The wealth of nations. Raleigh: Hayes Barton Press. p. 484*

> "Give me that which I want, and you shall have this which you want, is the meaning of every such offer; and it is in this manner that we obtain from one another those good offices we stand in need of.... It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner.... (sometimes 'dinner' given as 'interest' Ed)."
> *E. G. West; Oxford Economic Papers, New Series, Vol. 21, No. 1 (Mar., 1969), pp. 1-23*

This aspect of Smith, was characterized by Marx as being part of an 'alienated' view of human society:

According to Adam Smith, society is a commercial enterprise. Every one of its members is a salesman. It is evident how political economy established an alienated form of social intercourse, as the true and original form, and that which corresponds to human nature.' *Marx-Engels Gesamtawsgabe, Berlin, 1932, p. 130. Cited by E. G. West; The Political Economy of Alienation: Karl Marx and Adam Smith; Oxford Economic Papers, New Series, Vol. 21, No. 1 (1969), p. 7*

Of course, Marx and Engels learnt greatly from Adam Smith, and the earlier school of the physiocrats - and the later corrections by Ricardo, as Marx acknowledges:

"The analysis of *capital*, within the bourgeois horizon, is essentially the work of the Physiocrats. It is this service that makes them the true fathers of modern political economy. In the first place, the analysis of the various *material components* in which capital exists and into which it resolves itself in the course of the labour-process. It is not a reproach to the Physiocrats that, like all their successors, they thought of these material forms of existence — such as tools, raw materials, etc. — as capital, in isolation from the social conditions in which they appear in capitalist production; in a word, in the form in which they are elements of the labour-process in general, independently of its social form — and thereby made of the capitalist form of production an eternal, natural form of production. For them the bourgeois forms of production necessarily appeared as natural forms. It was their great merit that they conceived these forms as physiological forms of society: as forms arising from the natural necessity of production itself, forms that are independent of anyone's will or of politics, etc. They are material laws, the error is only that the material law of a definite historical social stage is conceived as an abstract law governing equally all forms of society. In addition to this analysis of the material elements of which capital consists within the labour-process, the Physiocrats established the forms which capital assumes in circulation (fixed capital, circulating capital, even though as yet they give them other names), and in general the connection between the process of circulation and the reproduction process of capital. We shall come back to this in the chapter on circulation.
In these two principal points Adam Smith inherited the legacy of the Physiocrats. His service — in this connection — is limited to fixing the abstract categories, to the greater consistency of the baptismal names which he gave to the distinctions made by the Physiocrats in their analysis".
Marx, Theories of Surplus value (Volume 4 of capital); Moscow; 1969; Part 1; Chapter II The physiocrats"; p. 44.

For Marx, Smith had generalized the understanding of how surplus value can be created beyond only agriculture, into all areas of production:

"We see the great advance made by Adam Smith beyond the Physiocrats in the analysis of surplus-value and hence of capital. In their view, it is only one definite kind of concrete labour - agricultural labour - that creates surplus-value. Therefore what they examine is the use-value of labour, not labour-time, general social labour, which is the sole source of value. In this special kind of labour, however, it is *nature*, the land, which in fact creates the surplus-value, consisting in an increase of (organic) matter—the excess of the matter produced over the matter consumed. They see it, however, still in quite a restricted form and therefore distorted by fantastic ideas. But to Adam Smith, it is general social

> labour—no matter in what use-values it manifests itself—the mere quantity of necessary labour, which creates value. Surplus-value, whether it takes the form of profit, rent, or the secondary form of interest, is nothing but a part of this labour, appropriated by the owners of the material conditions of labour in the exchange with living labour. For the Physiocrats, therefore, surplus-value appears only in the form of rent of land. For Adam Smith, rent, profit and interest are only different forms of surplus-value.
>
> When I speak of surplus-value, in relation to the total sum of capital advanced, as *profit on capital*, this is because the capitalist directly engaged in production *directly* appropriates the surplus-labour, no matter under what categories he has subsequently to share this surplus-value with the landowner or with the lender of capital. Thus the farmer pays the landowner directly. And the manufacturer, out of the surplus-value he has appropriated, pays rent to the owner of the land on which the factory stands, and interest to the capitalist who has advanced capital to him.
> *Marx, Theories of Surplus value (Volume 4 of capital); Moscow; 1969; Part 1; Chapter II The physiocrats"; p. 85.*

And we believe, that Marx and Engels had full awareness of this infamous 'i***nvisible hand***' quote by Smith, as evidenced in their critique of the German Ideology:

> "The social power, i.e., the multiplied productive force, which arises through the co-operation of different individuals as it is caused by the division of labour, appears to these individuals, since their co-operation is not voluntary but has come about naturally, not as their own united power, but as an alien force existing outside them, of the origin and goal of which they are ignorant, which they thus are no longer able to control, which on the contrary passes through a peculiar series of phases and stages independent of the will and the action of man, nay even being the prime governor of these. How otherwise could for instance property have had a history at all, have taken on different forms, and landed property, for example, according to the different premises given, have proceeded in France from parcellation to centralisation in the hands of a few, in England from centralisation in the hands of a few to parcellation, as is actually the case today? Or how does it happen that trade, which after all is nothing more than the exchange of products of various individuals and countries, rules the whole world through the relation of supply and demand – a relation which, as an English economist says, hovers over the earth like the fate of the ancients, and with ***invisible hand*** allots fortune and misfortune to men, sets up empires and overthrows empires, causes nations to rise and to disappear – while with the abolition of the basis of private property, with the communistic regulation of production (and, implicit in this, the destruction of the alien relation between men and what they themselves produce), the power of the relation of supply and demand is dissolved into nothing, and men get exchange, production, the mode of their mutual relation, under their own control again?"
> *Marx and Engels; The German Ideology. Critique of Modern German Philosophy According To Its Representatives Feuerbach, B.Bauer And Stirner, and of German Socialism According to Its Various Prophets. 1845. Part I: Feuerbach. Opposition of the Materialist and Idealist Outlook A. Idealism and Materialism; Collected Works; Volume 5; Moscow; 1976; p. 48.*

Ernest Mandel, argued that Marx had substituted Smith's 'invisible hand' of the market - with the 'invisible hand' of the 'law of value'. There is much logic in his view:

> "As an economist, Marx is generally situated in the continuity of the great classical school of Adam Smith and Ricardo. He obviously owes a lot to Ricardo, and conducts a running dialogue with that master in most of his mature economic writings. Marx inherited the labour theory of value from the classical school... The 'law of value' is but Marx's version of Adam Smith's 'invisible hand'. In a society dominated by private labour, private producers and private ownership of productive inputs, it is this 'law of value', an objective economic law operating behind the backs of all people, all 'agents' involved in production and consumption, which, in the final analysis, regulates the economy, determines what is produced and how it is produced (and therefore also what can be consumed). The 'law of value' regulates the exchange between commodities, according to the quantities of socially necessary abstract labour they embody (the quantity of such labour spent in their production). Through regulating the exchange between commodities, the 'law of value' also regulates, after some interval, the distribution of society's labour potential and of society's non-living productive resources between different branches of production. Again, the analogy with Smith's 'invisible hand' is striking".
> *Ernest Mandel* ***"****Karl Marx****;*** *IV. Marx's Labour Theory of Value****"; at***
> *https://www.marxists.org/archive/mandel/19xx/marx/ch04.htm*

It should be noted that Smith is even within his own body of writing quite in contradiction on this matter. We do not digress extensively on this, and the reader is referred even to the wikapedia pages which discuss some aspects of this. However, it is worth citing this passage of Adam Smith, which points out the "*opposite*" interests of the dealer and public:

> "The interest of the dealers," he wrote, "is always in some respects opposite to that of the public. To widen the market and to narrow the competition is always the interest of the dealers. To widen the market may frequently be agreeable enough to the public, but to narrow the competition must always be against it, and can only enable the dealers, by raising their profits above what they naturally would be, to levy, for their own benefit, an absurd tax upon the rest of their fellow citizens."
> Griffin, C.W. Was Adam Smith a Marxist? The Humanist, 29 June 2012;
> https://thehumanist.com/magazine/july-august-2012/commentary/was-adam-smith-a-marxist

Yet the modern proponents of 'free markets' - free from any market regulations, exemplified by Milton Friedman, ignore such complications. Instead they seize on Smith's free-market-ism and 'selfish-ness' alone:

> "Few trends could so thoroughly undermine the very foundation of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible. This is a fundamentally subversive doctrine. If businessmen do have a social responsibility other than making maximum profits for their stockholders, how are they to know what it is? Can self-selected private individuals decide what the social interest is*?" Friedman M, 2002, p. 133; Cited by Bagha J, Eugene R. Laczniak Seeking the Real Adam*

> *Smith and Milton Friedman Philosophy of Management, Vol 14, No. 3 (November 2015): pg. 179191.*

For his services to **Pinochet** and Chilean fascism and to capitalist markets, Friedman was awarded the Nobel Prize for economics in 1976. In 1992, the term **neo-liberalism** was not in usage. A succinct definition of this later term summaries both the economics and politics.

> "Neo-liberalism is in the first instance a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong property rights, free markets, and free trade. The role of the state is to create and preserve an institutional framework appropriate to such practices. The state has to guarantee... the quality and integrity of money."
> *David Harvey; "A brief History of neoliberalism"; Oxford; 2005; p. 2*

Neo-liberalism describes the theory, of Thatcher, Reagan and Friedman – and was first practically implemented in Chile. There it was launched by the Junta, after they brutally destroyed the workers movement. The crushing of **Allende's** social-reformist government, led to open fascism.

The two major strands of policy that the monetarists, demanded and won - were firstly to ensure the control of the money supply; and secondly to remove government regulations of free trading in capital markets. Deregulation meant the removal of any brakes to the 'free market". Of course, this is in marked distinction to their insistence that the state should control the money supply!

Inflation is especially unacceptable to financiers and financial institutions, which obtain profit by lending or investing money in return for interest or dividends. The monetarists maintain that, as far as is politically expedient, the function of the state should be restricted to "law and order" functions and other state expenditures (including that on social services) be restricted to the minimum, that economic enterprises should be private and unsubsidized, so that enterprises which are not making an adequate rate of profit should be allowed to go bankrupt irrespective of the social consequences, and that the interest rates should be kept relatively high.

Both Keynesism and monetarism try to boost the profits of capital. But Keynesian policies more serves the interests of industrial capital to the detriment of those of finance, while monetarist policies serves the interests of finance to the detriment of those of industrial capital. This conflict of capitalist economic policies is reflected in the field of capitalist polices. The Thatcher and Reagan Governments epitomised the **monetarist finance wings** of capital. The "**wets**" of the Conservative Party and the Labour Party in the UK; and the Democratic Party in the USA in general represented the **interest of industrial capital**.

The guarantee of the "*quality and integrity of money*", is the mission of the political representatives of finance capital. There are evident tensions between finance capital and industrial capital. Although Lenin's observation of a coalescing of the two was valid then, by the 1990s, matters had changed.

> “Nowadays the Banks are not the prime source of finance for capitalist industry. In Britain for example, banks (mainly merchant banks) own only:
>
> > "0.3%... of company shares".
> > *Combat, Communist League, London, Data from "Stock Exchange Official Year Book: 1984- 85"; London; 1985. p. 969.*
>
> Furthermore, banks in Britain provide only 6% of the external funding of industry in the form of loans and these have been traditionally short term loans to provide:
>
> > "Working (as opposed to investment) capital.."
> > *G.Ingham "Capitalism Divided", Basingstoke, UK.1984. p.67-8.*

Industry itself now finances much of its own investments. The huge multi-nationals have such currency reserves, that they have eroded the power of the banks to some extent:

> "The old economy is highly leveraged and deeply in debt. The emerging New Economy isn't… There has been enormous structural changes since the era not long ago, when the US corporate sector regular incurred large financial deficits.. In the first quarter of 1992, Corporate America generated a financial surplus of $109.6 billion (US) - the largest such surplus in US history (Surplus is cash flow minus capital spending and working capital requirements)…Today's huge surpluses stem from the fact that corporate cash flows in the New Economy - in industries like pharmaceutical, software and computers - exceed internal requirements to finance capital spending inventory and the like… the shift to surplus is driving interest rates lower… Gone are the days when the US sector was a net user of the personal saver's savings… The corporate sector is driving the US economy to a degree unthinkable in the old economy. Conventional wisdom that the economy is driven by consumer spending is no longer as true as it once was."
> *Globe And Mail, Business News. p.B26, Sep 22,1992”. Cited by Alliance 1992; Ibid.*

Alliance has pointed out previously that these are “*divisions…recognised by the business community*”, as pointed out by Gerald Epstein:

> “These divisions between the wings of capital are recognised overtly by the business community. Thus when the U.S. Democrats were resistant to a monetary policy, preferring to have their own representative, an industrialist Mr.G.William Millar at the Federal Reserve Board:
>
> > "Was seen by many within and outside the Federal Reserve System as being too closely tied to President Carter and insufficiently attuned to the needs of the financial sector, was replaced by **Paul Volcker**. As the Wall Street Journal later reported it:
> > "Wall Street shoved Volcker down Carter's throat."
> > *Epstein, 'Federal Reserve Behaviour and the limits of monetary policy in the current economic crisis.' in "The Imperiled Economy. Book One"; URPE; New York; 1987; p. 250.*

Control of the money supply by ‘Monetarists’ – was coupled to a brutal suppression of social expenditure spending. This was part of the so-called **“Volcker Shock**", during which interest rates were raised dramatically. But in addition, Volcker fully supported the suppression of working class standards of living, as he put it:

> "The American standard of living must decline";
> *Cited in Henwood, Doug; 'After the New Economy"; New York; 2003; p.208*

Attacks on the working class standard of living and trade union rights, were initiated. Britain with Margaret Thatcher's government in 1979, first enacted sweeping destructions of the prior social-democratic policies of so-called 'Welfare State'.

In the USA, Volcker drove interest rates up to near 20%. Clearly this made those who had large monetary reserves for loans, richer. Later, having then 'strangled' inflation, slowly he allowed the interest rate to drop. But this **"tight money"** policy ultimately led to an exacerbation in the industrial decline of the USA - the so-called **"Rusting of America".** Tremendous pressure began to develop for protectionism against foreign competition.

This interest rate hike had some other consequences. It certainly had increased profits for financial companies (Figure 3), and "decisively resorted the value of money" (*Krippner; Ibid p. 101*). But it also increased the deficit of the USA, for it sucked into the USA, a large portion of the world's capital. This was to continue beyond the period of the high interest rate. Having defeated nonfinancial inflation, and the economy of goods and services, inflation was in fact transferred to the asset good that the financial company was busily trading in. These all reflected key changes in how imperialism was operating at the end of the 20th century, and its evolution into neo-imperialism.

vii) Deregulating America

In addition to placing Volcker into the key position at the Federal Reserve, the Democratic **President Carter** started the deregulation of various industries.

The term deregulation, embraces removing of state oversight on all affairs of a civic society, under the pretext of 'cutting red tape'. This covers all aspects of life - be it health, environmental safety, road traffic safety, guns and firearms industry, etc. it is closely related to privatisation of many areas including health services, educational services, universities etc.

It is a common mistake, to think that it was the republican Reagan who began this movement. In fact deregulation was "*bipartisan*" and "*the movement began during the Carter administration*":

> "There is no doubt that the deregulation of the S&Ls, which was an initiative of the Reagan Administration, was an important step on the road to the deregulation of banking (broadly defined to include all forms of financial intermediation), and that deregulation was a significant causal factor in the risky lending of the early 2000s that precipitated our current crisis. But it ignores the other causal factors, notably the monetary policy of the Federal Reserve beginning at the end of 2000, and, more important, it ignores the **bipartisan** character of the deregulation movement......
> The movement to deregulate the heavily regulated industries, such as transportation, telecommunciations, energy--and banking--began during the Carter Administration. One of the earliest major deregulatory measures was a measure to deregulate banking: the **Depository Institutions Deregulation and Monetary Control Act** of 1980 -- obviously it preceded Reagan's presidency.

> Deregulation was bipartisan. It is entirely speculative to suppose that, had Carter been reelected, the deregulation of banking, including the relaxation of mortgage standards, would have ceased. When the Democrats regained the presidency in 1993, banking deregulation continued, culminating in the repeal of the Glass-Steagall Act, which had split commercial banks from investment banks, and in the rejection of regulation of the new derivatives, notably credit-default swaps. Robert Rubin and Lawrence Summers, Clinton's principal economic advisers, were steadfast supporters of banking deregulation. They are both Democrats". *Richard A. Posner; The Atlantic; The Good Paul Krugman and the bad Paul Krugman; Jun 3, 2009 at https://www.theatlantic.com/business/archive/2009/06/the-good-paul-krugman-and-the-bad-paul-krugman/18718/*

The 'left-leaning' **Mother Jones** has this to say:

> "Deregulation has been the mantra on both sides of the aisle since the late 1960s. Long gone are Democrats like Michigan's Phil Hart who, as chair of the Senate Antitrust Subcommittee, held hearings on the concentration of economic power in the United States, and proposed expanded government regulation of everything from the oil and auto industries to pharmaceuticals to professional sports". *James Ridgeway; It's the Deregulation, Stupid; Mother Jones; Mar. 28, 2008 https://www.motherjones.com/politics/2008/03/its-deregulation-stupid/;*

Even writers for Right-wing institutes such as the **Cato Institute** and the **Mises Institute**, emphasise that Carter started the deregulation movement:

> "The case on the economic front is more mixed. There can be no doubt that the American economy has substantially deregulated over the past 30 years, starting during the Carter administration, and in part because of the efforts of libertarian thinkers. This is no small thing. It represents, however, a triumph of empirical persuasion, of convincing people that, say, the regulation of the airline industry was not, in fact, generating the outcomes people prefer. It didn't reflect a more *ideological* triumph of the view that regulation of private property *per se* is illegitimate and so the economy, while less regulated overall, is substantially more regulated in certain areas, notably environmental protection and public health, where regulation has been deemed empirically effective".
> Matthew Yglesias; The Unlibertarian Center at the Cato Institute site: https://www.cato-unbound.org/print-issue/1166;

> "The Carter Administration also gave greater power to the Federal Reserve System through the Depository Institutions and Monetary Control Act (DIDMCA) of 1980 which otherwise was a necessary first step in ending the harmful New Deal restrictions placed upon financial institutions. In fact, it would be safe to say that Reagan probably would have taken the necessary deregulatory steps had Carter kept all of the regulatory regimes in place". *William L. Anderson; Rethinking Carter. Mises Institute, for Economics, Freedom & Peace; 10/25/2000; https://mises.org/library/rethinking-carter*

Just a brief word from President Carter himself:

> "As a farmer and a small businessman, and later as a Governor, I shared this resentment and frustration. I resented the cost of Government red tape, the

> interference it represented in my business and personal life, and not least of all, having to deal with the bureaucratic gobbledygook itself." During his presidential campaign, Carter promised to pursue deregulation. "The reform of our regulatory agencies would be one of the highest priorities of a Carter Administration."
> *Andrew Downer Crain; 'Ford, Carter, And Deregulation In The 1970s'; J. On Telecomm. & High Tech. L. Vol. 5; 414-448*
> *https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=15&cad=rja&uact=8&ved=2ahUKEwjJ6Ifso7HdAhUDw4MKHeWIAvQQFjAOegQIBBAC&url=http%3A%2F%2Fwww.jthtl.org%2Fcontent%2Farticles%2FV5I2%2FJTHTLv5i2_Crain.PDF&usg=AOvVaw3tcYBreULqQcaoE_zExyYC*

No doubt that USA President Reagan continued this deregulatory trend, extending it to many other sectors:

> "The deregulation of everything from airlines and telecommunications to finance for powerful corporate interests. Tax breaks on investment effectively subsidized the movement of capital away from the unionized North-East and mid-East and into the non-union and weakly regulated south and west. Finance capital increasingly looked for higher rates of return. Deindustrialization at home and moves to take production aboard became much more common... Corporate taxes were reduced dramatically." *Harvey D; "A Brief History of Neoliberalism"; Ibid; p. 26*

Perhaps most importantly, deregulation enabled the **financialization** of society. This entails creating **securities** from almost any asset, as discussed in the next section: A **security:**

> **"**is a tradable financial asset. The term commonly refers to any form of financial instrument, but its legal definition varies by jurisdiction. In some jurisdictions the term specifically excludes financial instruments other than equities and fixed income instruments. .. the term "security" is commonly used in day-to-day parlance to mean any form of financial instrument, even though the underlying legal and regulatory regime may not have such a broad definition" (*wikapedia*).

After 1980, deregulations effected the increasing domination by finance capital:

> "The strong wave of financialization that set in after 1980 has been marked by its speculative and predatory style. The total daily turnover of financial transactions in international markets, which stood at $2.3 billion in 1983, had risen to $130 billion by 2001. The $40 trillion annual turnover in 2001 compares to the estimated $800 billion that would be required to support international trade and productive investment flows. Deregulation allowed the financial system to become one of the main centers of redistributive activity through speculation, predation, fraud and thievery. Stock promotions, Ponzi schemes, structured asset destruction through inflation, asset-stripping through mergers and acquisitions, the promotion of levels of debt incumbency... to say nothing of corporate fraud, dispossession of assets (the raiding of pension funds and their decimation in stock and corporate collapses) by credit and stock manipulations - all of these became central features of the capitalist financial system".
> *Harvey; "A brief History of neoliberalism"; Oxford; 2005; p. 161*

We discussed earlier, how the 1929 stock market crash led to the 1933 **Glass-Stegall Act.** It was pointed out that this was an attempt to prevent bank failures and the worst

speculative manias. One thrust of the changes was to ensure a separation between investment banks and commercial banks.

An **investment bank** is defined by *Wikepaedia*: as "typically a private company that provides various finance-related and other services to individuals, corporations, and governments such as raising financial capital by underwriting or acting as the client's agent in the issuance of securities. An investment bank may also assist companies involved in mergers and acquisitions (M&A) and provide ancillary services such as market making, trading of derivatives and equity securities, and FICC services (fixed income instruments, currencies, and commodities".

In contrast a **commercial bank** is defined as: "an institution that provides services such as accepting deposits, providing business loans, and offering basic investment products. The main function of commercial bank is to accept deposit from the public for the purpose of lending money to the borrowers." (*wikepaedia*)

Separation between the two was prompted by the Senate Committee on Banking and Currency Inquiry led by **Ferdinand Pecora**. This found "*extensive abuses*" where in particular, City Bank had sold investments to its' clients, of its own securities affiliate, National City. This conflict of interest was not performed with disclosures (*Funk & Hirschman- see below*). Such non-disclosures were felt to be one cause of the massive bank failures:

> "In 1929, the United States experienced a massive financial crisis, including a stock market crash and the subsequent failure of nearly 1,000 banks (Car- nell, Macey, and Miller, 2008: 16). The crash led to declining confidence in financial institutions and bank panics were common for the next four years, leading to thousands more bank failures. .... Glass successfully fought for the inclusion of a plank in the Democratic party platform in 1932, calling for "the severance of affiliated securities companies from, and the divorce of investment banking business from, commercial banks".
> *Russell J. Funk; Daniel Hirschman; Derivatives and Deregulation: Financial Innovation and the Demise of Glass-Steagall; Administrative Science Quarterly; 2014, Volume: 59 issue: 4, p.669-704*

> **"**Glass-Steagall mandated sweeping changes to the financial industry. First, the Act created the Federal Depository Insurance Commission (FDIC), which insured bank deposits and had the authority to take over failing banks. Second, Glass-Steagall capped interest rates through "Regulation Q." This regulation prohibited banks from paying more than a specified rate for interest on savings accounts and from paying any interest at all on checking accounts, with the aim of preventing ruinous competition for deposits. Third, ... Glass-Steagall mandated the separation between firms that took deposits and made loans (commercial banking) and firms that underwrote and dealt in securities (investment banking). Sections 20 and 32 of Glass-Steagall prohibited firms involved in taking deposits from being affiliates (part of the same holding company) or subsidiaries of each other, and from sharing directors on their boards ("interlocks") with firms "engaged principally...in the issue, flotation, underwriting, public sale, or distribution, at wholesale, retail, or through syndicate participation" of "in- eligible securities," meaning corporate debt and equity among other things (but not government debt, which commercial banks were allowed to continue to trade). In

> response, large banks split up their commercial and investment banking divisions. For example, J.P. Morgan & Company divided into a commercial bank, J.P. Morgan, and an investment bank, Morgan Stanley, in 1935." *Russell J. Funk; Daniel Hirschman; Derivatives and Deregulation: Financial Innovation and the Demise of Glass-Steagall; Administrative Science Quarterly; 2014, Volume: 59 issue: 4, p.669-704*

As the newly introduced computerized trading led to more 'hot money' crossing international borders, some sectors of the commercial banking industry tried to over-turn Glass-Stegall. They tried for a long time to overcome the resistance of the investment banks, who under these rules had a monopoly of the 'securities trade':

> "Nearly a dozen measures designed to repeal Glass-Steagall were introduced in Congress between 1981 and 1999 (New York Times, 1999a), but each faced a different set of roadblocks. In the early period, from 1981 to 1988, large commercial banks (working through the American Bankers Association [ABA]) lobbied for a complete repeal, while investment bankers (represented by the Securities Industries Association, [SIA]), along with other industry groups, fought to maintain Glass-Steagall. As early as 1981, commercial bankers organized to eliminate Glass-Steagall's restrictions entirely (New York Times, 1981).
> *Russell J. Funk; Daniel Hirschman; Ibid.*

Nonetheless, Carter made significant inroads into banking deregulation. He passed the **Depository Institutions Deregulation and Monetary Control Act of 1980** (**DIRMCA**) in 1980. This had a dual effect, because it did give the Federal Reserve control over banks outside of its prior purview. This was all 'necessary' for capitalists as during the 1970s inflationary period, the banks had been circumvented for those seeking loans, by new financiers, such as **money market mutual funds**:

> "In the late 1970s, inflation caused market interest rates to rise above the limits mandated by Regulation Q. The restrictions may have been prudent when inflation was around 3 or 4 percent, but with inflation as high as 10 or 11 percent, investors began to seek out and find alternatives to traditional deposit accounts. In the commercial paper market, investors could lend directly to borrowers, bypassing banks as intermediaries. Brokerage firms and other financial institutions began to create **money market mutual funds**, which pooled small investors' funds to purchase commercial paper. These money market funds operated without reserve requirements or restrictions on rates of return. They quickly became popular among small investors who shifted their money out of the regulated accounts in depositary institutions, which paid considerably lower interest rates".
> *Matthew Sherman A Short History of Financial Deregulation in the United States; Center for Economic and Policy Research; Washington DC; July 2009; at: https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=13&ved=2ahUKEwjJ6Ifso7HdAhUDw4MKHeWIAvQQFjAMegQIARAC&url=http%3A%2F%2Fcepr.net%2Fdocuments%2Fpublications%2Fdereg-timeline-2009-07.pdf&usg=AOvVaw1GwAV9mOUbF5gYkdjhG75X*

Regulation Q of Glass-Stegall, had severely restricted the S&L industry. This was because it acted as a *'stop-valve in the plumbing of finance'*. This worked as follows:

> "During periods in which market rates rose above regulated ceilings, the flow of credit to the economy was quite literally shut off.... When .. economic expansion turned to excess, and inflationary pressured stirred... market interest rates

> offered on Treasury Bills and corporate debt instruments rose above Regulation Q ceilings, prompting the withdrawal of funds from depository institutions as investors sought instrument, carrying a competitive rate of return... rising market rates could cause a sudden outflow of deposits from banks and thrifts..."
> *Krippner G; Capitlizing on crisis; inid; p. 62.*

Naturally, both commercial Banks, and the **Savings and Loan (S & L)** industry (also known as **thrifts**) lobbied hard to enable them to compete with the new money market mutual funds:

> "With the aim of allowing banks and savings and loans to compete with money market mutual funds, President Carter signed into law the Depository Institutions Deregulation and Monetary Control Act (**DIDMCA**) of 1980. The legislation established a committee to oversee the complete phase-out of interest rate ceilings within six years. Depository institutions would be allowed to offer accounts with competitive rates of return in the market. The act also increased federal deposit insurance from $40,000 to $100,000 and required all U.S. banks to maintain reports and hold reserves at the Federal Reserve."
> *Matthew Sherman A Short History of Financial Deregulation in the United States; Center for Economic and Policy Research; Washington DC; July 2009*

The **DIDMCA** Bill had several components, including these:

- It forced all banks to abide by the Fed's rules.
- It allowed banks to merge.
- It removed the power of the Federal Reserve Board of Governors under the Glass–Steagall Act to use Regulation Q to set maximum interest rates for any deposit accounts other than demand deposit accounts (with a six-year phase-out).
- It allowed Negotiable Order of Withdrawal accounts to be offered nationwide.
- It raised the deposit insurance of US banks and credit unions from $40,000 to $100,000.
- It allowed credit unions and savings and loans to offer checkable deposits.
- It allowed institutions to charge any loan interest rates they chose. *(Wikapedia)*

One of the effects of DIDMCA was to make sub-prime lending for housing, especially by the S & L industry - easier. This would lead to the 2008 financial crash:

> "In 1980, Congress adopted the Depository Institutions Deregulatory and Monetary Control Act, which eliminated interest-rate caps and made sub-prime lending more feasible for lenders. The S&Ls balked at constraints on their ability to compete with conventional banks engaged in commercial lending.
> *John Atlas; The Conservative Origins of the Sub-Prime Mortgage Crisis; The American Prospect; December 17, 200*

President Reagan did not abolish the Glass-Stegall Act, and he resisted pressures to do so. There were almost a dozen attempts to repeal Glass-Stegall in Congress between 1981-1999 (*Funk & Hirschman; Ibid*). Nonetheless, he did enable financiers to some extent. He called his 1982 amendment he signed, in the **Garn-St. Germain Depository Institutions Ac**t, the:

> "'most important' legislation for financial institutions in the last 50 years. It provides a long-term solution for troubled thrift institutions. ... All in all, I think we hit the jackpot."
> *Krugman, Paul; Reagan Did It; New York Times, May 31, 2009, https://www.nytimes.com/2009/06/01/opinion/01krugman.html*

In this Act, further changes to enable the S& L (or thrifts) industry were made. This act now completely removed the interest rate ceiling on the S&L companies. It was an:

> "Act of Congress that deregulated savings and loan associations and allowed banks to provide adjustable-rate mortgage loans. It is disputed whether the act was a mitigating or contributing factor in the savings and loan crisis of the late 1980s.
> An important consumer change was to allow anyone to place real estate in their own trust without triggering the due-on-sale clause that allows lenders to foreclose on a current loan upon transfer to another. This greatly facilitates the use of trusts to pass property to heirs and minors. It may also protect the property of wealthy or risky owners against the possibility of future lawsuits or creditors, because the trust owns the property, not the individuals at risk.
> *https://en.wikipedia.org/wiki/Garn%E2%80%93St._Germain_Depository_Institutions_Act*

The S & L industry were now able to engage in high risk loans, and speculation to cover potential losses. They used junk bonds (see next section) to enable them to 'play the markets'. Ultimately, because they engaged bad high-risk loans, they went into bankruptcy. Since they were important sources of loans for home-owners, they were the subject of a government bail-out:

> "The Garn-St. Germain Depository Institutions Act removed the interest rate ceiling for banks and thrifts, authorized them to make commercial loans, and gave the federal agencies the ability to approve bank acquisitions. Once regulations were loosened, however, S&Ls began engaging in high-risk activities to cover losses, such as commercial real estate lending and investments in junk bonds. Depositors in S&Ls continued to funnel money into these risky endeavors because their deposits were insured by the Federal Savings and Loan Insurance Corporation (FSLIC). Ultimately, the act was one of the contributing factors to the Savings and Loan Crisis which resulted in one of the largest government bailouts in U.S. history costing approximately $124 billion. Long-term consequences included the preponderance of 2/28 adjustable-rate mortgages which ultimately contributed to the sub-prime loan crisis and Great Recession of 2008.
> *https://www.investopedia.com/terms/g/garn-st-germain-depository-institutions-act.asp*

All these events put into place the events that would lead to the financial crash of 2008.

> "The change in America's financial rules was Reagan's biggest legacy. The immediate effect of Garn-St. Germain,... was to turn the thrifts (S&L) from a problem into a catastrophe. ... deregulation in effect gave the industry — whose deposits were federally insured — a license to gamble with taxpayers' money, at best, or simply to loot it, at worst. By the time the government closed the books on the affair, taxpayers had lost $130 billion, back when that was a lot of money.

> But there was also a longer-term effect. Reagan-era legislative changes essentially ended New Deal restrictions on mortgage lending — restrictions that, in particular, limited the ability of families to buy homes without putting a significant amount of money down... We weren't always a nation of big debts and low savings: in the 1970s Americans saved almost 10 percent of their income, slightly more than in the 1960s. It was only after the Reagan deregulation that thrift gradually disappeared from the American way of life, culminating in the near-zero savings rate that prevailed on the eve of the great crisis. Household debt was only 60 percent of income when Reagan took office, about the same as it was during the Kennedy administration. By 2007 it was up to 119 percent.... But it was the explosion of debt over the previous quarter-century that made the U.S. economy so vulnerable. Overstretched borrowers were bound to start defaulting in large numbers once the housing bubble burst and unemployment began to rise. *Krugman, Paul; Reagan Did It; New York Times, May 31, 2009, https://www.nytimes.com/2009/06/01/opinion/01krugman.html*

President Regan did not go as fast the banking industries want to go (*Funk & Hirschmann Ibid*). Only under President **Clinton** did the banking and financial industry get its complete way, under the **Financial Modernization Act**, also known as the **Gramm-Leach-Bliley Act**: But by then, the financial industry had eroded Glass-Stegall already, and significantly:

> "Later, in 1996, the Federal Reserve issued an audacious ruling, allowing bank holding companies to own investment banking operations that accounted for as much as 25 percent of their revenues. The decision rendered Glass-Steagall effectively obsolete, since virtually any institution would be able to stay within the 25 percent level.
> As the Fed allowed financial institutions to diversify their investment operations, the banking industry was also moving towards greater consolidation. The process was already underway, but it increased significantly after the passage of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, which eliminated previous restrictions on interstate banking and branching. Between 1990 and 1998, the number of banking institutions decreased by 27 percent as banks continued to merge....
> The crumbling walls of Glass-Steagall received a final blow in 1999 when Congress passed the Financial Modernization Act, also known as the Gramm-Leach-Bliley Act. The act repealed all restrictions against the combination of banking, securities and insurance operations for financial institutions. The deregulation was a boon for national commercial banks, allowing for the formation of "mega-banks." The Gramm-Leach-Bliley Act was the crowning achievement of decades and millions of dollars worth of lobbying efforts on behalf of the finance industry. The repeal of Glass- Steagall was a monumental piece of deregulation, but in many ways it ratified the status quo of the time."
> *Sherman M; A Short History of Financial Deregulation in the United States; 2009; Ibid.*

viii) What did the financialized economy of the USA look like?

It was the ***bi-partisan*** rule of both Democrats and Republicans, that finally had achieved what the financial capitalist class had so desperately desired. No doubt that the Democratic party representatives had pushed hardest for this. What did they achieve? As Krippner rightly states:

"In an economy in which systems of corporate governance reflect the imperatives of financial markets, we would expect profits to accrue increasingly through financial channels. Similarly we would expect the growing power of social actors occupying strategic positions vis-a-vis financial markets to be parlayed into outsized economic rewards. Finally we would expect increased financial flows and a rapid pace of financial innovation to generate profit opportunities in the financial sector of the economy". *Krippner; Ibid; p. 28.*

All this is confirmed by empirical data. **Figure 3** below, for example, is from Epstein. This shows that the relation between the profits of the financial capitalist class, and the industrial capitalist class are inversely related, between 1973 and 1983.

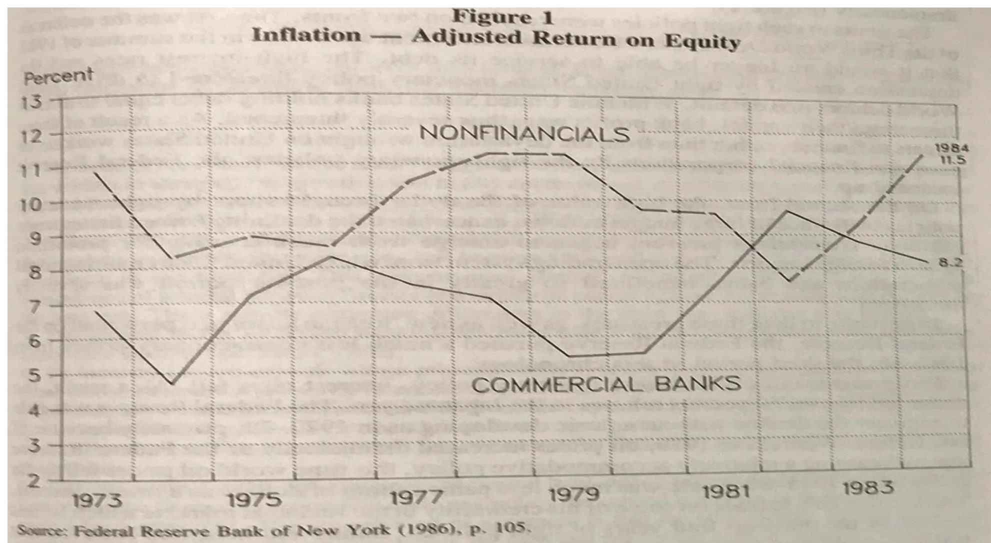


Figure 3: PROFITS OF NON-FINANCIAL & COMMERCIAL BANK CAPITAL USA 1973-1984. Inflation adjusted values. *G.Epstein; "Federal Reserve Behaviour & The Limits of Monetary Policy in the Current Economic Crisis"; In: "The Imperiled Economy"; New York; 198;. p.253;*

But in fact this process has been taking place **since 1955**, as seen in the longer time-scale figure from Krippner, showing relative industry shares of employment - between manufacturing industries, **FIRE** industries (**Finance, Insurance and Real-Estate**), and Services. (**Figure 4**).

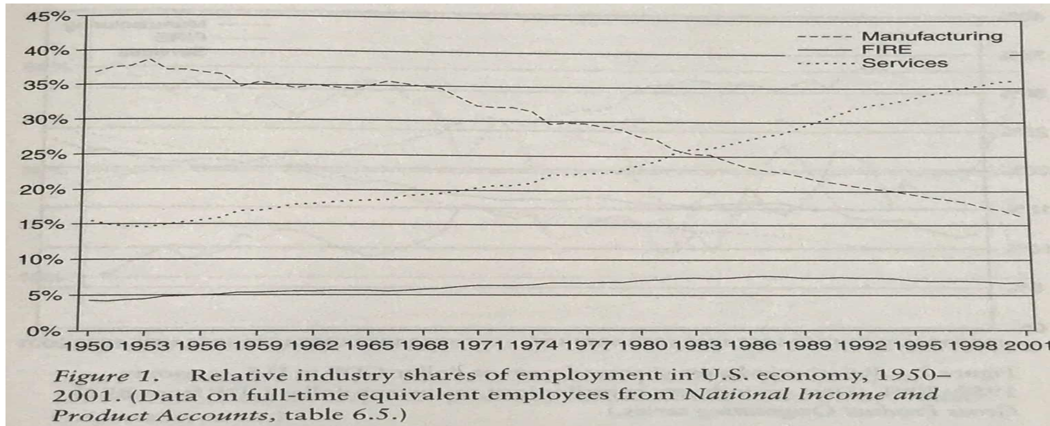


Figure 1. Relative industry shares of employment in U.S. economy, 1950–2001. (Data on full-time equivalent employees from *National Income and Product Accounts*, table 6.5.)

Figure 4: RELATIVE INDUSTRY SHARES OF EMPLOYMENT IN US ECONOMY 1950-2001. *Krippner GR. "Capitalizing on Crisis"; Harvard; 2011; p.31.*

Figures 5 and 6 - show respectively, the relative industry shares of dollars as a proportion of Gross Domestic Product (GDP); and thus the relative industry shares of corporate profits in the USA economy - over the years of 1950-2001.
Gross Domestic Product (GDP) is defined as:

> "Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period… GDP includes all private and public consumption, government outlays, investments, private inventories, paid-in construction costs and the foreign balance of trade (exports are added, imports are subtracted). Put simply, GDP is a broad measurement of a nation's overall economic activity – the godfather of the indicator world". *https://www.investopedia.com/terms/g/gdp.asp*

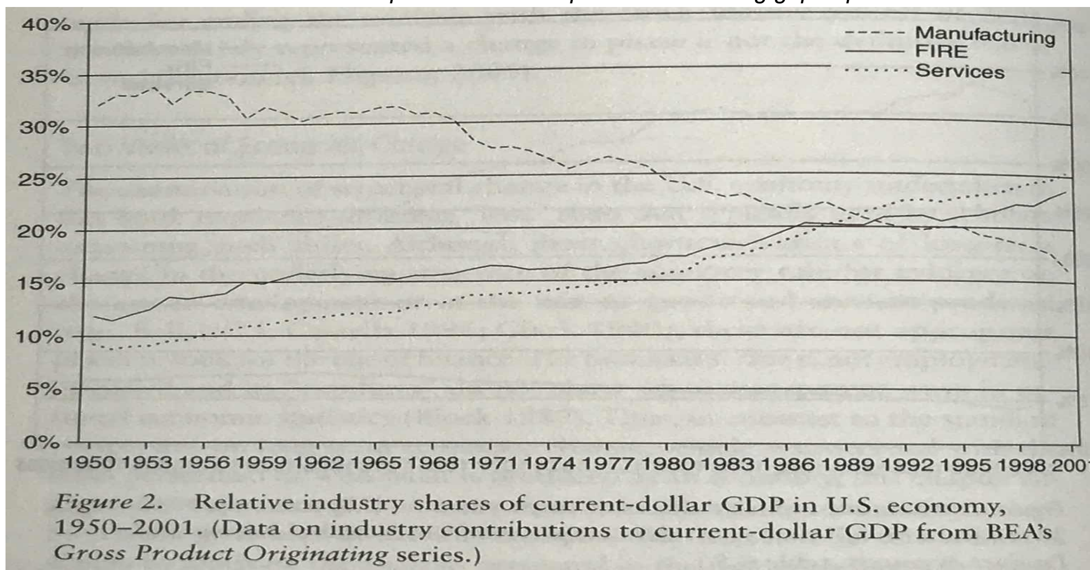


Figure 2. Relative industry shares of current-dollar GDP in U.S. economy, 1950–2001. (Data on industry contributions to current-dollar GDP from BEA's *Gross Product Originating* series.)

Figure 5: Relative industry shares of economy in 3 sectors, in dollars as a proportion of GDP; 1950-2001. *Krippner GR. Capitalizing on Crisis. The political origins of the rise of finance. Harvard; 2011; p.32.*

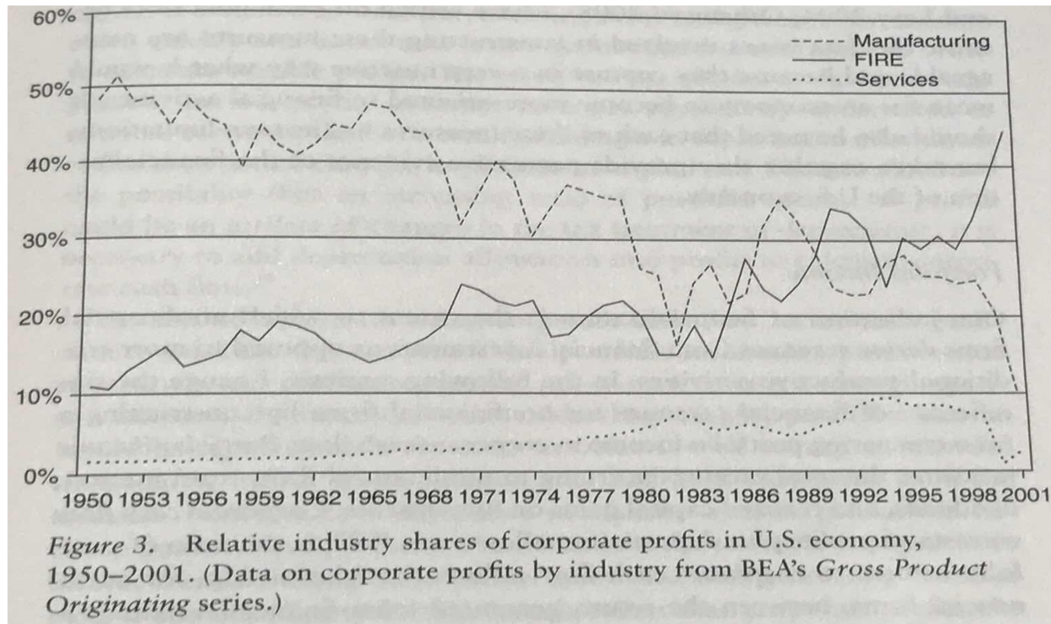


Figure 6: RELATIVE INDUSTRY SHARES OF CORPORATE PROFIT IN US ECONOMY 1950-2001. *Krippner GR. Capitalizing on Crisis. The political origins of the rise of finance. Harvard; 2011;*

In addition, the flows of revenue into manufacturing (or 'non-financial') firms from financial investments, as opposed to, "more traditional productive activities" - is also revealing (**Figure 7**). Krippner examines this by comparing "**Portfolio income**" ("*the total earnings accruing to nonfinancial firms from interest, dividends and realized capital gains on investments*") to **Corporate cash flows** (profits plus depreciation allowances").

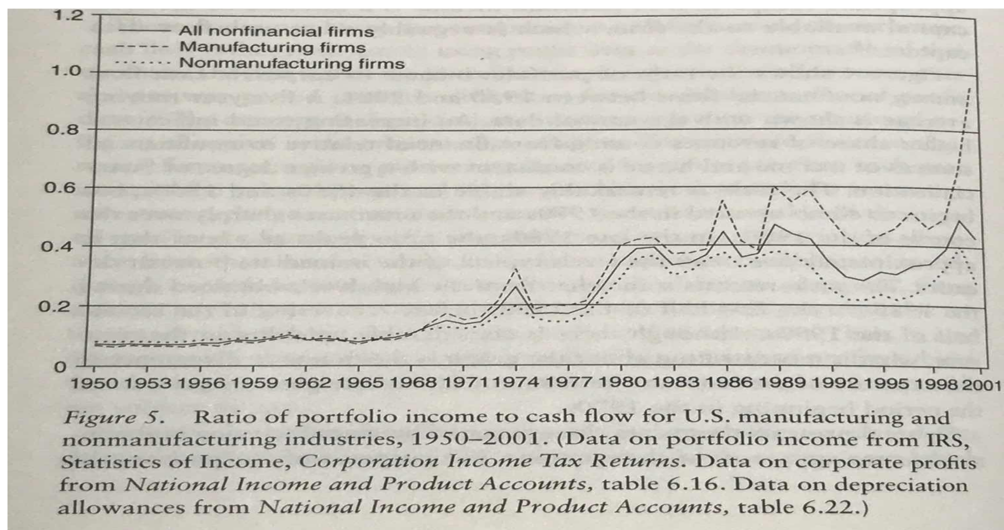


Figure 7: RATIO OF PORTFOLIO INCOME TO CASH FLOW FOR US MANUFACTURING AND NON-MANUFACTURING INDUSTRIES, 1950-2001. *Krippner GR. Capitalizing on Crisis. The political origins of the rise of finance. Harvard; 2011; p.36;*

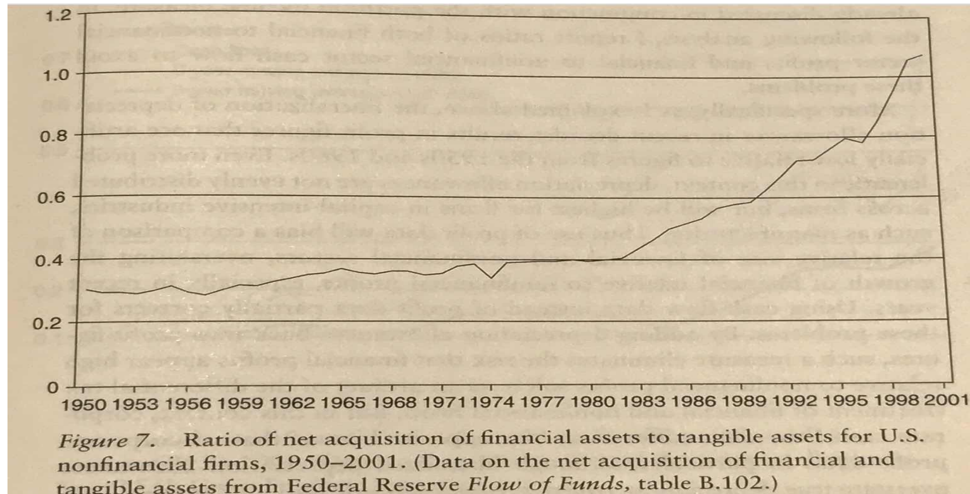


Figure 7. Ratio of net acquisition of financial assets to tangible assets for U.S. nonfinancial firms, 1950–2001. (Data on the net acquisition of financial and tangible assets from Federal Reserve *Flow of Funds,* table B.102.)

Figure 8: *Krippner GR. Capitalizing on Crisis. The political origins of the rise of finance. Harvard; 2011; p.39.*

Finally Figure 8 shows the ratio of net acquisition of financial assets to 'tangible' assets for US non-financial firms, 1950-2001.

The picture is clear. It was the Democrats who had *unequivocally* favored the financial industry. Nonetheless, *both* parties had presided over an era described as below:

> "The 1980s and the first half of the 1990s, a period which some have dubbed "the decline of banking," is undoubtedly the most turbulent period in U.S. banking history since the Great Depression." *Allen N. Berger, Anil K Kashyap, Joseph M. Scalise, Mark Gertler and Benjamin M. Friedman: "The Transformation of the U.S. Banking Industry: What a Long, Strange Trip It's Been"; Brookings Papers on Economic Activity, Vol. 1995, No. 2; pp. 55-218*

By 2008, the financial market was staggering in its magnitude:

> "In a completely unregulated market, derivatives trading expanded quickly, increasing from a total outstanding nominal value of $106 trillion in 2001, to a value of $531 trillion in 2008.This rapid growth overwhelmed the legal and technological infrastructure of the industry. Commercial banks – the major players in the market – could make trades so quickly and enter contracts so freely that oftentimes no firm was certain who owed exactly how much to whom. Regulators placed their trust in the self-regulation of the firms to avoid potential risks." *Matthew Sherman; A Short History of Financial Deregulation; Ibid; 2009.*

As to the extraordinary wealth accumulated by the new titans of finance - we will breifly mention those later.

ix) Two other new features of imperialism - De-Industrialisation and capital import

The British Marxist-Leninist, William B. Bland pointed out in 2001, that there had been a major change in imperialism. He identified at least two factors.
Firstly the direction of capital flows between metropolitan countries and the colonial or newly neo-colonial countries, had changed; and
Secondly the site of considerable sections of manufacturing had changed from the metropolitan countries and the neo-colonial ex-colonies.

Bland was the first Marxist-Leninist (as far as we are aware) to point out the significance of these changes, in 2001. These changes were so profound, that it led him to propose the term **neo-imperialism**.

Bland first explains that a key feature of imperialism - as described by Lenin – was the export of capital from the metropolitan countries to the colonial countries. We have discussed aspects of this above. But Bland brings the phenomenon up to date. He showed data confirming that by the late 20th century, there had been a reversal of money flows. This meant that the net direction of flow was now an import of capital into the metropolitan countries from the formerly colonial countries. Bland writes:

> "In his classic analysis 'Imperialism, the Highest Stage of Capitalism' Lenin characterises the export of capital as imperialism's most typical feature:
>
> "Under the old type of capitalism, when free competition prevailed, the export of goods was the most typical feature. Under modern capitalism, when monopolies prevail, the export of capital has become the typical feature". (*Vladimir I. Lenin: 'Imperialism, the Highest Stage of Capitalism', 'Selected Works', Volume 5; London; 1935; p. 56*).
>
> By 'exported capital', Lenin means primarily
>
> " . . . capital invested abroad",
> *(Vladimir I. Lenin: ibid.; p. 57).*
>
> above all to under-developed countries, where higher profits are obtainable:
>
> " . . . surplus capital . . . will be used for the purpose of increasing . . . profits by exporting capital abroad to the backward countries. In these backward countries, profits usually are high".
> *(Vladimir I. Lenin: ibid.; p. 57).*
>
> Lenin calls profits from such foreign investment as super-profits:
>
> "Capital exports produce . . . enormous super-profits. . . . They are obtained over and above the profits which capitalists squeeze out of the workers of their 'home' country".
> *(Vladimir I. Lenin: Preface to the French and German Editions: ibid.; p. 12).*
>
> At the beginning of the 19th century, it was above all Britain which had most capital available for export. In the words of the British economist Charles Hobson, whom Lenin frequently quotes, by 1815
>
> " . . . Britain stood, in contrast with Western Europe and the Eastern States of the American Union, fully a generation ahead in industrial development, and was possessed of far greater productive resources and capital for investment".
> *(Charles K. Hobson: 'The Export of Capital'; London; 1914; p. 96).*
>
> Hobson gives the following figures for the export of capital from Britain in the 19th and early 20th century:

1870:	£31.7	Million
1890:	£82.6	Million
1912	£226.0	Million

(Charles K. Hobson: ibid.; p. 223).

The export of capital from Britain continued to grow in the 20th century, as is shown by the following official figures

1982:	£11.6	thousand million
1986:	£33.9	thousand million
1996:	£89.3	thousand million

('Annual Abstract of Statistics: 1994'; London; 1994; p. 234; 'Annual Abstract of Statistics: 1998'; London; 1998; p. 275).

The Import of Capital

However, by this time so much British capital had been invested abroad, that the income from these investments exceeded the amount of new capital being exported:

1982:	£44.4	thousand million
1986:	£47.3	thousand million
1996:	£96.1	thousand million

('United Kingdom Balance of Payments: 1993'; London; 1993; p. 42; 'United Kingdom Balance of Payments: 1997'; London; 1997; p. 43).

In other words, the export of capital had given way to the import of capital;

"Capital is now flowing out of the Third World, mainly to service debt, on an increasing scale".
(Teresa Hayter: Exploited Earth: Britain's Aid and the Environment (hereafter listed as 'Teresa Hayter (1989a)'; London; 1989; p. 10). Cited, *Bland W.B. British neo-imperialism; 30 January 2001;* for, '*The Marxist-Leninist Research Bureau' Report 3. At: http://www.oneparty.co.uk/index.html?http%3A//www.oneparty.co.uk/html/what2001.html*

The second major change in imperialist functioning that Bland drew attention to, was '**de-industrialisation**". This is now termed "**outsourcing**", which is essentially synonymous. He identified that imperialist countries were moving industry from the metropolitan countries to the ex-colonial neo-colonies. Again, Bland:

"The Development of Export Platforms

Up to approximately the 1970s, the 'development' of under-developed countries, which was said to be the aim of 'aid' programmes, was directed towards development of infra-structures which would facilitate their colonial-type exploitation - e.g., the building of roads, port facilities and railways. Industrialistion which would run counter to this programme was discouraged. The Chinese-born British researcher Teresa Hayter writes:

"Industrialisation in the dependent areas has been, at least until recently, systematically discouraged by the industrialised countries and their agencies".
(Teresa Hayter (1982): op. cit.; p. 96).

The metropolitan powers

" . . . continued to ensure that industrialisation, which might compete with their industries and deprive them of markets, did not take place".
(Teresa Hayter (1982): ibid: p. 96).

The governments of under-developed countries were strongly advised

" . . . to the effect that they should concentrate on what they are be good at: the production of raw materials and primary supposed to commodities".
(Teresa Hayter (1982): ibid.; p. 96).

and imperialist policy in general was to

" . . . import cheaper labour into Europe from the Mediterranean, the Caribbean and Asia, and into the United States from Mexico."
(Teresa Hayter (1982): ibid.; p. 98).

However, since the 1960s in particular,

" . . . a new category of country, the NICs, or Newly Industrialising Countries"
(Teresa Hayter (1982).' ibid.; p. 97).

has emerged.

Companies which operate in more than one country are often called multinational companies. However, this term

" . . . suggests a degree of internationalisation of management, to say nothing of stock ownership, which is not accurate".
(Richard J. Barnet & Ronald F. Muller: 'Global Reach: The Power of the Multinational Corporations'; London; 1975; p. 17).

For example,

" . . . a study of the 1,851 top managers of the leading US companies with large overseas payrolls and foreign sales, . , reveals that only 1.6% of these high-level executives were non-Americans".
(Richard J. Barnet & Ronald F. Muller: ibid.; p. 17).

A more correct term is, therefore, transnational companies. the term 'trans-' being a prefix

" . . . with the sense of 'across, through'"
('Oxford English Dictionary', Volume 18; Oxford; 1989; p. 385).

In recent years, trans-national companies

" . . . have become interested in locating the more labour-intensive parts of their manufacturing processes in under-developed countries in order to take advantage of the extreme cheapness of labour there".
(Teresa Hayter (1982): op. cit.; p. 98).

Thus, for example,

" . . . the annual growth rate of industrial exports between 1960 and 1971 was 30% for Brazil, 18% for Hong Kong, 21% for Mexico, 60% for South Korea and 35% for Taiwan".
(Teresa Hayter (1982): ibid.; p. 98).

There are additional advantages for these trans-national companies in this process, which is known as establishing

" . . . 'export-platform' investments in cheap-labour countries".
(Mark Casson: Introduction to: 'Multinationals and World Trade: Vertical Integration and the Division of Labour in World Industries; London; 1986; p. 3).

these advantages including

" . . . less strict controls on pollution levels, fewer safety regulations, longer hours worked, better 'labour discipline' or in other words, more repression and, above all, less protection for the workers from trade unions"
(Teresa Hayter (1982): op. cit.; p. 99).

In other words, imperialist countries have increasingly opted

" . . . for the labour of the peoples of under-developed countries to be used overseas. . . . Some of the textile products which were previously made mainly by Asians in sweat shops in Bradford are now being imported directly from India, Hong Kong, Singapore and other Asian countries."
(Teresa Hayter (1982): ibid.; p. 98).

At first, the trans-national company may have purely contractual arrangements with firms in the developing country, but this tends to give way to the purchase of an interest in the contracting company, so that contractual relations

" . . . are co-ordinated through managerial control in an internal market".
(Mack Casson: op. cit.; p. 104).

This process is known as

" . . . vertical integration".
(Mark Casson: ibid.; p. 11).

A more comprehensive analysis of current left authors on imperialism, will need to deal with some issues raised at greater length. But here it is appropriate to end this with a summary graph - again drawn from *Krippner* - showing that the amounts of foreign source portfolio incomes as opposed to domestic portfolios incomes - for non-financial firms - has risen dramatically between 1978 and 1999. (figure 9

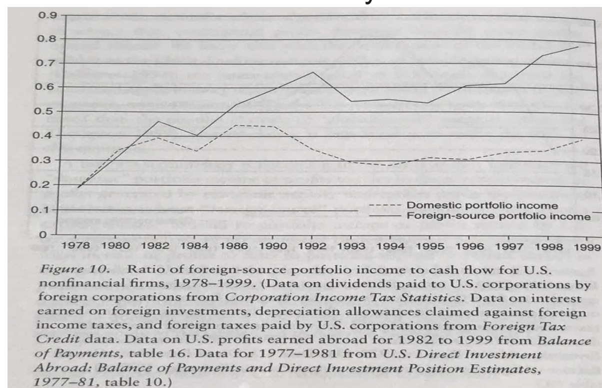


Figure 10. Ratio of foreign-source portfolio income to cash flow for U.S. nonfinancial firms, 1978–1999. (Data on dividends paid to U.S. corporations by foreign corporations from *Corporation Income Tax Statistics*. Data on interest earned on foreign investments, depreciation allowances claimed against foreign income taxes, and foreign taxes paid by U.S. corporations from *Foreign Tax Credit* data. Data on U.S. profits earned abroad for 1982 to 1999 from *Balance of Payments*, table 16. Data for 1977–1981 from *U.S. Direct Investment Abroad: Balance of Payments and Direct Investment Position Estimates, 1977–81*, table 10.)

Figure 9: RATIO OF FOREIGN SOURCE PROTFOLIO INCOME TO DOMESTIC PORTFOLIO INCOME FOR USA NON-FINANCIAL FIRMS 1978-1999. *Krippner GR;Ibid*

Summary Dollar hegemony had succeeded in ensuring the USA hegemony both financially and militarily. Moreover, it had also led to the start of a 'financialization' of the world economy. The massive trades in new financial instruments (*see Alliance 1992*) were driven by profit seeking in fictitious capital on an unprecedented scale. At the same time, metropolitan countries were experiencing a de-industrialisation and a reversal in the direction of flow of capital – into capital imports into the Metropolitan countries. This was exacerbated by the manipulation of the Federal Reserve Interest rate mechanism, which further enticed world money to flow into the USA on the basis of a higher profit rate, for tis international owners. Cumulatively, all these processes led up to the financial crisis of 2008.

5. The phase after Friedmanite monetarism, financial capitalists rampant on fictitious capital.

Two technical developments in particular, fueled the complete and independent take-over by financiers of the economies of the West especially. Using these new developments, they were able to make money without the need to ally themselves with the industrialists. Naturally, industrial production then became of less immediate, profit-making interest. Instead financiers focused on the so-called **Finance, Insurance and**

Real-Estate (FIRE) economic sectors. These two new developments were, firstly: new financial instruments creating new instruments and forms of money; and computerised technology implemented in trading. These together, rapidly accelerated the circulation of the amount of money.

We briefly describe these new developments, and their role in the staggering wealth creation of the financial capitalist class. The terminology is confusing, and sometimes becomes a deterrent to understand what has been happening. We try to define and simplify some key terms.

i) Increased circulation of the money supply resulting from new forms of money and credit - Five principles underlying the new financial instruments
Money forms have now grown well beyond the old forms, and include many new creations. The old paper money, was already rare in the world of finance before 1980. It was largely unseen and yet was traded at fixed interest rates. But new forms have accelerated in a bewildering variety. For example, even simple 'fixed' interest rates were superseded, for example, by the **London Interbank Offered Rate (LIBOR)** which allows fluctuating interest rates. Moreover, many new instruments, that effectively outgrew, the old simple paper money, gold and asset-based economy.

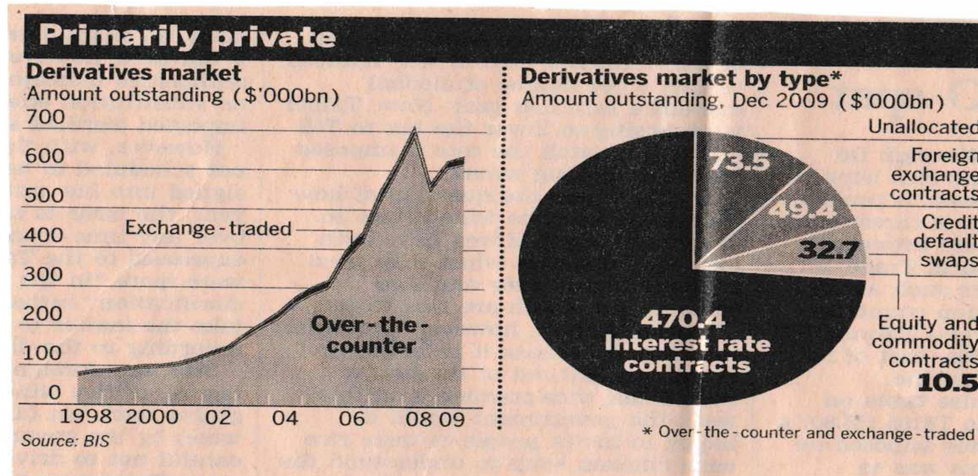
These new financial instruments included: **Floating-rate notes (FNR)** which allow a variable interest rate dependent upon the market**; Certificates of Deposit (CDs)** issued by most banks; **Revolving Underwriting Facility (RUF)** which "allow a company medium term funds at short term rates through the issuance of commercial paper"; (*Hamilton Ibid. p. 66 Ibid*) etc. This piece will not address crypto-currency, as this has not yet become a preferred form.

In addition to these are a bewildering number of means by which one can trade on **"futures"** or "**options**" for the future. This in effect means buying shares whose profit is based on what the prices will be for the commodities (including money) at a defined tine in the future. These are all generically, a form of **derivatives**. The first derivatives market was actually established in 1849, for trading agricultural commodities in Chicago. In this way, wheat farmers for example, anticipating a good crop - could "**hedge**" against a fall in price due to an abundant supply - by locking in their selling price for a 'future'. Who would buy such an 'insurance for the farmer? The speculator, who hoped that actually the farmer would have a bad crop. It was much later - after the 1970s, that derivative trading took off. In essence, derivatives operate as bets on the future pricing of stocks or assets of any form:

> "A derivative as the name implies, on the most basic level, nothing more than a contract whose value derives from some other asset, such as a bond, a stock, or a quantity of gold. Key to derivatives is that those who buy and sell them are each making a bet on the future value of that asset. Derivatives provide a way for investors to protect themselves - for example against a possible negative future price swing - or to make high-stakes bets on price swings for what might be huge payoffs. At the heart of the business is a dance with time":
> *Tett, Gillian; "Fool's Gold"; New York; 2008; p. 9*

It held the promise of large profits, so unsurprisingly, the market share of these types of investments rocketed up. **Figure 10:** below, shows the rapid of derivative markets from 1998 onwards to 2009. *(Financial Times, p. 5. Aline van Duyn; August 12, 2010.*

Figure 10



These several new money-forms-instruments, usually chop up varying risks for the investor (i.e. the *rentier*). The profusion of techniques used creates a host of confusing terms. As an editor at the *'Financial Times*', Gillian Tett is well placed to judge why it is that the terminology of banking and financiers is so *'opaque'*:

> "When bankers talk about derivatives, they delight in swathing the concept in complex jargon. That complexity makes the world of derivatives opaque, which serves bankers' interests just fine. Opacity reduces scrutiny and confers power on the few with the ability to pierce the veil." *Tett, Gillian; Ibid; p. 9*

Perhaps the functioning of these new financial instruments can be reduced to a few operating principles. We submit there are essentially **five principles** that these financial instruments share.

1. Anything can be 'securitized', or 'monetized', or 'financialized' mortgages - the failure of the Savings and Loans industry and the start of sub-prime loans

Firstly, and probably most importantly **- any** part of commercial life can be (and is) **'securitized'** - meaning converted into a **bond** that can be sold. A bond is defined as a:

> "Fixed income investment in which an investor loans money to an entity (typically corporate or governmental) which borrows the funds for a defined period of time at a variable or fixed interest rate. Bonds are used by companies, municipalities, states and sovereign governments to raise money and finance a variety of projects and activities. Owners of bonds are debtholders, or creditors, of the issuer.... When companies or other entities need to raise money to finance new projects, maintain ongoing operations, or refinance existing debts, they may issue bonds directly to investors instead of obtaining loans from a bank. The indebted entity (issuer) issues a bond that contractually states the interest rate that will be paid and the time at which the loaned funds (bond principal) must be returned (maturity date). The interest rate, called the coupon rate or payment, is the return that bondholders earn for loaning their funds to the issuer."
> *Investopedia: at https://www.investopedia.com/terms/b/bond.asp*

This phenomenon started in the 1990s. It applies to mortgages for homes, cars, health insurance - anything - can be monetized. The most important component of these to understand in relation to the 2008 crash, is **mortgages**.

The real estate market in the North America accounted for about 20% of the total residential value of real estate in the world, and it tended to be more debt-laden (loan to value ratios were 64% in the USA, 59% in Europe and 53% in Asia).
https://www.savills.co.uk/research_articles/229130/198683-0 Accessed 4 September 2018).
By 2008 at the financial crisis, 70% of American households owned their own home - or 80 million households in total. By 2007, the amount spent on real estate by Americans was 15% of the world's real estate output (*Tooze, Adam: Crashed. How a decade of financial crises changed the world. New York 2018; p. 43).* This huge market amounted to some $6.5 trillion to the world economy (tooze Ibid).

We discussed the **Savings and Loans (S&L)** and thrift industry in the last section. During the post-WWII period, housing in the USA had been largely run S&L commercial banks and local banks. They offered 30 year fixed interest loans, and relatively little in the way of down-payment. But in the pre-Volker Shock period, the rampant inflation eroded the value of these, from the perspective of the S&L or thrifts. Then the cost of the 20% hike in interest rates by Volcker, was damaging to the thrifts. These small banks became insolvent by the 1980s. With Carter, and then with Reagan, as discussed before, capital regulations for banks were removed. While the commercial banks therefore had adequate reserves to ride out the high interest period, about a thousand of the S&L companies folded. Increasingly many resorted to high risk loans, which collapsed. Ultimately, many were bailed out by the USA government, who simply charged 'tax-payers'. Of course, this burden was borne by the working class. The Center for Economic & Policy Research details this process:

> "The thrift industry was already in distress by the end of the 70s. Savings and loan associations specialized in taking in deposits in the short-term and making mortgage loans in the long-term. This type of asset-liability mismatch made thrifts especially vulnerable to the costs of high interest rates. With high inflation and competitive pressure for deposits pushing up the interest rates they had to pay, most thrift institutions reported large losses in the early 1980s. Net worth of the entire industry approached zero, falling from 5.3 percent of assets in 1980 to 0.5 percent in 1982. Institutions failed at a regular pace as a result of this pressure, but no large-scale action was taken for a variety of reasons.
> For one, the industry's deposit insurance fund, the **Federal Savings and Loan Insurance Corporation** (**FSLIC**), was ill equipped to deal with the prospect of widespread insolvency...
> The problems of the thrift industry had spread beyond the reach of its deposit insurance scheme, making early intervention problematic... In 1981, the Federal Home Loan Bank Board (FHLBB), the federal oversight body for the thrift industry, had approved more lax accounting standards than generally accepted, allowing thrifts to spread out recognition of losses over a ten-year period. At a time when "Reagonomics" dominated the public consciousness, regulators were urged to avoid intervention...
> In a deregulated industry with poor supervision, the competition for deposits could spiral out of control. Some institutions attracted capital by offering large brokered deposits at above-market rates of return. Between the years of 1982 and 1985, deposits flowed in and the savings and loan industry underwent a

> rapid expansion. Investors saw potential for profit in the new investment powers granted to thrifts, and invested in condominiums and other commercial real estate. This meant that the investment portfolios of savings and loan associations shifted away from traditional home mortgage loans into **higher-risk loans**. From 1981 to 1986, the percent of savings and loan assets in home mortgage loans decreased from 78 percent to 56 percent.
> In the mid-1980s, the boom in real estate went bust. A contributing factor was the passage of the Tax Reform Act of 1986. Reagan's tax cuts eliminated many of the tax shelters that had made real estate an attractive investment in the first place, and deposits fled from the thrifts. As hundreds of institutions failed, the Federal Savings and Loan Insurance Corporation (FSLIC) fund was overrun with claims. In 1987, the Government Accountability Office (GAO) declared the fund was insolvent by at least $3.8 billion. Congress responded with legislation that recapitalized the fund with $10.8 billion over the next year. However, troubled institutions continued to fail over that time, and more drastic action was required. In 1989, a newly-elected President Bush signed into law a bailout plan for the savings and loan industry. ....the federal government resolved the failure of 1,043 savings and loan institutions with total assets of $874 billion (in 2009 dollars). The total thrift industry declined from 3,234 to 1,645 institutions, a decrease of almost 50 percent. After all the dust had settled, the savings and loan crisis was estimated to cost taxpayers around $210 billion, with the thrift industry itself providing another $50 billion."
> The savings and loan crisis of the 1980s was undoubtedly a failure of public policy. Financial deregulation transformed the character of the thrift industry. Institutions entered markets in which they had little experience, and a vulnerable industry expanded beyond the reach of its federal safety net. Supervision and oversight activities proved to be insufficient, and early intervention was avoided in the name of regulatory forbearance."
> *Matthew Sherman; A Short History of Financial Deregulation in the USA"; CEPR; 2009; Ibid.*

Apart from the S&L industry, another source for funding of homes for many working people were the agencies named **Government Sponsored Enterprises** (**GSE**). In 1938, GSEs for housing had been started in the 'New Deal'. The first to be set up was **Fannie Mae**. It was meant to assist lenders to sell New Deal government mortgages. Fannie Mae did not issue mortgages, buying them instead from commercial banks. Since Fannie Mae was government owned, it could purchase these more cheaply. The perception being that it was government backed, and thus of good credit status. A privatized off-shoot of the government agency, **Ginnie Mae**, was formed in 1968. In 1970, **Freddie Mac** was also started, to further assist cheaper mortgages. But in the Volcker shock of high interest rates, the GSE companies were able to get through, because of government discounted funds. They had about 50% of the national mortgage market by 2000, but the vast majority of these were 'conforming' loans, made to individuals who passed standard credit checks, and had a reliable income.

In 1970, Ginnie Mae created the first **securitized mortgages**. This operated simply as a 'pass-through'. It was rapidly emulated by private investment companies:

> "Under which flows of revenue from a pool of mortgages were passed by way of the GSE to investors. Not satisfied that this should remain a public monopoly, Lewis Ranieri and his team at hard driving Salomon Brothers put together the first private securitization of mortgages for bank of America in 1977.":

Tooze, Adam: Crashed.Ibid; p. 48.

Recall that before the 1980s, interest rates had been relatively low. So those issuing mortgages, did not get very high returns. But, as we saw, interest rates were boosted by Friedman-ite governments, in order to protect the financiers, after 1980. At that moment, GSE's – Fannie Mae etc – joined forces with the investment companies, starting with Salomon Brothers, to make more complex mortgages:

> "The mortgage lender stranded with portfolios of low-interest mortgages turned to the market.. the GSEs, working with the investment banks, created not just pass-through **Mortgage Backed Securities (MBS)** but so called **Collateralised Mortgage Obligations (CMOs),** that allowed a pool of MBS to be tranched into separate risk tier profiles. This was the origin of so-called structured finance":
> *Tooze; Ibid; p. 49.*

As this occurred, loans started to move away from previously 'conforming loans' and secure ones, to more risky **'sub-prime'** loans. At the same time, everything and anything became 'securitized':

> "The floodgates were opened. So long as you did the gritty, credit-by-credit documentation work with the rating agencies, you could securitize anything. Companies started selling **asset-based securities (ABS)** to finance equipment, transportation fleets or anything else investors could value... Investment banks created **collateralized bond obligations (CDO)**... (which) become the generic name for all types of securitized assess including mortgages".
> *Morris Charles R. "The Trillion dollar meltdown. easy money, high rollers and the great credit crash;"; New York; 2008; p. 74.*

The **Grading Agencies** like Moody's, Standard & Poor, and Fitch - controlled 80% of the world debt-rating business. In debt-rating, agencies are supposed to grade debts and loans and shares, and ultimately those issuing them. The grades assess their degree of risk to default. But the rating agencies were, and are, not independent guarantors of safety and low-risk investment. In an incestuous market, they feed in the same frenzy (Morris Ibid p.77). While supposed to be independent and objectively 'true', this is far from accurate. Even without this conflict, frequently there were in no position to estimate true risk in any case:

> "The rating agencies (claimed to be -Ed) "transparent"... (But) Precisely because the agencies had diligently posted the details about details about how their models worked... bankers found it easy to comb through the models looking for loopholes to exploit. In banking circles, the game was known to as "rating arbitrage"... the rating agencies... were careful not to offend the banks too deeply. When an agency gave a rating to a CDO, it sometimes commanded a fee of $100,000 per shot, or even several times that level. Moreover, the business was growing so fast... that by 2005, Moody's was drawing almost half of its revenues from the structured finance sector... another pernicious problem... the agencies faced the same vexing issue... How could the default patterns be modelled? There was so little good data to work with... the historical data was limited." *Tett Ibid; p. 101.*

> "The trickiest issue of all was working out the level of "correlations"

> - figuring out how likely it was that one default could trigger others. Different modelers had alternative ways of dealing with that problem, partly because they often selected different pools of data to work from. "The purest information to sue is data on [historic] defaults, but the sample is just too small," Gareth Levington a London based managing director at Moody's explained". *Tett Ibid p. 101.*
>
> "The sheer volume of mortgage-backed security issuance, involving tens of thousands of tranches combined with the fact that the flow was concentrated in the hands of a few issuers, gave the ratings agencies a significant inventive to be "helpful".
> *Tooze, Adam, 'Crashed. How a decade of financial crises changed the world'. New York 2018; p. 49-50.*

'Tranches' were buckets of differing securities of different risks of defaulting. The highest level of risk securities – loans - were called 'junior'. The middle level were called 'mezzanine' and the lowest risk - but correspondingly lowest return were called "senior" or "super-senior". Most likely the senior – top rated AAA bonds, securities or loans – would be repaid.

Previously mortgages had been financed by the GSEs and banks, by issuing bonds. But now the banks and GSE's together, sold the mortgages (and thus the monetary obligations of the lender trying to buy a house) directly to investors. They did that by forming pools of mortgages that were sold together as shares, i.e. as securities. Since these were large pools, the characteristics of each individual mortgage (in other words - how likely was it the lender would actually pay back the mortgage loan?) was diluted.

To the rentier holding the security, now they could buy mortgages across the country - subject only to the fluctuating interest rates. A "standardized mathematical formula" for a pool of mortgages was applied to the pool. The securities and the issuing company, were rated by the Agencies. The process depends upon assumptions about the default rates in a pool:

> "The rating agencies did not have to calculated the risks of default on the basis of more or less subjective evaluation of a company's business prospects. Nor did they have to render a judgment on a country's fiscal policy. Instead they could apply standardized financial mathematics to a population of mortgages that were assumed to have known statistical properties. If you knew default rates and could make assumptions about the degree of correction between them, once you assembled enough mortgages and tranched them, the likelihood of the top tranches not paying was infinitesimal. Tens of thousands of asset-based securities w thus qualified for ultra-safe AAA ratings"... *Tooze Ibid; p. 50.*

Such tranches, were created specifically to 'spread' risk. This strategy of 'tranching' is discussed further below. They are linked to the term junk bonds. "**Junk Bonds**" - are by their nature, very risky investments (they are 'high-yield) - because they are not judged 'secure' by rating agencies who grade them on the basis of likelihood of eventual default (where the borrower cannot repay the loan). They are therefore judged at a high risk of default - being below AAA grades:

> "A junk bond refers to high-yield or noninvestment-grade bonds. Junk bonds are fixed-income instruments that carry a credit rating of BB or lower by Standard &

> Poor's, or Ba or below by Moody's Investors Service. Junk bonds are so called because of their higher default risk in relation to investment-grade bonds."
> *https://www.investopedia.com/terms/j/junkbond.asp*

Clearly, these **collateralized bond obligations (**CDOs) are complex, but they could be made increasingly complex. Even **Alan Greenspan**, - Chairman of the USA Federal (1987-2006) Reserve would say in 2009:

> "I've got some fairly heavy background in mathematics, but some of the complexities of some of the instruments that were going into CDOs bewilders me. I didn't understand what they were doing or how they actually got the types of returns out of the mezzanines and the various tranches of the CDS that they did. And I figured, if I didn't understand it and I had access to a couple of hundred PhDs, how the rest of the worked is going to understand it sort of bewilders me": *Cited Sorkin, Andrew Ross; "Too Big to Fail. The inside story of how Wall Street & Washington fought to save the financial system and themselves"; New York; 2009; p. 90.*

The instruments were constructed by mathematical back-room 'quants'. These simply devised 'mathematical models'. But such models are very far from the real world. So much so, that at the end of the day it was not at all clear *whose*, or *what*, or indeed *if there were* any true assets – that were ultimately backing a deal:

> "CDO managers often freely mix instrument types, so any bond might be backed by a grab bag of subordinated claims on a mélange or risky assets. Leverage is compounded further by squared CDOs or "CDO^2"s or CDOs or CDOs. You collect the risky tranches of a number of CDOs which can sometimes be hardest to place, and use them with a range of high-to-low risk-rated tranches. Highly rated bonds magically materialize out of a witch's soup of very smoky stuff. There is even a smattering of CDO^{3}s out there, or CDOs built from the leftover tranches built on extremely rickety foundations. Very big, very complex, very opaque structures built on extremely rickety foundations are a recipe for collapse": *Morris Ibid p. 79.*

Mortgage portfolios were made into structured bonds called **Collateralized Mortgage Obligations (CMOs).** Again, all these were 'tiered' or 'tranched' by risk strata. The highest 'high-yield, high-risk', or 'junk bonds' were the most profitable. The rest were granted a high-investment grade by the Grading Agencies, as AAA grading. These CMOs started out in residential properties but rapidly were extended into the commercial property market.

Mortgages for homes, became a fertile field for speculators, especially after 2000. So much so, that they rapidly formed a "**bubble**", where frenzied speculation drives pries higher and higher, out of proportion to any real value. However, powers in the banking industry refused to call it a bubble. Including **Benjamin Beranke**, the Chairman of the President's Council of Economic Advisers in 2005 - later to become **Chairman of the Federal Reserve**, the central bank of the United States, from 2006 to 2014:

> "Ben Bernanke... said, "House prices have risen nearly 25 % over the past 2 years. Although speculative activity has increased in some areas, at a national level, these prices increases largely reflect strong economics fundamental, including robust growth in jobs and incomes, low mortgage rates, steady rates of

> house-hold formation, and factors that limit the expansion of housing supply in some areas". *Tett G; Ibid; p. 122.*

But in reality, it was a bubble, a speculators frenzy. Into this borrowers were enticed into tantalizing - but mirage-like "deals". Added to this was the unscrupulous nature of the financiers who flogged these 'deals' to the poorest sections of the working class. The houses so bought were highly 'leveraged' - or debt-laden:

> "The 2000s real estate bubble (was) conjured into the world solely by financiers, which is confirmed by the fact that housing bubbles also occurred in the UK, Australia, Spain, and other countries where residential lending become unusually loose. Since houses are so leveraged, their prices are hypersensitive to changes in interest rates. As long-term rates trended steadily downward in the second half of the 1990s, the big banks plunged headlong into the re-financing, or 'refi', business... Banks mounted lavish advertising campaigns... "negative amortizations" were loans with initial payments that didn't cover interest, but the unpaid interest was added to the principal at killer rates. Gross overcharges for fees and brokerage were (charged)... Borrowers thought that monthly payments were smaller and quickly defaulted on insurance and tax payments. " *Morris CR; Ibid p. 70.*

In greed to get their fees and salaries, housing brokers enticed 'sub-prime' borrowers to enter the bubble market, or even to give up their older mortgages to apparently cash in at newer lower rates. But this lower rate charge was only temporary. Poor sections of the population, and especially African-Americans - often denied the old-fashioned mortgages as they had no steady income stream, were especially targeted by sharks:

> "Back in the 1990s, when brokers made loans to subprime borrowers, they conducted checks to ensure that borrowers would be able to pay off their loans. However, during the boom, lenders had become a great deal less fussy about demanding that borrowers proves they had the income to repay loans. However, during the boom, lenders had become a good deal less fussy about demanding that borrowers proves they had the income to repay loans. They had even started offering "teaser" loans with fantastically low initial rates... that rose in stages to be quite high, well over 10%". *Tett Ibid p. 123*.

It was such developments and speculation that was to lead to the so-called **sub-prime crash of 2008.** Mortgages had become a large source of trading, and potential **'equity'** (Defined as "In real estate, the difference between the property's current fair market value and the amount the owner still owes on the mortgage. It is the amount that the owner would receive after selling a property and paying any loans. Also referred to as "real property value."
(https://www.investopedia.com/terms/e/equity.asp))
Speculators saw an opportunity. After all, the vendors of these sub-prime mortgages, could then feed packages of mortgages into pools to be tranched, and risky mortgages were re-packaged and sold off as a speculative high-risk bond:

> "In New York City in 2005 and 2006, black "affinity" managers fanned out throughout the poorer areas, targeting homeowners with substantial equity in their homes... (told) they are overpaying. (and later) discovered that the interest

> rate would quickly escalate to as high as 9.95%... and it's not just the poor, A surprising number of subprimes went to affluent people who were stretching for bubble-priced homes or second homes that they will not be able to afford if the economy turns down... delinquencies have been rising rapidly. Widespread foreclosures and vacancies can have devastating effects on poorer neighborhoods...": *Morris CR Ibid; pp70-2*

By 2007:

> "The rate of default on subprime mortgages had been running at around 13%, by September it was 16 % and rising. .. It was difficult to predict how much higher the rate might go on." *Tett Ibid p. 192*

2. Protection by betting on futures - requires a speculative buyer.
As anything could be monetized, even less stable or 'secure' investments were traded upon. But as described above, these entailed risks of defaults and loss of money to the loaner, or creditor. So many of the new instruments try to protect against future risks of unpredictable market swings. But to sell such an instrument (by the creditor), obviously requires a buyer. In the world of the casino economy of modern day capitalism, this has not been a problem. Since the derivatives also appealed to those willing to lock into high-risks, as they were expecting correspondingly high profits:

> "The post WWII Bretton Woods system of credit and exchange controls... broke down, and the values of foreign currencies which had been pegged to the dollar, became free floating. That led to unpredictable swings in exchange rates.. inflation peaked at 13.2% in 1981... the prime rate (i.e. the interest rate-Editor) rose to a high of 20% in June 1981... Historically the best way to insulate against such volatility was to buy a diversified pool of assets. If for example, a company with business in both the USA and Germany were concerned about swings in the dollar-to-deutsche mark rate, it could protect itself by holding equal quantities of both currencies... An innovative way to was to buy derivatives offering clients the right to purchase currencies at specific exchange rates in the future. Interest-rate futures and options burst onto the scene, allowing investors and bankers to gamble on the level of rates in the future." *Tett Ibid p. 10-11*.

The speculative buyer was encouraged by an industry of arbitrageurs - sellers of financial instruments. These included firms such as **Drexel Burnham Lambert**. These traders included **Michael Milken**, later convicted of fraud, and racketeering in 1989. (Note that despite this, by 2010, Forbes magazine still listed him at Number 488 of the world's billionaires, at an estimated worth of $ 2 billion.
https://www.forbes.com/lists/2010/10/billionaires-2010_Michael-Milken_SSM6.html)
Milken's legacy, was to spur the investment banking industry into pursuit of 'junk bonds'. The "gospel" he preached was:

> "That in a diversified portfolio of high-yield bands, otherwise known as "junk' bonds, the reward outweighs the risk. This was a "proven theory" (editors scare quotes).. by academician Braddock Hickman."
> *Bruck, Connie "The Predator's Ball. The inside story of Drexel Burnham and the rise of the junk bond raiders"; New York; 1988; p. 11.*

Well as Marx showed, you can find an 'academic' to prove most things... But one

underlying principle of Milken's was true. This was that for every seller of a financial instrument - there must be, and usually is nowadays a speculative buyer, allows trading of instruments called "**swaps**" and "**synthetics**". This functions as follows:

> "In these deals, investment banks would find two parties with complementary needs in the financial markets and would broker an exchange between them to the benefit of both, earning the banks large fees. Say for example, 2 home owners each have a $500,000.00 10-year mortgage, but one has a floating-rate deal while the other has a fixed-rate at 8%. If the owner with the fixed rate thinks that rates are going to start going down, while the other owner thinks they are likely to go up, then rather than each trying to get a new loan, they could agree that each quarter, during the life of their mortgages, they will swap their payments. The actual mortgage loans don't change hands, they stay on the original banks' books, making the deal what the bankers call "synthetic".
> *Tett Ibid; p. 11.*

These trades are not just performed by buccaneer speculators, and no one else. ‘respectable’ agencies do so also. In fact, the World Bank first pioneered swapping of bond earnings and obligations to bondholders with IBM, without physically moving any bonds. This took place in 1981 - a deal brokered by Salomon Brothers in Wall Street, and was the first currency swap. It was worth $210 million for ten years.

3. Using insurance in deals that could go wrong
But as deals became riskier, necessary protection against risk itself found a new market. Bankers and financiers now often offer an insurance 'cover' against losses on a set of bonds purchased by an investor (rentier). This not only enabled rentiers to increase their global cross-border investments, but also spurred outrageous speculative risks. The instrument that enabled this was the **Credit Default Swap (CDS).** Its operation is shown as follows:

> "If US bank decides it is under-exposed to credits in the South East Asia. The old way to fix that was to buy some Asian bank branches or partner with a local bank. A CDS short-circuits the process. For a fee, US Bank will guarantee against any losses on a loan portfolio held by Asian Bank, and will receive the interest and fee on those loans. Asia Bank will continue to service the loans, so that its local customers will see no change, but Asia Bank, in Wall Street jargon, will have purchased insurance for its risk portfolio, freeing up regulator capital for business expansion... they made it easy for a bank to diversify its geographic risk."
> *Morris Charles R; Ibid; p. 75.*

The growth of these portfolios was immense, from $1 trillion in 2001 to $45 trillion by mid-2007 (Morris; ibid; p. 75). A key company holding such insurances was **American International Group, Inc.**, (**AIG). This** American multinational:

> "serves 87% of the Fortune Global 500 and 83% of the Forbes 2000. AIG was ranked 60th on the 2017 Fortune 500 list. According to the 2016 Forbes Global 2000 list, AIG is the 87th largest public company in the world. On December 31, 2017, AIG had $65.2 billion in shareholder equity".
> *(https://en.wikipedia.org/wiki/American_International_Group; accessed 4 September 2018).*

This firm 'covered' many investment banks and the originators of risky bonds and securities. When its solvency was in doubt therefore, its role became pivotal to the events of the Crash of 2008, as we describe later.

4. Offering bundles of bonds separated into risk gradients
We discussed tranches above. This principle pervaded all the securitised instruments, including as we saw, mortgages. The investment companies, wanted to ensure an appeal to two types of customers. Firstly, those investors who want to gamble heavily and reap the highest monetary reward in exchange; while also 'snagging' the risk-averse investor who just wants a safe steady return. To achieve this, bundles of shares began to be split up into high risk and low risk, with appropriate rewards attached.

This chopping up of risks, became highly refined, and was for stocks, bonds and mortgages:

> "**Collateralized bond obligations (CDO)** are a form of asset-backed securities. They are typically created by bundling together a portfolio of fixed-income debt (such as bonds) and using those assets to back the issuance of notes. Such notes carry varying levels of risk. Cash CDOs are created from tangible bonds, bonds, or other debt: synthetic CDSs are credited from credit derivatives".;
> *Tett, Gillian; Ibid; p. 276;*
>
> **Collateralized Mortgage obligations (CMO)..** were invented in 1983... mortgages were transferred to a trust.. but then mortgages were sliced, or tranched, horizontally into three segments, with different bonds for each segment. The trick was the top-tier bonds, which represented 70% of the value sold, had first claim on all cash flows... top tier bonds got triple-A, supersafe ratings and paid commensurately low yields. The second tranche included the next 20% and sold at a somewhat higher yield, while the third tranche covering the last 10%, was the first to absorb all losses".
> *Morris, CR; Ibid; p.40*
>
> "In 1980, 67% of American mortgages had been held directly on the balance sheets of depository banks, By the end of the 1990s, the risks involved in America's system of long-term, fixed interest, easy repayment mortgages were securitized and spread across a much wider segment of the financial system than had been the case in 1979, the GSEs held them. Banks held them. But so too did pension and insurance funds." *Tooze Ibid; p. 50.*

Assembling these packages into saleable items, was a key aspect of 'insurance'. So the big shark firms of financiers and bankers, would purchase investments, but then try to minimise their own exposure by passing parts of it on as a new sale. For example, J.P. Morgan:

> "Bankers from J.P.Morgan.. were pitching a new kind of credit derivative product called the Broad Index Secure TRust Offering - an unwieldy name... with a more felicitous acronym BISTRO. With banks .. taking hits from the Asian financial crisis, J.P.Morgan was looking (to) reduce its risk form bad loans. With BISTROs, a bank took a basket of hundreds of corporate loans on its books, calculated a risk of the loans defaulting, and then tried to minimise its exposure by creating a

> special-purpose vehicles (i.e. financial instrument) and selling slices of it to investors. It was a seamless if ominous strategy. These bond-like investments were called insurance: J.P.Morgan was protected the risk of the loans going bad, and investors were paid premiums for taking the risk":
> *Sorkin, Andrew Ross, "Too Big To Fail"; New York 2009; p. 157.*

Another way to, supposedly, protect banks undertaking risks, was to set up shell companies. These shell would then do the trading. These shells, or **Structured Investment Vehicles (SIVs**), would hold mortgages, but not directly under the Bank's name. Onto these:

> "The parent bank would offload a large portfolio of mortgage bonds, securitized car loans, credit card debt, student debt. The SIV would pay the parent bank for the securities with funds raised by issuing **Asset-Based Commercial Paper** (**ABCP**). These were three month notes backed by the assets in the SIV and the good name of the parent bank. Though the SIV had no track record, it could issue the commercial paper at competitive rates because of the value of the securities it held and because it was assumed that it enjoyed the backing of the sponsoring banks. Remarkably…. assets parked off balance sheet in the SIV could be backed by a fraction that would be required if were on balance sheet. Inflating the balance sheet was risky nut it raised rates of return of capital. Further profits could be made by trading on the spread between long-term returns and short-term funding costs". *Tooze Ibid; p. 60-61.*

The catch for all these financial games, was two-fold. First they could not always accurately estimate the degree of risk entailed - it relied on correlations and mathematical modelling. And, secondly, even with the speculative hunger of greedy investors, they could not always sell the highest risk securities. It is also true that the same time, they did not get too fretted if they could not sell. After all, they reasoned, they could make the profits themselves. So the companies just hung onto these 'wealth creating' instruments:

> "Why did the securities end up holding their own product? In part it was a matter of the production system itself. ... The less attractive tranches needed to be held off the market. Furthermore, the banks operating the pipeline believed their own business proposition, Holding Mortgage Based Securities (MBS) was very profitable... Why not get rich too?" *Tooze Ibid p. 59.*

5. Use of debt to engage in new speculations – 'leveraging'

The vast stores of monies owned by various institutions is not enough to ensure the top levels of wealth. We noted that Marx pointed out the difference between 'productive' wealth and 'idle' monies. The arbitragers and titans of modern finance are well aware of this. They have increasingly used, "**leverage**". This is the practice of taking a loan in order to finance a purchase (for example of bonds or stocks).

This is quite different from **equity financing** (the process of raising capital through the sale of shares in an enterprise). The stock-trader, hedge fund manager - or whoever - gambles that it can be repaid, but only after the trader has made a profit out of that transaction. Of course this encourages gambles:

> "Most of these deals also involved a concept that is central to the financialization world, known as "*leverage*". This essentially refers to the process of using investment techniques to dramatically magnify the force or direction of a market trend... the word can be used in two ways in relation to derivatives. Sometimes investors employ large quantities of debt to increase their investment bets. ... However, the economic structure of derivatives deals can also sometimes leave investors very sensitive to price swings, even without using large quantities of debt... In practice these two different types of leverage tend to be intermingled. And the most important issue is that both types of leverage expose investors to more risk... In 1992-1993, though, many investors thought it was worth taking those risk, by buying products with high leverage."
> *Tett Ibid p. 30-1.*

A key means to obtain rapid funds on credit, in other words to become more leveraged - was the trade known as **Repo** or a repurchase agreement. This was seen as a very flexible way to obtain credit. Investopedia defines these as follows:

> "A repurchase agreement (repo) is a form of short-term borrowing for dealers in government securities. The dealer sells the government securities to investors, usually on an overnight basis, and buys them back the following day.
> For the party selling the security and agreeing to repurchase it in the future, it is a repo; for the party on the other end of the transaction, buying the security and agreeing to sell in the future, it is a reverse repurchase agreement.
> Repos are typically used to raise short-term capital."
> *https://www.investopedia.com/terms/r/repurchaseagreement.asp*

The repo is a way of obtaining a loan quickly. But largely it favours those with a lot of wealth initially, because the loaner is committed to paying an interest (In the banking phrase 'taking a hair-cut') with the collateral being the bonds or CDOs etc. The repos were based on the collaterals of risky CDO's – often mortgages. The loans were re-cycled into purchase of new risky CDOs or mortgages, and so the cycle went on. Until… 2007-8:

> "Repos are a form of informationally-insensitive asset: they epitomize the paradoxical and ultimately destructive desire on the part of people with money to lend out money but to take no credit risk while doing so. Informationally-insensitive assets are a bad idea … they breed complacency, tail risk, and deluded, magical thinking. But repos are a particularly bad species of the genus, because they are a direct replacement for old-fashioned unsecured credit.
> Lending money in return for interest on that money is a form of investing: one entity, with money to spare, invests that money in a venture which can put it to good use and profit from it. If all goes according to plan, both win. The borrower might be poor but has ideas, and the ability to make money in the future; the investor makes such profits possible.
> When you move from a credit-based system to a repo-based system, however, all that changes. At that point, future profitability isn't enough to get you cash: instead, you need to be rich already, and you need to be able to hypothecate your existing assets to some lender... that matters is collateral quality.
> ... And in times of crisis, a reliance on repo markets makes all banks incredibly fragile, and vastly increases the risk to taxpayers should a bank fail."

> *Felix Salmon, 'The danger of repo'; August 6, 2012; at Reuters Blog; http://blogs.reuters.com/felix-salmon/2012/08/06/the-danger-of-repo/*

All these new instruments show both the complexity and the *'fictitious'* nature of the evolving financial pyramids. It is obvious since Marx and Engels had described the behaviour of speculators, such practices are not of themselves new. But what is new is the profusion, and shallowness of these modern forms of financial instruments. They amplify risk, of making 'bets' that do not come through. If a chain of these failures occurs, there is potentially a time point when they cannot cover multiple, simultaneous losses. Technology with rapid-fire back and forth trades, make it even more impossible to keep track of the exact ownership of debt. Many of these chains start and end in the big financial holding companies, or banks or hedge funds. If at one point a number of them simultaneously have to cover a number of losses, they simply cannot. This 'freezes' the circulation of monies in any form, and freezes credit. Again, what is new about the instruments then - is that they have amplified risk:

> "As with all derivatives, these tools were to offer a way of controlling risk, but they could also amplify it." *Tett p. 22.*

The word that even financiers now use for most if not all of these loan instruments discussed above, is "**toxic**". The logic of all the developments described above, has been to further fuel the thirst of financiers for further profits. The scale of these was enormous as we shall see later.

ii) Government turns blind eye to speculation in derivatives market, and is unable to control the money supply

We saw earlier, that already in the 'Great Crash' of 1929, there had been bank failures. That these reform changes did indeed restrict or at least - limit - speculative practice is shown by their later fate. In 1999, under pressure from the financial capitalists, Congress passed the **Gramm-Leach-Bliely Act.** This finally rescinded important sections of Glass-Stegall, and was signed by **President Clinton**. It had been preceded by intense lobbying for years:

> "The act repealed all restrictions against the combination of banking, securities and insurance operations for financial institutions. The deregulation was a boon for national commercial banks, allowing for the formation of "mega-banks." The Gramm-Leach-Bliley Act was the crowning achievement of decades and millions of dollars worth of lobbying efforts on behalf of the finance industry."
> *Matthew Sherman; CEPR; 2009; Ibid.*

Attempts to ensure banks had adequate reserves to cover losses was an international problem. An international bank regulator was the **Bank for International Settlements (BIS)**, who took somewhat similar steps:

> "A set of international stipulations known as the Basel Accord, had been agreed to by the Group of Ten Nations plus Luxemburg and Spain. A first set of agreements were drawn up in 1988... under the management of the Basel Committee on Banking Supervision (BCBS) whose governing body is based at the Bank for International Settlements (BIS). The first set of rules, known as Basel 1, imposed globally consistent standards for prudent banking, most notably

> by demanding that all banks maintain reserves equivalent to 8 % of the value of their assets, adjusted for risk".
> *Tett Ibid p. 26.*

However, even these types of regulations, **only specified the 'old' financial instruments.** They did not cover the new ones at all. In fact, the US government refused to set up any rules or regulations on limits to trade in this new arena. Even as the volume of trades in the new instruments were astoundingly large and climbing. There was no:

> "Explicit provision in Glass-Steagall against trading in derivatives products" ... Between 1992-1993, the value of deals rose from $5.3 trillion to $8.5 trillion. deals were becoming more complex and were being sold to a wider range of customers... the rush into derivatives was partly driven by aggressive marketing efforts by the banks and... falling interest rates. In 1987 Alan Greesnspan (had) replaced Volcker as Fed Chairman, and from 1989, he steadily reduced rates.":
> *Tett G; Ibid; p.18; p.29-30.*

Furthermore, the regulations applied only to old type institutions. What about the new ones, like **hedge funds**? The hedge funds were a new type of investment company that were completely un-regulated:

> "Hedge funds are un-regulated investment vehicles that cater to institutions and wealthy individuals and promise extraordinary returns. There are few limits on how they invest, what kind of risks they take, and how much leverage they use. ... As of mid-2007, hedge funds deployed an estimated $2 trillion to $2.5 trillion of equity capital, and much higher economic capital due to their aggressive use of leverage." *Morris CR Ibid; p. 109.*

Not only the actual financial instruments have changed. But even how they are actually, physically traded, has also undergone a revolution. The old market place has become far too narrow for the modern day Croesus. Even by1992, technological changes had already made dramatic changes. For example the **NASDAQ** centralised trading marker for high technology investments, and was, an important barometer of the pace of change:

> "Dealing rooms of the money markets are being revolutionised by the video text services of such companies as Reuters and Telerate... offering client terminal that would not only display prices fed to them by banks, brokers and dealers but also could change the information live or on-line at the originators' request...the range of instruments could be displayed on a single screen and the number of institutions dealing in the market was relatively clearly defined. ...the stock markets have been equally challenged by the development of NASDAQ developed by the National Association of Securities Dealers in response to the crisis of over excess demand for over-the-counter (OTC) shares in the late 1960's...
> the NASDAQ system installed in 1971 consists of 20,000 miles of leased telephone lines connecting terminals in every dealers office and tied into a central computing system that recorded prices, deals, and other information.. all the buyer or seller had to do was to look on the screen...
> the effect was dramatic. Within the next dozen years the share volume rose by

> more than 16 times, and the number of terminals in use rose from barely a few thousand in 1972 to 40,000 in 1978 and more than 120,000 in 1985. By then the volume of share trading at more than 16 billion shares with a value of some $200 billion made NASDAQ the third largest stock exchange in the world, smaller only than those of New York and Tokyo."
> *Hamilton A, 'The Financial Revolution'; Harmondsworth, 1986; p.41-43.*

All these innovations together made the control of the money supply an impossible task for Central Banks. Therein lies the necessity of the frequent meetings of the **"G7"** (expanded later to 'G20') central bankers. In 1986, a special study group of the **Bank for International Settlements** in Basle, concluded that the overall effect has been to transfer ownership of credit from central banks (and therefore the Central Bank of that country) away to institutions outside of that control. They had this to say about the new innovations:

> "A sharp acceleration in the pace of innovation, de-regulation and structural changes in recent years has transformed the international financial system in important ways. Major new financial instruments - mostly taking the form of off-balance sheet commitments- have either been created or have dramatically increased their role in the financial structure: international credit flows have shifted away from loans through large international banks into direct credit markets; the volume of daily transactions has multiplied; financial markets have become far more closely integrated worldwide; capital has become much more mobile."
> *D.Smith, 'The Rise and Fall of Monetarism. The theory and politics of an economic experiment'; London 1987; p. 159.*

By October 1986, the Bank of England's Governor, **Robin Leigh-Pemberton** drew the conclusion that monetary targets were useless, as none could control the diversity of monies (D.Smith, Ibid. p. 128). The harder the bankers tried to target one measure of the money supply, the more other measures escaped from their control. A law describing this phenomenon was even enunciated in 1981, as **Goodhart's Law** (*D.Smith, Ibid. p. 103).* By 1992, US Federal Reserve Board chairman **Alan Greenspan openly** acknowledged that reliance on the old models "*is inadequate*." *('Globe And Mail' Business; Toronto; 16th Oct. 1992; p.B3*). The trouble was - there was no new model. The profit-making capitalist casino, was simply allowed to turn, unimpeded.

iii) Pools of liquid money: Pension funds, insurance finds, and Sovereign Funds

In addition to the new instruments, another factor in the new heights of finance capital, lay in the enormous pools of money – mainly in dollar denomination. Earlier we had discussed how the original Dollar Confidence Trick ensured that funds were held in dollar denomination, by foreign countries and subsidised the USA Deficit. After the Plaza Agreement, the USA came off the Gold Standard. However a form of the Confidence Trick continued.

After the Bretton Woods Agreement was superseded, the so-called **Washington Consensus** held sway between about 1980 to around 2009. During this time currencies were floating in their exchange rates.

However the system that arose, christened as **Bretton Woods II**, again ensured a Dollar

hegemony. As described, a system had arisen analogous to that of post-war Europe. But now countries in the Asian 'periphery' wanted to build up their exports to the USA. To do this they had to ensure their currencies were at a fixed exchange rate to the US dollar. Since there was no formal agreement to do this, these countries simply actively maintained the rate, to stop their own currency rising. This was favourable for their export trade. *(Dooley MP, Folkerts-Landau D; Garber P (2004): "The Revived Bretton Woods System". International Journal of Finance and Economics. 9 (4): 307–313)*

Just as during the first round of Dollar Hegemony, the confidence trick was not un-noticed this time around. It resulted in "*backstage finger-pointing".* After the 2008 crash, the government had ensured floods of easy money credit to prevent the system from seizing up. This was known as "*Quantitative Easi*ng". As foreign nations pointed out, this was an "*ultra-loose monetary policy*":

> "Backstage finger-pointing about the world's currency tensions. American officials blame China's refusal to allow the yuan to rise faster. The Chinese retort that the biggest source of distortion in the global economy is America's ultra-loose monetary policy—reinforced by the Federal Reserve's decision on November 3rd to restart "quantitative easing", or printing money to buy government bonds. There are three broad complaints. The first concerns the dominance of the dollar as a reserve currency and America's management of it. The bulk of foreign-exchange transactions and reserves are in dollars, even though the United States accounts for only 24% of global GDP (see chart 1). A disproportionate share of world trade is conducted in dollars. To many people the supremacy of the greenback in commerce, commodity pricing and official reserves cannot be sensible. Not only does it fail to reflect the realities of the world economy; it leaves others vulnerable to America's domestic monetary policy."
> *The Economist; Nov 4th 2010; https://www.economist.com/briefing/2010/11/04/beyond-bretton-woods-2*

Nicholas **Sarkozy** of France (September 26, 2008) and Gordon **Brown** of Britain (October 13, 2008) called for a 'new Bretton Woods". What were the complaints about the USA behaviour? Prior to the 2010 Group of Twenty (G20) meeting in Seoul, the '***Economist'*** identified "three broad complaints" about the currency relationships. The first was that the US dollar share of world total foreign exchange transactions were in US dollars (**Figure 11**):

> "The first concerns the dominance of the dollar as a reserve currency and America's management of it. The bulk of foreign-exchange transactions and reserves are in dollars, even though the United States accounts for only 24% of global GDP (see **Figure 11).**

Figure 11:

> A disproportionate share of world trade is conducted in dollars. To many people the supremacy of the greenback in commerce, commodity pricing and official reserves cannot be sensible. Not only does it fail to reflect the realities of the world economy; it leaves others vulnerable to America's domestic monetary policy" *The Economist; Nov 4th 2010; Ibid*.

This was not unlike the situation after Bretton Woods. The second issue was also similar, that of currency accumulations outside the USA in dollar denominations. But a new feature was that now, the deposit holders were in Asia and neo-colonial countries. These countries were now lending to the USA, to subsidizing its growing deficit:

> "The second criticism is that the system has fostered the creation of vast foreign-exchange reserves, particularly by emerging economies. Global reserves have risen from $1.3 trillion (5% of world GDP) in 1995 to $8.4 trillion (14%) today. Emerging economies hold two-thirds of the total. Most of their hoard has been accumulated in the past ten years.
> These huge reserves offend economic logic, since they mean poor countries, which should have abundant investment opportunities of their own, are lending cheaply to richer ones, mainly America. Such lending helped precipitate the financial crisis by pushing down America's long-term interest rates. Today, with Americans saving rather than spending, they represent additional thrift at a time when the world needs more demand". *The Economist; Nov 4th 2010*

The third complaint was a new one, reflecting the huge increase in computerized trading and new forms of money. This was the scale and rapidity of the cross-country capital flows:

> The third complaint is about the scale and volatility of capital flows. Financial crises have become more frequent in the past three decades. Many politicians argue that a financial system in which emerging economies can suffer floods of foreign capital (as now) or sudden droughts (as in 1997-98 and 2008) cannot be the best basis for long-term growth." *The Economist; Nov 4th 2010*

In fact, huge reservoirs of currency reserves began to be held in several countries. They led to the establishment of **Sovereign Wealth Funds (SWFs**). These operate as follows:

> "In 2007 total accumulated surpluses in all reserve currencies... had risen to $7.6 trillion - that is about 15% of global GDP or more than 60% of global savings... Oil producers control between a quarter to a third of that, and East Asia (excluding India and Japan) about the same amount. Japan has about 1 trillion... The solution is the sovereign wealth fund or SWF. An SWF is a private investment fund under the control of a government but almost always outside of the official finance apparatus, free of the investment limitations that apply to official reserves. The grand-daddy of SWFs is Singapore's Temasek Holdings, a $100 billion fund created more than 30 years ago to invest the state's excess reserves... it claims an 18% annual return since inception, and its bonds have a triple-A rating... At least 25 surplus countries already have SWFs... Their investable funds are now estimated at $3 trillion... The Kuwait SWF may be a prototype... shifting the portfolio from its nearly exclusive focus on US treasuries to a much greater weighting in equities, with an emphasis of high growth countries in Asia and on the European fringe, like Turkey... The SWFs of Dubai, Abu Dhabi, and Qatar are also quite active... Russia is in the process of dividing its excess reserves into an oil stabilization fund and a saving fund... China has long been making infrastructure and energy investments throughout Latin America and Africa... Finally Japan... the most reliable large holder of dollar assets is believed to be investing in huge dollar reserves mostly in US Treasuries... The scramble for SWF cash from American private equity and hedge fund borders on the unseemly."
> *Morris CR Ibid p.95-97; 100-102.*

All this foreign trade, built up the deficit of the USA tremendously. The current account of the USA by end of 2006 amounted to a deficit of $2.5 trillion, much of it owed to such companies (*Morris CR Ibid p. 90*). The Economist:

> "called the dollar's fall the biggest default in history" exceeding those of any emerging market's catastrophes": *Morris Ibid p. 93*.

iv) The melt-down of 2008

To summarise briefly, a very complex financial situation had evolved:

- Both the investment banks and commercial banks were engaging in extended loans to poor individuals, unable to make payments, largely for housing;
- Speculators were heavily involved in the financial markets, using financial instruments that no one fully understood, in order to gain wind-fall profits;
- The fever around 'junk bonds' was propelling take-over frenzies of smaller under-valued industries;

- The rating agencies were most likely, falsely up-grading dodgy tranches of stocks;
- Using these false ratings, issues of CDOs was getting more and more risky;
- Increasingly the investment banks putting out the CDOs were unable to sell their most risky tranches, and kept them on their own balance-book, reasoning that they would still be able to gain a profit from them;
- The speculation was being fueled by the extraordinary influx of monies from overseas, into both European banks, but especially into the USA market;
- who actually held the most risky instruments was quite uncertain;
- banks that held considerable sums of these obtained 'insurance' through large insurance firms – of which perhaps the most prominent was AIG – but these firms were not fully aware of their own risks in providing such 'insurance';
- The Federal Reserve was content to leave interest rates extremely low thus enabling the banks and hedge funds to add to their money stores to continue to speculate;
- The sub-prime mortgage industry, had fleeced the poorest section of consumers and burdened them with extortionate mortgages, that the clients would inevitably default upon;
- Should any part of the chain of inter-related debts and obligations fail, the knock-on effect would affect each part of the chain

The inevitable crash of banks and markets was bound to happen….
Yet many bourgeois commentators have wondered, "Why no one predicted this?" Indeed, even the Queen of England – not the most socially or economically astute individual - is reputed to have expressed surprise:

> "It's been a bad year for economic forecasters. So bad that royalty wants to know what went wrong. "Why did no one see it coming?" Britain's Queen Elizabeth asked during a visit to the London School of Economics".
> *Chris Giles, 'The economic forecasters' failing vision'; November 25 2008; Financial Times.*

However, in reality - **'heterodox' and Marxist economists had** predicted events. An economic blog by Nick Johnson, not a Marxist, explicitly reminds readers that in fact, Marxist perspectives had allowed predictions of the Crash:

> "The late Cambridge (UK) economist **Wynne Godley** and a team at the Levy Economics Institute built a series of strategic analyses of the US economy on this insight, warning repeatedly of unsustainable trends in the current account and (most of all) in the deterioration of the private financial balance. They showed that the budget surpluses of the late 1990s (and relatively small deficits in the late 2000s) corresponded to debt accumulation (investment more than savings) in the private sector. They argued that the eventual costs of servicing those liabilities would force private households into financial retrenchment, which would in turn drive down activity, collapse the corresponding asset prices, and cut tax revenues. The result would drive the public budget deficits through the roof. And thus – so far as the economics are concerned – more or less precisely events came to pass."*James K. Galbraith (2012), Who are these Economists anyway? in Contributions to Stock-Flow Modeling* …
> **Anwar Shaikh**, who works in the classical tradition of Smith, Ricardo and Marx, but also draws on Keynes and his followers, made a prediction in 2003 for a severe recession based on the theory of long waves in prices and profitability:

> "The reader will note that the Great Depression of 2007 arrived quite on schedule…
> …data from 1897 shows two clear long waves: 1897-1939 (forty-two years) and 1939-1983 (forty-four years), trough-to-trough. General crises break out eight to nine years after each peak and last to roughly eighteen years past it. In classroom and public lectures beginning in 2003, I used the average wave in conjunction with the peak in 2000 visible by then to project the next crisis as beginning in 2008-2009 and lasting until 2018."
> *Anwar Shaikh (2016), Capitalism, Ch.16, p.727*
> **Michael Roberts**, a Marxist economist, also draws on theories of long waves and profit cycles and wrote in March 2006:
> "Our graphic shows that capitalism (at least the G7 economies) is now heading for a combination of troughs in all its economic cycles (the motion of capitalism) that will coincide about 2010. The profits cycle is in a downwave alongside the Kondratiev cycle. Capitalism is in its 'winter' period – making it vulnerable to crisis."*Michael Roberts (2009), The Great Recession, p.74."*
> *Nick Johnson; From his blog "Forecasting the Great Recession: listen to the mavericks!"; https://peofdev.wordpress.com/2017/02/28/forecasting-the-great-recession/*

The Marxist theory of crises in relation to modern-day applications will be reviewed at another juncture. Moreover, we can not detail all the events of the Crash of 2008 in this article. Several sources already cited, provide good blow-by-blow accounts. These include **Charles Murray, Gillian Tett, Andrew Ross Sorkin*,*** and **Adam Tooze**. We highlight the key phenomena as follows.

Firstly, the many inter-connections of the loans and ownership of bonds, meant that if one borrower defaulted, it set up a chain of consequent defaults;
Second; the international nature of many loans, with sovereign funds and foreign banks being pulled in, meant that any series of defaults would become rapidly an international phenomenon;
Thirdly, that banks who were sitting on large quantities of dodgy CDO tranches, had only a paper value to their assets, even if the rating agencies stated that they were of high worth, no one would buy them, and if a liquidity crisis hit those banks, they could not convert them to cash;
Fourthly, the major insurer that supposedly covered dodgy tranches AIG, would be unable to cover loans that defaulted;
Finally, and likely the fuse that would light the above four chain-reaction, was that the personal debts around mortgages, that underlay so much of the speculation – would sooner or later default. And that this would create a world-wide banking crisis.

Between 2006-2007, real estate prices peaked in several countries including the USA, Ireland, Spain, the UK. As defaults occurred by ordinary mortgage owners, the prices of real estate fell. All working class spending came to a grinding halt. As the value of bonds and stocks and mortgages fell, the companies owning the largest tranches of risky value, began to be unable to honour their obligations.

The scale of the problem was huge, but at the time, no one actually really knew it. Even by early 2008, the G7 leaders still not know which companies really had the **toxic** tranches on their books:

> "When it emerged a year ago that US subprime mortgage borrowers were

> defaulting on their loans, the US Federal Reserve initially estimated this could cause $50bn of losses. It subsequently revised this up to $100bn-$150bn, and many investment banks then doubled that number. However, at the weekend meeting in Tokyo, Peer Steinbruck, German finance minister, revealed that the G7 now thought subprime losses could reach $400bn - markedly more gloomy than anything that has emanated from official quarters. But if that is striking, what is doubly thought provoking is that Western investment banks have hitherto confessed to "only" $120bn odd of losses. The question worrying G7 leaders is where the remaining $280bn of problems may lie? Or as one senior policymaker confessed: "What everyone is trying to work out is where the rest of the bodies are." *G Tett; 'Where are the rest of the subprime bodies'? Financial Times*; *Feb 11, 2008)*

Once things began to unravel, the process went quickly.
First Ownit Mortgage Solutions, linked to Merrill Lynch – became bankrupt on January 3, 2007. By February, HSBC – the international bank based in Hong Kong, made contingency plans of $10.6 billion for mortgage investment losses. By April 2007,New Century Financial, a subprime lender, fell. The Swiss large bank USB closed its hedge fund Dillon Read Capital Management. By June 22 the major US investment bank **Bear Sterns** was forced to pay to bailout to 2 of its funds. Between July-August 2007, two German lenders (IKB, WestLB, Sachsen LB) had to be bailed out by public backing and a consortium of other banks, and announced huge mortgage losses. But then, **BNP Paribas** of France froze several funds – saying:

> "The complete evaporation of liquidity in certain market segments of the US securitization market has made it impossible to value certain assets fairly regardless of their quality or credit rating"; *Cited Adam Tooze; Ibid; p. 144.*

Simultaneously, all banks came under danger as the availability of funding and credit dried up. Costs of borrowing on European interbank markets started to soar. So, the European Central Bank offered funds at low interest rates, and a total of 145 billion euros were sucked out by August. But things got worse. By September Northern Rock, the UK's largest mortgage lenders crashed. As the '*repo'* trade got hit, holders of toxic mortgage backed securities were shunned.

This led directly to the fall of Bear Sterns. It had already bailed out two of its 'shells'. But Bear Stearns was increasingly unviable since it had become so leveraged. In fact, the leverage ratio was 35.6:1 - meaning the real monetary base of the investment bank was responsible for 35 times the amount of assets resting on it:

> "By November 2006, the company had total capital of approximately $66.7 billion and total assets of $350.4 billion and according to the April 2005 issue of Institutional Investor magazine, Bear Stearns was the seventh-largest securities firm in terms of total capital.
> A year later Bear Stearns had notional contract amounts of approximately $13.40 trillion in derivative financial instruments, of which $1.85 trillion were listed futures and option contracts. In addition, Bear Stearns was carrying more than $28 billion in 'level 3' assets on its books at the end of fiscal 2007 versus a net equity position of only $11.1 billion. This $11.1 billion supported $395 billion in assets, which means a leverage ratio of 35.6 to 1. This highly leveraged balance sheet, consisting of many illiquid and potentially worthless assets, led to the rapid diminution of investor and lender confidence, which finally evaporated as Bear

> was forced to call the New York Federal Reserve to stave off the looming cascade of counterparty risk which would ensue from forced liquidation."
> *Wikipedia; https://en.wikipedia.org/wiki/Bear_Stearns*

In a back door manipulation, Bear Sterns's debts was acquired by the USA government, and then sold at a song, to a selected investment house – **J.P.Morgan** , whose CEO was **Jamie Dixon**. The Federal Reserve, with **Ben Bera**nke – and the Treasury Secretary **Hank Paulson**, brokered a deal that was a rock-bottom bargain for JP Morgan. It was only the share-holders who managed to raise the price of Stearns' shares, from $2.00 a share to $10.00 a share. Still – it was a bargain:

> "The company could not be saved however and was sold to JPMorgan Chase for $10 per share, a price far below its pre-crisis 52-week high of $133.20 per share, but not as low as the $2 per share originally agreed upon by Bear Stearns and JPMorgan Chase." *Wikipedia; https://en.wikipedia.org/wiki/Bear_Stearns*

Hank Paulson is a classic case of the wolf being asked to mind the sheep.

> "Hank Paulson… is also the former CEO of Goldman Sachs and of course was the Treasury secretary, under President George W. Bush, during the 2008 financial crisis."
> *William D. Cohan, 'Interview: Hank Paulson Says the Financial Crisis Could Have Been 'Much Worse'; Barrons; Sept. 12, 2018*; *https://www.barrons.com/articles/hank-paulson-looks-backat-the-turmoil-of-2008-1536759000*

Because Paulson could not involve Goldman Sachs as he had been a prior CEO, that did not mean he could not give his investment banker friends a good deal. It is not a needless aside, to briefly consider the mind-set of these financiers. The sort of nonchalant, outrageous wealth such characters controlled is difficult to convey in numbers. A small vignette may make this vivid. So rich were they that any whim could be easily indulged, if money could satisfy it. Here for example is Henry Paulson's response to a 'natural history moment':

> "On the 4th July weekend Hank and Wendy Paulson were waking along a little St. Simon's Island when they spotted a loggerhead sea turtle laying its eggs in the sand. For nature lovers like the Paulsons, it was an extraordinary moment and they stopped to marvel… he liked it so much that the Paulsons bought up three-quarters of the 10,000 acre property starting in 2003 for $32.65 million."
> *Sorkin, Andrew Ross, Too Big to fail"; Ibid; p. 180-181.*

After the fall of Bear Stearns, things got worse. Now the repo markets (short term credits obtained by collaterals, usually by big banks and traders) froze up. This was as the amount of haircuts (interests) being demanded was getting higher and higher. None of the banks were able to trust the collaterals being offered up. Next up was Lehmann. Despite having large liquid pools of reserves, its collaterals were suspect. Accordingly bankers (led by JP Morgan) demanded high values of collateral to back standard repo deals. By September 2007, it was in bankruptcy. Rapidly Merill-Lynch and AIG came under threat for much of the same reasons. Not only was there a slow cascade of defaults, but in addition an intense distrust of the financial markets of the 'toxic' securitized mortgages and derivatives arising from them. By this time, the shallowness of the rating given to hem by the rating agencies was well exposed. No one could trust

what was the real value of these holdings. Shortly after, the Money Market Funds went belly up. Adam Tooze summarises the culmination of events well:

> "The vents of September 2008 brought the spectacular contraction of wholesale funding markets tat had begin in August 2007 to crisis point. An index of haircuts on lower quality collateral used in the biparty repo markets surged from the elevated level of 25% it had reached over the summer of 2008 to 45%. This had the effect of doubling the amount of money an investment bank would have to mobilize to hold anything other than high-quality securities on its books. Even at Goldman Sachs, the strongest of the... investment banks, its vital liquidity reserve, which it pumped from $60 billion to $113 billion by the third quarter of 2008, plunged on September 18 to a nominal total of $66 billion." *Tooze; Ibid; p. 153.*

Inter-bank lending plummeted. All this of course also affected the working class, completely vulnerable to prospects of employment. Moreover, any personal 'wealth' was virtually tied up in housing, whose values simply fell, and in some cases vanished. As demand for spending fell, the possible failure of General Motors and Chrysler, threatened the jobs of the autoworkers. Unemployment in Mexico surged, as Mexico's dependence on the USA became its Achilles Heel. Mexico's factories of the maquiladoras in Tijuana and Ciudad Juarez closed. A 'Toyota' car shock hit Japan. As Tooze says:

> "What made the collapse of 2008 so severe was its extraordinary global synchronization… Across the world, before the crisis height, inflows and outflows of capital came to just under 33% of world GDP. At the height of the crisis, between the last quarter of 2008 and the first quarter of 2009, those flows collapsed by 90% to less than 3% if global GDP. In the second half of 2008 capital flows between rich countries plunged from $17 trillion to barely more than $1.5 trillion." *Tooze Ibid; p. 159, 162-3*

The Three Kings of Finance, **Benjamin Beranke at the Federal Reserve, Tim Geithner at the New York Fed and Hank Paulson at Treasury** (appointed by President **George Bush**) – were all old boys of the financial system. They recognised the crisis for what it as – a real threat to capitalist banking and industry. They pushed Congress of the USA to alleviate the liquidity crisis by providing free bail-outs or cheap money at low interest rates.

Reformist solutions were the order of the day. Recall, there was no revolutionary party to organize any effective alternative. The inter-connections of capitals were so close, the nature of the toxic assets was so unclear, and the total distrust of banks of each other was so intense – that essentially government had to take over. The only solution was to somehow buy out the 'troubled assets".

The solution became the **"Troubled Assets Relief Program" (TARP)**. The Three Kings, arranged effective bail-outs of those banks and companies "too Big To Fail". Both Republican and Democratic parties, initially had to be persuaded to cough up. But they both stepped up. Both recognized, as representatives of capitalists, they had an awful lot to lose otherwise. As Paulson confessed:

> "Listen this is our political system, this is political theatre, we will get this done": *Cited Tooze Ibid; p. 173.*

Legislation was rammed through enabling Paulson to purchase mortgage related assets "limited to $700,000,000,000.00"….."limited"! At that time, a presidential election campaign was under way. Both candidates agreed to accept this (**John McCain** – after some bullying, and **Barack Obama**). The TARP Bill was passed on October 3 2008:

> "The Troubled Asset Relief Program (TARP) is a program of the United States government to purchase toxic assets and equity from financial institutions to strengthen its financial sector that was signed into law by President George W. Bush on October 3, 2008. It was a component of the government's measures in 2008 to address the subprime mortgage crisis.
> The TARP program originally authorized expenditures of $700 billion. The Emergency Economic Stabilization Act of 2008 created the TARP program. The Dodd–Frank Wall Street Reform and Consumer Protection Act, signed into law in 2010, reduced the amount authorized to $475 billion. By October 11, 2012, the Congressional Budget Office (CBO) stated that total disbursements would be $431 billion, and estimated the total cost, including grants for mortgage programs that have not yet been made, would be $24 billion." *Wikipedia; https://en.wikipedia.org/wiki/Troubled_Asset_Relief_Program*

Now Obama was elected on the hopes of progressives, working people, and – a huge boost by African-Americans. He had a mandate for some 'change' – even within the narrow framework of reformism. Yet, ffter the election, Obama continued the policy of bail-outs, including for **AIG** and **Merrill-Lynch**. Obama was a pretty clear supporter of the financial oligarchy. This was very quickly shown by his choice of the economic team to advise him, and his handling of the troubled Citibank giant, who had over-extended on toxic assets. His guidance came from a remarkably inbred bunch of financial capitalists, as this interesting piece reveals. It is about the people he appointed, a "*group of Wall Street bankers*" and the handling of the Citibank bail-out:

> "a group of Wall Street bankers. Leading the search for the president's new economic team was his close friend and Harvard Law classmate **Michael Froman**, a high-ranking executive at Citigroup. During the campaign, Froman had emerged as one of Obama's biggest fundraisers, bundling $200,000 in contributions and introducing the candidate to a host of heavy hitters - chief among them his mentor **Bob Rubin**, the former co-chairman of Goldman Sachs who served as Treasury secretary under Bill Clinton. Froman had served as chief of staff to Rubin at Treasury, and had followed his boss when Rubin left the Clinton administration to serve as a senior counselor to Citigroup (a massive new financial conglomerate created by deregulatory moves pushed through by Rubin himself).
> Incredibly, Froman did not resign from the bank when he went to work for Obama: He remained in the employ of Citigroup for two more months, even as he helped appoint the very people who would shape the future of his own firm. And to help him pick Obama's economic team, Froman brought in none other than **Jamie Rubin** who happens to be Bob Rubin's son. At the time, Jamie's dad was still earning roughly $15 million a year working for Citigroup, which was in the midst of a collapse brought on in part because Rubin had pushed the bank to invest heavily in mortgage-backed CDOs and other risky instruments.…
> Running Obama's economic team are a still-employed Citigroup executive and the son of another Citigroup executive, who himself joined Obama's transition

> team that same month.
> So on November 23rd, 2008, a deal is announced in which the government will bail out Rubin's messes at Citigroup with a massive buffet of taxpayer-funded cash and guarantees. … Under the deal, the bank gets $20 billion in cash, on top of the $25 billion it had already received just weeks before as part of the Troubled Asset Relief Program. But that's just the appetizer. The government also agrees to charge taxpayers for up to $277 billion in losses on troubled Citi assets, many of them those toxic CDOs that Rubin had pushed Citi to invest in. No Citi executives are replaced, and few restrictions are placed on their compensation. …
> It is bad enough that one of Bob Rubin's former protégés from the Clinton years, the New York Fed chief Geithner, is intimately involved in the negotiations, which unsurprisingly leave the Federal Reserve massively exposed to future Citi losses. But the real stunner comes only hours after the bailout deal is struck, when the Obama transition team makes a cheerful announcement: **Timothy Geithner** is going to be Barack Obama's Treasury secretary!
> Geithner, in other words, is hired to head the U.S. Treasury by an executive from Citigroup - Michael Froman - before the ink is even dry on a massive government giveaway to Citigroup that Geithner himself was instrumental in delivering."
> *Matt Taibbi, "Obama's Big Sellout: The President has Packed His Economic Team with Wall Street Insiders. The president has packed his economic team with Wall Street insiders intent on turning the bailout into an all-out giveaway"; Rolling Stone Magazine; December 13, 2009; at https://www.commondreams.org/news/2009/12/13/obamas-big-sellout-president-has-packed-his-economic-team-wall-street-insiders*

Thus, Obama chose to appoint **Timothy Geithner** as his Treasury Secretary. We came across this scion of finance earlier. In a little more detail, Geithner was:

> "a former American central banker who served as the 75th United States Secretary of the Treasury under President Barack Obama from 2009 to 2013. He was the President of the Federal Reserve Bank of New York from 2003 to 2009, following service in the Clinton administration. He now serves as president of Warburg Pincus, a private equity firm headquartered in New York City." *Wikipedia, https://en.wikipedia.org/wiki/Timothy_Geithner*

He is a very rich man with total worth in 2012, at about $2 million, and currently an annual salary of $190 thousand (*https://www.therichest.com/celebnetworth/celebrity-business/finance/timothy-geithner-net-worth/*). Geithner refused Obama's instructions to wind up dangerously weakened banks, such as Citibank (*David Dayen, "He Was the Resistance Inside the Obama Administration - Timothy Geithner's refusal to obey his boss has had long-term political and economic consequences"; New Republic, September 11, 2018; https://newrepublic.com/article/151159/tim-geithner-resistance-inside-obama-administration*).

In a memorable phrase, Obama pointed out to the financial capitalists, that it was he and his administration that could (and implicitly) would save them from mass anger:

> "The bankers struggled to make themselves clear to the president of the United States. Arrayed around a long mahogany table in the White House state dining room last week, the CEOs of the most powerful financial institutions in the world offered several explanations for paying high salaries to their employees — and, by extension, to themselves. "These are complicated companies," one CEO said. Offered another: "We're competing for talent on an international market."

> But President Barack Obama… stopped the conversation and offered a blunt reminder of the public's reaction to such explanations. "Be careful how you make those statements, gentlemen. The public isn't buying that." "My administration," the president added, "is the only thing between you and the pitchforks." *Eamon Javers, "Inside Obama's bank CEOs meeting"; Politico; 04/03/2009; https://www.politico.com/story/2009/04/inside-obamas-bank-ceos-meeting-020871*

In 2018, a very revealing article for Bloombergs Business Week, the leading opinion for big business, points out that Obama had flouted the mandate he had been given:

> "As they arranged the mergers, bailouts, and Fed lifelines that rescued corporations from Citigroup to General Motors to Goldman Sachs, they (The Obama administration – Ed) prided themselves on their ability to tune out the public's justified anger at the greed and recklessness exhibited by financiers and mortgage lenders. This extended even to some clear-cut abuses of the public trust that occurred on their watch, such as when American International Group Inc.—by then a ward of the state—decided to hand out bonuses. What was so surreal about this period was not Obama's conviction that growth was a magical elixir that would set everything right. It was his belief that achieving it required him to protect, rather than punish, those who'd driven the economy into the ground. Summoning the chief executive officers of the major banks to the White House in the spring of 2009, Obama told them, "My administration is the only thing between you and the pitchforks." Like flagellants, he and his economic team were willing to absorb the lashing that should rightfully have been directed at his Wall Street guests, in the belief that shielding them advanced a higher purpose… One complaint voters at campaign rallies still share with me is that no Wall Street figure of any consequence served jail time as a result of the meltdown." *Joshua Green;" The Biggest Legacy of the Financial Crisis Is the Trump Presidency - How the forces Obama and Geithner failed to contain reshaped the world we live in."; 30 August 2018; at https://www.bloomberg.com/news/articles/2018-08-30/the-biggest-legacy-of-the-financial-crisis-is-the-trump-presidency*

Nonetheless, public revulsion against the banks, was so intense that there was felt a need to restrain undue profiteering. In addition, the dangers of unrestricted financial trading had jeopardized the world financial system for capitalists. Accordingly, in exchange for all the bail-outs, a quid pro quo in the **Dodd-Frank Banking Act of 2010**, was introduced by President **Obama**:

> "The Dodd–Frank Wall Street Reform and Consumer Protection Act (commonly referred to as Dodd–Frank) was signed into United States federal law by US President Barack Obama on July 21, 2010. Passed in response to the 2008 global financial crisis, the Act brought the most significant changes to financial regulation in the nation since the regulatory reform that came following the Great Recession. It made changes in the American financial regulatory environment affecting all federal financial regulatory agencies and almost every part of the nation's financial services industry.…. Studies have found the Dodd–Frank Act has improved financial stability and consumer protection, although there has been debate regarding its economic effects. The Act established the Consumer Financial Protection Bureau (CFPB), which from inception to April 2017 had "returned almost $12 billion to 29 million consumers and imposed about $600 million in civil penalties…. The stated aim of the legislation is:
> 'To promote the financial stability of the United States by improving accountability

> and transparency in the financial system, to end "too big to fail", to protect the American taxpayer by ending bailouts, to protect consumers from abusive financial services practices, and for other purposes."
> " *https://en.wikipedia.org/wiki/Dodd–Frank_Wall_Street_Reform_and_Consumer_Protection_Act*

The Dodd-Frank Act created requirements for vigilant reporting on a regular basis, in an attempt to restrict speculative practices. The intent of the more far-seeing financial capitalists was to attempt to root out the most blatant drives to an 'over the top' risky speculation. Making profit was laudable of course. But creating a potential break-down of banking, trading and industrial practice while doing so, threatened the entire capitalist class.

Paul Volcker – how we met during the Volcker Shock discussion – was a committed pro-financial capitalist, Central Banker. But he saw the sense of trying to restrain the worst speculations. He was appointed by Obama to Chair the Economic Recovery Advisory Board. Obama wanted the "**The Volcker Rule**", to be part of the Dodd-Frank Act. In this Volcker returned to the Glass-Stegall rules, to separate investment banking and commercial banking, and banks from owning hedge funds, and other restrictions:

> "Volcker was appointed by President Barack Obama as the chair of the President's Economic Recovery Advisory Board on February 6, 2009. … Volcker argued vigorously that since a functioning commercial banking system is essential to the stability of the entire financial system, for banks to engage in high-risk speculation created an unacceptable level of systemic risk. He also argued that the vast increase in the use of derivatives, designed to mitigate risk in the system, had produced exactly the opposite effect.
> The Volcker Rule was first publicly endorsed by President Obama on January 21, 2010. The proposal was to specifically prohibit a bank or institution that owns a bank from engaging in proprietary trading, and from owning or investing in a hedge fund or private equity fund, and also to limit the liabilities that the largest banks could hold. Also under discussion was the possibility of placing restrictions on the way market-making activities are compensated; traders would be paid on the basis of the spread of transactions rather than any profit that the trader made for the client.
> On January 21, 2010, under the same initiative, President Obama announced his intention to end the mentality of "Too big to fail".
> In a February 22, 2010 letter to The Wall Street Journal, five former Secretaries of the Treasury endorsed the Volcker Rule proposals."
> *https://en.wikipedia.org/wiki/Volcker_Rule*

Unsurprisingly, the big banks did not want this, and they first delayed implementation, and ultimately fatally weakened the rulings:

> "The proposed regulations were immediately criticized by banking groups as being too costly to implement, and by reform advocates for being weak and filled with loopholes… Under the Dodd-Frank financial reform law, the regulations went into effect on July 21, 2012. However…By February 26, 2013, the rule was still not implemented….It was set to go into effect April 1, 2014. …
> However… a lawsuit was filed to stay the effect of the Volcker Rule regulations over whether banks could be required to sell or divest collateralized debt obligations (CDO) backed by trust-preferred securities (TruPS) … On January

> 14, 2014, interim final regulations were adopted to permit certain banking entities to retain those investments…and the rule came into effect on July 21, 2015."
> *https://en.wikipedia.org/wiki/Volcker_Rule*

In Europe similarly, big banks prevented banking reform:

> "…On October 24, 2017, citing "no foreseeable agreement" in sight on criteria, the European Commission scrapped the draft legislation that would have permitted the European Banking Authority regulator to order "too big to fail" banks to split off their trading activities. The draft was supposed to be the EU's answer to the United States' Volcker Rule…." *https://en.wikipedia.org/wiki/Volcker_Rule*

In any case, the Obama administration proceed to ensure adequate free flowing liquidity (cash) to companies, under the "**American Recovery and Reinvestment Act**":

> "Within a month of taking office, President Obama and the Democratic majority in Congress passed a major fiscal stimulus plan, "The American Recovery and Reinvestment Act", which involved spending $787 billion over ten and a half years, including $501 billion in increased spending and $285 billion in tax cuts (Committee for A Responsible Federal Budget: CARB, 2009)." *Gerald Epstein, "Obama's Economic Policy: Achievements, Problems and Prospects"; Revue de la régulation, 5, 1er semester, Spring 2009, URL : http://proxy.library.upenn.edu:3648/regulation/7459 ; DOI : 10.4000/regulation.7459*

And the Federal Reserve, then under Bernanke still (The one who at the start of evident failures of mortgages and banks, claimed for months, there was no need to worry) further expanded liquidity and thus credit. The Federal Reserve and Treasury injected monies into the economy by using Quantitate Easing, and ensuring very low (zero to negative) interest rates.

For all this, the Bankers and financial capitalists did not rein in their greed. Bonuses for instance, a very visible mark of gross inequity, continued on:

> "When times are good in financial markets, bankers get colossal bonuses. When things go badly? Bankers still live well off the fat. Bonuses can often reach several times base salary and take annual compensation well over $1 million for thousands of top performers. Banker bonuses were cast as one of the root causes of the 2008 global financial crisis, the heart of an incentive system that rewarded greed and excessive risk. Years later, bonus payments for bankers remain a prickly topic for banks and politicians.… Banker bonuses tumbled after the financial crisis, and while they're on the rise again in some areas, they've not returned to their peak. Banks also changed the structure of pay to reward longer-term success, deferring more compensation and in some cases paying in bonds as well as in stock and cash."
> *Ambereen Choudhury,"Banker Bonuses", Blombergs; 30 Jan 2018;*
> *https://www.bloomberg.com/quicktake/banker-bonuses*

> "The financial crisis has been "little more than a blip" for London bankers who were being paid more three years after it hit than before and were more likely to be employed than other workers, a report has found. The financial sector has proved remarkably resilient with wages in the City rising, while other workers saw pay fall between 2008 and 2011, according to research from the London School

of Economics. Inequality before the crisis was driven by high pay in the financial sector and does not look set to stop, said Brian Bell of the Centre for Economic Performance, a co-author of the report. "The sector which in some sense caused the whole crisis is the sector which seems immune to almost any employment effect," said Mr Bell. "Traders earning millions are in some sense not replaceable . . . so they have remarkable bargaining power within firms." London's finance workers took home 14.2 per cent more in salary and cash bonuses for 2011 than they did in 2008, compared with a 3.7 per cent rise – a real terms fall – for all other workers. The top 10 per cent of bankers saw their wages rise by an average 8.6 per cent over the three years, more than the 2.3 per cent rise for the top decile of all workers." *Hannah Kuchler, Daniel Schaefer and Jim Pickard, "Financial crisis just a 'blip' for bankers"; Financial Times; February 21, 2013*

v) The Financial capitalists after the Crash

There seems little doubt that Obama and Bernanke, rescued the USA financial system. Probably also the entire capitalist world system. So where has all this left the financiers, after the Crash?

Let us assess this by first examining one of the main beneficiaries of the Crash, the financial firm of **J.P.Morgan.** As we saw, its CEO **Jamie Dimon** had, with the help of Paulson, ensured that the bail-out from the USA government rebounded to J.P.Morgan's benefit. We see later (Section 6), that as a representative of the financial capitalists, his relationship with Trump has been far from smooth.
However his firm, like all the ones 'Too Big to Fail", was left standing in the rubble. They became an even more monopolist and hegemonic position than previously. Their main gripe with Trump is that they want even further deregulation of controls imposed on banking, after the 2008 Crash:

"Dimon's populism, in some ways, appears incongruent with the institution he oversees. JPMorgan Chase, after all, is America's largest bank… Dimon had just announced record profits of $7 billion for the second quarter of 2017, an increase of 13 percent over the same period during the previous year. The bank has made a profit of nearly $27 billion for the last 12 month—more money made in one year than any American bank in history. After languishing for years during the Obama administration, JPMorgan Chase's stock has been on a tear since Trump won the 2016 election, up nearly one-third. The bank's market valuation is more than $320 billion.
Indeed, things could scarcely be better for Dimon. In the aftermath of the 2008 financial crisis, as Wall Street banking has become an oligopoly, JPMorgan Chase's global competition remains moribund. Banks in Europe and in Asia, which once might have given Chase a run for its money (so to speak), are still struggling with the aftermath of the crisis, grappling with how to escape government ownership or requirements to raise more capital, and are rarely a factor when it comes to the serious and seriously profitable business of Wall Street—providing capital to those who want it on a global basis, 24 hours a day. Couple that with an improving economy, higher employment and wages, and the prospect that the Trump administration stands ready, willing, and able to improve the well-being of those who make money from money—by attempting to reduce corporate tax rates, say, or allowing companies a tax holiday on repatriating profits held overseas; and repealing much of the Dodd-Frank financial regulation law that Wall Street has been trying to unwind ever since Barack Obama signed

> it into law seven years ago—and it is hard to imagine a more favorable set of circumstances”.
> *William D. Cohan, ‘The Real Reason Jamie Dimon Went Berserk About America’s “Stupid Shit” - It wasn’t really about “average citizens.” It was really about the country’s largest bank’; July 17, 2017; https://www.vanityfair.com/news/2017/07/the-real-reason-jamie-dimon-went-berserk-about-america*

The clamps on parts of the regulatory system were a hindrance to the financiers. But the dramatic loosening of interest rates enabled the financial companies to obtain credit at virtually no cost, in order to pursue high-risk speculative gambles, all over again:

> “The difference between the big banks and virtually every other large business is that they don’t really have to pay for their raw materials. Thanks to the zero-interest-rate policies of central bankers around the world, JPMorgan Chase, like other large banks, gets its money from its depositors for essentially nothing. Check your bank statement. You will see the harsh truth that JPMorgan Chase pays you very little for the privilege of looking after your money. (On my savings account, JPMorgan Chase pays me 0.03 percent interest annually; on my checking account, it’s 0.01 percent. Hard to get closer to zero than that.) What other companies on the face of the Earth don’t have to pay for their raw materials? Can you imagine how profitable a car company would be if it didn’t have to pay for steel, aluminum, glass, rubber, leather, and electronics? That’s the sweet spot big banks are in. They make money from money by taking our deposits, and lending that money out to businesses of all stripes that need it, want it, and can pay a fair price for it. When you don’t have to pay for the raw materials, the spread—the difference between what banks pay for cash and what people and businesses pay to borrow that same cash—is nearly pure profit.
> It’s no accident that JPMorgan Chase is continually generating higher and higher earnings. In fact, it’s a new Golden Age on Wall Street, characterized by record profits, minimal competition (especially by historical standards), an improving economy, and a regulatory environment that could scarcely be more favorable to Wall Street than if Wall Street had designed it itself, which in fact many people believe it has since the key players—including Gary Cohn**,** Trump’s National Economic Council director; **Steve Mnuchin,** Trump’s Treasury secretary; and **Jay Clayton,** Trump’s chairman of the Securities and Exchange Commission—responsible for the new policies have resumes long in finance and Wall Street”.
> *William D. Cohan, ‘The Real Reason Jamie Dimon Went Berserk About America’s “Stupid Shit” - It wasn’t really about “average citizens.” It was really about the country’s largest bank’; July 17, 2017; https://www.vanityfair.com/news/2017/07/the-real-reason-jamie-dimon-went-berserk-about-america*

It did not take very long before the Trump administration rolled back much of the Obama ineffectual banking regulations:

> “On June 8, 2017, the Republican-led House passed the Financial CHOICE Act which, if enacted, would roll back many of the provisions of Dodd–Frank. …
> On March 14, 2018, the US Senate passed a bill by a 67 to 31 vote, easing financial regulations and reducing oversight for banks with assets below $250 billion. The law passed the House of Representatives on May 22, 2018 in a 258–159 vote. The legislation was then signed into law by US President Donald Trump on May 24, 2018.” *https://en.wikipedia.org/wiki/Dodd–Frank_Wall_Street_Reform_and_Consumer_Protection_Act*

Even this is not enough for these titans of finance. They want an even more un-stripped

economy, in order to race their finances even higher:

> "And yet Dimon, a staunch Democrat, is complaining. Not because he's been drinking the Bernie Sanders Kool-Aid. Rather, it is quite the opposite: he sees obvious ways that JPMorgan Chase can make even more money, if only Washington would cooperate. Dimon wants Washington to end its continuous political gridlock and do things that will unleash the American economy to grow faster than the 1 percent to 2 percent annual G.D.P. growth-rate range that it has been stuck in for the past decade, what economist Larry Summers calls "secular stagnation." *William D. Cohan, 'The Real Reason Jamie Dimon Went Berserk About America's "Stupid Shit" - It wasn't really about "average citizens." It was really about the country's largest bank'; July 17, 2017; https://www.vanityfair.com/news/2017/07/the-real-reason-jamie-dimon-went-berserk-about-america*

It should not surprise us, that it has not taken very long for the financial capitalists to revert to risk-taking behavior. Indeed apart for a slight pause, they probably never did at all stop:

> "One remarkable feature of the past decade is that between 2007 and 2017, the ratio of global debt to GDP jumped from 179 per cent to 217 per cent, according to the Bank for International Settlements"; *Gillian Tett; Have we learnt the lessons of the financial crisis? Financial Times; Aug 31 2018.*

Thomas Hoenig, the Vice Chairman of the FDIC and former President of the Federal Reserve Bank of Kansas City, gave a warning to the Boston Economic Club. This hinged on the fact that banks had become even further monopolized and thus larger and fewer. And that these largest banks were making highly leverage dependent (i.e dependent upon loans) with huge risks, with "*ratios, on average, of nearly 22 to 1*":

> "Compared to 2008, the largest financial firms today are in most instances larger, more complicated, and more interconnected. The eight largest banking firms have assets that are the equivalent to 65 percent of GDP. The average notional value of derivatives for the three largest U.S. banking firms at year-end 2013 exceeded $60 trillion, a 30 percent increase over their level at the start of the crisis.
> The largest banking firms also have tended to increase their complexity. They have used the safety net subsidy to support their expansion across the globe1. They have further combined commercial, investment banking, and broker-dealer activities. There have been no fundamental changes in the wholesale funding markets, on the reliance of bank-like money market funds, or on the use of repos, which all are major sources of volatility in times of financial stress.
> While these largest firms highlight that they have added capital to strengthen their balance sheet, they remain excessively leveraged with ratios, on average, of nearly 22 to 1. The remainder of the industry averages below 12 to 1. Thus, the margin for error for the largest, most systemically important financial firms is nearly half of that of other far less systemically important commercial banks and financial firms*." Thomas M. Hoenig; "Can We End Financial Bailouts?"; May 7, 2014; In: Pam Martens, "Hoenig: Wall Street Banks "Excessively Leveraged" at 22 to 1 Ratios"; May 9, 2014; Wall Street On Parade. At: http://wallstreetonparade.com/2014/05/hoenig-wall-street-banks-"excessively-leveraged"-at-22-to-1-ratios/*

After the 2008 shock, it was expected that CDOs would not be used. However, they

were simply re-christened, as “**Bespoke Tranche Opportunity’ (BTO)**, or **'Bespoke CDO'**, by Goldman Sachs in 2015. The ‘*bespoke’* indicates they are created for an individual investor. This in fact increases the risk of these instruments:

> “A bespoke collateralized debt obligation (CDO) is a structured financial product that a dealer creates for a specific group of investors. The bespoke CDO is structured according to the investors' needs. The investor group then typically buys a single tranche of the bespoke CDO. The remaining tranches are then held by the dealer, who will usually attempt to hedge against losses. A bespoke CDO is also referred to as a bespoke tranche or a bespoke tranche opportunity… The obvious advantage of a bespoke CDO is that the buyer can customize it according to his market thesis. The disadvantage is that there is typically there is little to no secondary market for bespoke CDOs, so pricing must be calculated based on complex theoretical financial models. Those models can make assumptions that turn out to be catastrophically wrong, costing the holder dearly and leaving them with a financial instrument they are unable to sell at any price.” *Investopedia, at: https://www.investopedia.com/terms/b/bespoke-cdo.asp*

Banks selling them have an obvious interest in doing so. In especial the entire risk is taken by the investor, and the Bank is not holding large unsold stocks of risky tranches, as previously:

> ”The name Bespoke Tranche Opportunity was first used in January 2015 by Goldman Sachs in an e-mail from an employee at the investment bank. The employee defined as follows: “A tranche of a bespoke portfolio of credits can order exposure to diversified risk with the possibility of leverage, credit enhancement and enhanced returns”. In the current state of the global economy the returns have almost been divided 3 times as opposed to the returns in 2008 at its peak. This calls for investors to find new ways to improve their returns”. *Erik Johansson Rens IJsendijk, “BTO’s: The new CDO’s?’; Chalmers University of Technology, Gothenburg; https://pdfs.semanticscholar.org/4748/b43a421d7bf5ffd96efb7146eda0387143f6.pdf*

As market advisors point out from data of BNP Paribas Bank, there has been a huge increase in the volume of BTO trading:

> “Nevertheless, the financial structured product game is yet not finished, in fact it takes a completely new turn. A tranche of a bespoke portfolio of credits can offer exposure to diversified risk with the possibility of leverage, credit enhancement and enhanced returns. Similar to single CDOs tranche products, BTOs are becoming a new investment target. From $5bn transactions in 2013, the market for BTOs increased to $20bn by the end of 2014 according to BNP Paribas. The unusual feature of BTOs is theirs’ potential personalisation, an investor can decide what credits they want to invest in. The bank can customise a BTO by targeting the specific risk/return.
> Certainly, the demand for the BTOs increases, as investors look for yields and a greater return than that provided by treasuries or corporate bonds. The 7-years zero-interest rates of FED together with monetary expansion of ECB via lower rates, compel investors to look for new opportunities. Additionally, the new derivative instrument becomes more promoted by banks than CDOs since the risk burden is offloaded almost fully on the clients”.

Dominika Wawrzyniak, "Is the BTO Déjà Vu of the CDO?"; January 24, 2016; The Market Mogul Blog; https://themarketmogul.com/bto-deja-vu-cdo/

Despite the advent of the Dodd-Frank law, abuses and manipulations by the Banks have continued apace. In fact attempts to remove Dodd-Frank are in process:

> "Ten years on from the financial crisis, it's hard not to have a sense of déjà vu. Financial scandal and wrangles over financial rule-making still dominate the headlines. The cyberhacking at Equifax compromised personal records for half of the adult population of the United States. At SoFi, a one-time fintech darling that offers student loans and other types of credit, … the company misled investors about its finances and put inexperienced customer service representatives in charge of credit evaluations...
> The White House and Republicans in Congress in the meantime are trying to roll back hard-won banking regulations in the Dodd-Frank financial oversight law".

Perhaps the most fundamental legacy of the whole period of so-called financialisation – is that it has removed incentives to 'produce'. Rana Foroohar, an associate editor and global business columnist at The Financial Times, points out the drive to simply profiteer in the financial markets:

> "Lending to Main Street is now a minority of what the largest banks in the country do. In the 1970s, most of their financial flows, which of course come directly from our savings, would have been funneled into new business investment. Today, only about 15 percent of the money coming out of the largest financial institutions goes to that purpose. The rest exists in a closed loop of trading; institutions facilitate and engage in the buying and selling of stocks, bonds, real estate and other assets that mainly enriches the 20 percent of the population that owns 80 percent of that asset base. This doesn't help growth, but it does fuel the wealth gap.
> …Small community banks, which make up only 13 percent of all banking assets, do nearly half of all lending to small businesses. Big banks are about deal making. They serve mostly themselves, existing as the middle of the hourglass that is our economy, charging whatever rent they like for others to pass through. (Finance is one of the few industries in which fees have gone up as the sector as a whole has grown.) The financial industry, dominated by the biggest banks, provides only 4 percent of all jobs in the country, yet takes about a quarter of the corporate profit pie.
> Perhaps that's why companies of all stripes try to copy its model. Nonfinancial firms as a whole now get five times the revenue from purely financial activities as they did in the 1980s. Stock buybacks artificially drive up the price of corporate shares, enriching the C-suite. Airlines can make more hedging oil prices than selling coach seats. Drug companies spend as much time tax optimizing as they do worrying about which new compound to research. The largest Silicon Valley firms now use a good chunk of their spare cash to underwrite bond offerings the same way Goldman Sachs might.
> … Finance has become the tail that wags the dog."
> *Rana Foroohar; Op-ed; How Big Banks Became our Masters;*
> *NYT; Sept. 27, 2017*

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6. The current state of the USA capitalist economy

It is clear that if capitalists could profiteer in paper monies, this was much easier and more profitable than actually producing or manufacturing goods. This is shown collectively in **Figures 3-6** above. This is not an abstract matter for manufacturers, or their workers, as stated by Thomas J. Hanna, president of the firm 'Harvey Hanna & Associates':

> "Manufacturing is not entirely dead, but it's nowhere near as robust as it once was in terms of our economy," Mr. Hanna said during a tour of the building. Despite a rebound from the depth of the recession, the United States has lost about 640,000 manufacturing jobs over the last decade, with data showing 12.7 million in August, according to the Bureau of Labor Statistics".
> *Jon Hurdle; 'Business day 'Places That Once Made Goods Now Speed Them to Your Door'; New York times; September 19, 2018.*

What is the state of capitalism in the world today? In especial, what is the state of capital in the USA? There are huge problems for capital to maintain its ever rapacious hunt for profits. In this section we will summarise its state. For – the capitalist forces that lie behind the USA politicians, have a good idea of what they face. The workers movement needs to be as aware.

The task of actual manufacture was increasingly shunted towards the ex-colonial countries. Not only did this occur in the USA, but also in the other most advanced capitalist nations, which includes Japan. This process is seen below in Figure 12, which shows two lines. The dotted line is the percent rise in the exports of developing countries, and the second, solid line, is the developing nations manufactured exports as a percent of the world's total manufactured exports.

Figure 12 (Smith, John: "Imperialism In The Twenty-First Century - *Globalization, Super-Exploitation, And Capitalism's Final Crisis*"*; New York; 2016; p.53).*

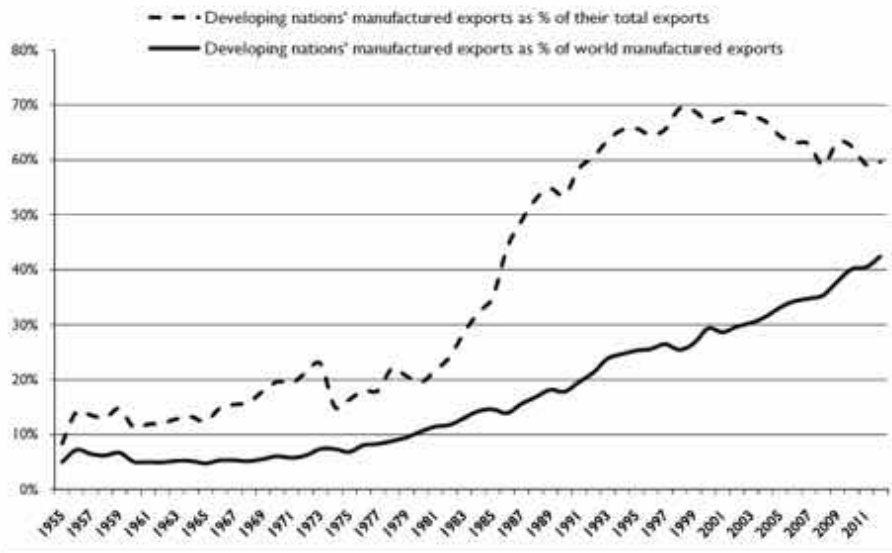
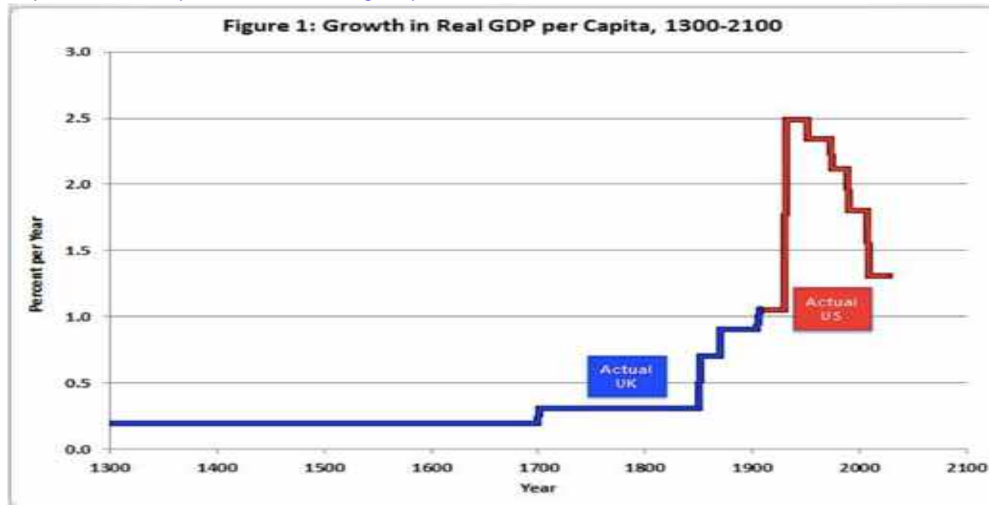


FIGURE 2.2: Developing Nations' Share of Developed Nations' Manufactured Imports

All capitalist countries face problems in maintaining profits for their capitalist class. This includes the USA. Figure 13 shows the **Gross Domestic Product (GDP)**, of the "lead state" in economic terms, from 1300-2100. The blue line depicts the numbers for the UK, up to 1906, after which it was overtaken as the lead by the USA, depicted in red. As seen, the GDP expressed here as per capita (this means it is adjusted for the number in the population at the time), has been falling since its peak in the 1920s. Thus the USA has been producing less.

Figure 13: Growth of Gross Domestic Product per capita 1300-2100, of the leading state: From 1300-1906 – this was the UK. After 1906 this was the USA. *Robert J. Gordon; 'Is U.S. Economic Growth Over? Faltering Innovation Confronts The Six Headwinds'; Working Paper 18315 Http://Www.Nber.Org/Papers/W18315; National Bureau Of Economic Research*

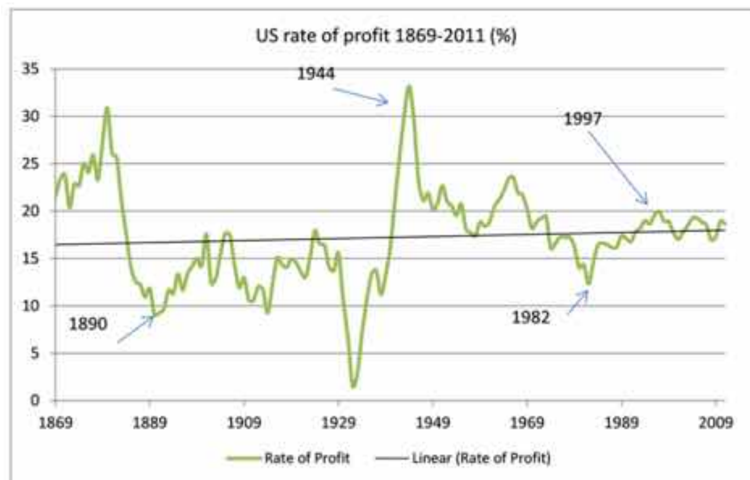


Very closely related to GDP is the rate of profit. Marx first put forward the **Law of the Tendency of the Falling Rate of Profit,** in 'Capital - Volume III'. This says that the rate of profit will tend to fall over time because the **organic composition of capital** (the ratio of the value of constant capital to variable capital) will rise faster, than the rate of surplus value (the ratio of surplus value to variable capital). (Discussed in section 1). To reprise briefly:

Marx calculated the rate of profit as follows: the surplus value as generated by the entire labour force over the economy, which is, divided by the cost of employing that labour force, plus, the cost of physical or tangible assets and raw materials used up by the labour force during the production process. In a formula form, this was: **P = s/c+v**, where **P** is the rate of profit; **s** is surplus value; **c** is constant capital (means of production) and **v** is the cost of the labour power. As capitalists invest at least part of their surplus into the means of production (constant capital), and with a higher productivity, the ratio of s/c+v would fall. Hence a falling rate of profit. Quite consistently with Marx's explanation, empirically it is quite true that the rate of profit has been falling since the 1960s, for the G20 nations. (See **Figure 13**)

Figure 13 *From; Michael Roberts; "Imperialism, globalization and the profitability of capital"; Rupture Magazine; 25 January 2018; https://rupturemagazine.org/2018/01/25/imperialism-globalization-and-the-profitability-of-capital/*

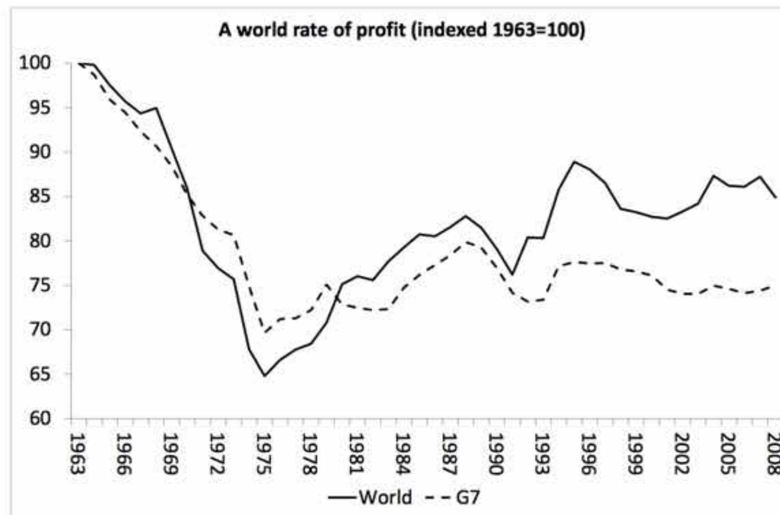
As far as the USA is concerned, all 4 partners have played their role in the decline of the GDP: ie. the Democratic political party, the Republican political party, and the industrial sector of capital, and, the financial sector of capital. All were driven by a **falling rate of profit.** And in a longer time-scale, shown for the USA, the rate of profit actually began to fall from 1944 on. **Figure 14:**
From Roberts, M: 'Crisis or breakdown?' The Michael Roberts Blog; September 12, 2012; https://thenextrecession.wordpress.com/2012/09/12/crisis-or-breakdown/



In reality, all capitalists everywhere, nowadays experience lower profits than they either are used to, or wish to have. Figure 13 shows the data for the G20, above. In addition, the economist Michael Roberts, has also computed a **world rate of profit**, by weighting national rates for national GDP. This is a proxy for calculating the rate of profit by obtaining all the constant and variable capitals in the world. This approximation is shown in Figure 15. It documents that:

> "There was a fall in the world rate of profit from the starting point of the data in 1963 and the world rate has never recovered to the 1963 level in 50 years."
> *Michael Roberts; Revisiting a world rate of profit"; Paper for the 2015 Conference of the*

Association of Heterodox Economists, Southampton Solent University July 2015; at https://thenextrecession.files.wordpress.com/2015/12/revisiting-a-world-rate-of-profit-june-2015.pdf
Figure 15.



Leading capitalists recognise this is a true phenomenon. Reverting to GDP, John Smith cites a member of the Federal Reserve Governors Board, acknowledging USA problems dating back to the end of WWII:

> "Jerome Powell, member of the Federal Reserve's Board of Governors… (writes): U.S. GDP growth... began to decline after 2000 and then nose-dived with the onset of the Global Financial Crisis in 2007 and the slow expansion that followed... The unexpected part of the growth slowdown reflects weak increase since World War II and about one-fourth of the average postwar rate. The slowdown in productivity has been world- wide and is evident even in countries that were little affected by the crisis... A portion of the productivity slowdown is undoubtedly due to low levels of investment by businesses." *John Smith; The Global South In The Global Crisis; Journal of Labor and Society; Volume 20; 2017; p. 174*

Coincident with the fall in the GDP, and the falling rate of profit – there has been a **fall** in the **productivity** of the advanced capitalist countries. Productivity is output per worker, sometimes expressed output per worker per hour. A growth in GDP can be considered as made up of two components: productivity growth and employment growth. Of these the first represents added new value per employed worker; and the second is the number of new workers added. Overall, there has been a large fall in productivity in the advanced countries: **Figure 16**

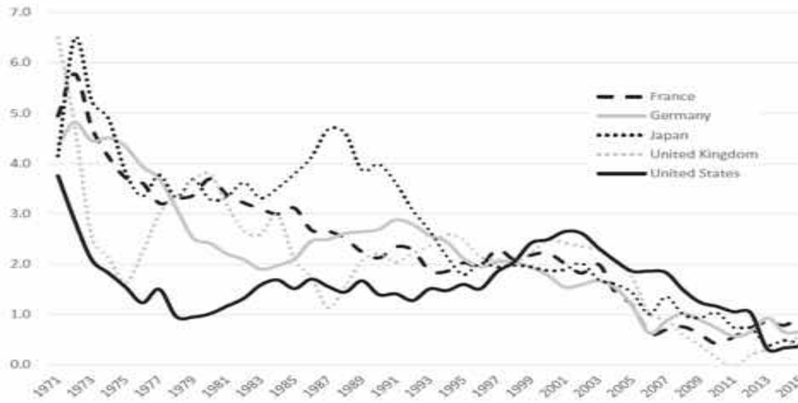


Figure 1. The great productivity slowdown - % growth in GDP/hours worked, 1971–2015 (smoothed).
Source: OECDStat.

From; John Smith; The Global South In The Global Crisis; Journal of Labor and Society ;Volume 20; 2017; pp. 161–184

The reason for this is that capitalists have not ploughed their profits back into new means of production. **Figure 17**

Figures 17-19, are all drawn from Roberts ("*Productivity, profit and market power"; The Michale Roberts Blog; 5 September 2017; at: https://thenextrecession.wordpress.com/2017/09/05/productivity-profit-and-market-power/).*

Yet, corporate profits rose throughout this time: Figure 18:

Though, as **Figure 19** below shows, at the same time the share of labour's compensation fell:

To recap, labor productivity dropped, concomitant with falls in investment and replenishment of constant capital (means of production), while profits rose – yet workers salary fell. The last is easy to understand. How are we to square the other parts of the jig-saw? Roberts rightly draws this following conclusion:

> "The rise in corporate profits was increasingly fictitious, based on rising stock and bond market prices and low interest rates. The rise of fictitious capital and profits seems to be the key factor after the end of dot.com boom and bust in 2000. Thereafter, profits came increasingly from finance and property, not technology. If that is right, then it helps to explain why the biggest slowdown in productivity growth in the US began after 2000, as investment in productive sectors and activity dropped off".
> "*Productivity, profit and market power"; The Michael Roberts Blog; 5 September 2017; at: https://thenextrecession.wordpress.com/2017/09/05/productivity-profit-and-market-power/*

Even the industrial capitalists of the USA have moved into profit making from shuffling papers around and speculation. Reliance on manufacturing overseas, has decreased their wage bill – and thus off-set the falling rate of profit. However things are starting to change, altering the cost-equation. Some industries now prefer to set up sweat-shop conditions in the former imperialist nations. This is as they have found a rising wage bill in the former colonies. Here for example is a poignant example from Italy:

> "Bari Province, Italy — In a second-floor apartment in the southern Italian town of Santeramo in Colle, a middle-aged woman sat in a black-padded chair this summer, hard at work at her kitchen table. She stitched carefully at a sophisticated woolen coat, the sort of style that will sell for 800 to 2,000 euros ($935 to $2,340)… as part of the fall and winter collection of MaxMara, the Italian luxury fashion brand.
> But the woman, who asked not to be named for fear that she could lose her livelihood, receives just €1 from the factory that employs her for each meter of fabric she completes.
> "It takes me about one hour to sew one meter, so about four to five hours to complete an entire coat," said the woman, who works without a contract, or insurance, and is paid in cash on a monthly basis. "I try to do two coats per day."
> The unregulated work she completes in her apartment is outsourced to her from a local factory… for some of the best-known names in the luxury business,

> including Louis Vuitton and Fendi. The most she has ever earned, she said, was €24 for an entire coat.
> Home work — working from home or a small workshop as opposed to in a factory — is a cornerstone of the fast-fashion supply chain. It is particularly prevalent in countries such as India, Bangladesh, Vietnam and China, where millions of low-paid and predominantly female home workers are some of the most unprotected in the industry, because of their irregular employment status, isolation and lack of legal recourse…. Similar conditions exist in Italy, however, and facilitate the production of some of the most expensive wardrobe items money can buy..." *Elizabeth Paton and Milena Lazazzera; "Behind 'Made in Italy' Label, a Shadow Economy"; New York Times, September 22, 2018.*

7. Trump flexes American muscle – What does "Making America Great" Mean?

i) Ensuring Trump wins the election – electronic media manipulation

Trump's electoral strategy was designed to appeal to the working class and lumpen elements, who had missed out on the so-called "American Dream". In particular, the appeal was made to the white working class. African-American and Hispanic sections of the working class were targeted, in a classic divide-and-rule manner.

There is increasingly, little doubt that the Trump victory was assisted by President **Vladmir Putin**'s Russian team of cyber-hackers, and Wikileak leader **Julian Assange**. Which Marxist-Leninist ever said that bourgeois democratic elections were ever 'fair'? But the astounding levels of manipulation in this election, are bizarre. Indeed the whole affair is comical, or at least would be – were the consequences not so immense. It is worth taking a detour to re-explore some of the extraordinary events of that – shall we say – 'stolen election? We believe this is fair assessment.

Firstly it was stolen by raw cash. The bunch of Trump's backers threw money into the pot for various reasons. The **Sheldons** did so to ensure he would move the USA embassy from Tel Aviv to Jerusalem, and remove any assistance to Palestinians:

> "Mr. Sheldon Adelson, the billionaire casino magnate, and his wife, Miriam, a physician… The millions the Adelsons put behind Mr. Trump in 2016 — mainly through a super PAC that attacked Hillary Clinton — did not come until after it was clear that Mr. Trump would most likely be the Republican nominee. But it was funding that Mr. Trump badly needed given how many of the party's other major donors had shunned him." *Jeremy W. Peters; "They Spent $55 Million to Tighten G.O.P.'s Grip"; New York Times; 23 September; 2018.*

Trump so well performed on the tasks set him by the Sheldons to support the regime of **Netanyahu**, that the Sheldons have poured further dollars $%% million - to try to ensure Republican success in the mid-term elections:

> "have emerged as the biggest and potentially most influential contributors to Republicans in the midterm season. Despite initially harboring qualms about President Trump's leadership, the Adelsons have found much to like in a Republican-controlled government that has aligned with their most cherished priorities: unflinchingly pro-Israel, unaccommodating to Middle Eastern adversaries and dedicated to deregulation and lower taxes.
> President Trump promised the Adelsons he would move the United States

> embassy in Israel to Jerusalem during a meeting in January 2017. The new embassy was opened in May.
> Mr. Adelson in particular enjoys a direct line to the president. In private in-person meetings and phone conversations, which occur between the two men about once a month, he has used his access to push the president to move the United States embassy in Israel to Jerusalem and, more recently, cut aid to the Palestinians, according to people familiar with their discussions, who spoke anonymously to discuss private matters. Mr. Trump has done both, triggering a backlash from some American allies.
> Republican control of the House and the Senate is so vital to maintaining these policies, the Adelsons believe, that they have given $55 million in the last few months to groups dedicated to making sure it stays that way. That makes them not only the largest donors to national Republican electoral efforts in this election cycle, but the biggest spenders on federal elections in all of American politics, according to publicly available campaign finance data". *Jeremy W. Peters; "They Spent $55 Million to Tighten G.O.P.'s Grip"; New York Times; 23 September; 2018.*

But the money donated, of itself, was not adequate enough.

The **second** further key step was the assistance of key information specialists and their firm – **Cambridge Analytica**. A highly sophisticated electronic attack was launched.

The links between Cambridge Analytica and Trump are fairly overt: The firm was founded by **Steve Bannon** and **Robert Mercer**. The former is the aggressive Trump advocate and propagandist, while Mercer is a millionaire who made his money in hedge funds:

> "Cambridge Analytica was founded by conservative businessmen Steve Bannon and Robert Mercer. A minimum of 15 million dollars has been invested into the company by Mercer, according to The New York Times. Bannon's stake in the company was estimated at 1 to 5 million dollars, but he divested his holdings in April 2017 as required by his role as White House Chief Strategist. In March 2018, Jennifer Mercer and Rebekah Anne Mercer became directors of Emerdata limited. In March 2018 it became public by Whistleblower Christopher Wylie, that Cambridge Analytica's first activities where founded on a data set, which its parent company SCL bought 2014 from a company named Global Science Research founded by **Aleksandr Kogan** who worked as an psychologist at Cambridge" *Wikipedia; accessed September 24, 2018.*

Kogan has strong Russian connections, which becomes significant. The firm, specialized in targeting voters during elections, with social media to influence their voting practices. As the CEO of Cambridge Analytica stated, they had:

> "Today in the United States we have somewhere close to four or five thousand data points on every individual ... So we model the personality of every adult across the United States, some 230 million people." Alexander Nix, chief executive of Cambridge Analytica, October 2016…. The company claimed to use "data enhancement and audience segmentation techniques" providing "psychographic analysis" for a "deeper knowledge of the target audience". The company uses the Big Five model of personality [10][9] Using what it calls "behavioral microtargeting" the company indicates that it can predict "needs" of

> subjects and how these needs may change over time.” *Wipipedia Ibid.*

This forms, in essence, a voter manipulation method. While they cut their USA teeth in congressional elections, Cambridge Analytica had been already involved in national elections in India, Malta and Kenya. It was also involved in the Brexit referendum in the UK of 2016. By the time of the USA Presidential elections of 2017, they had already understood a lot about the USA system. They proceeded to assist Trump, after **Ted Cruz** dropped out of the election Republican primary race. But as the race was so tight, by the end, they became involved in ‘getting dirt on Hillary”. To get this, they approached **Wikileaks** and **Julian Assange**:

> “CA's involvement in the 2016 Republican Party presidential primaries became known in July 2015. As of December 2015, CA claimed to have collected up to 5,000 data points on over 220 million Americans. At that time Robert Mercer was a major supporter of Ted Cruz. The Mercer family funded CA directly and indirectly through several super-PACs as well as through payments via Cruz's campaign.
> Ted Cruz became an early major client of CA in the 2016 presidential campaign. Just prior to the Iowa caucuses, the Cruz campaign had spent $3 million for CA's services, with additional money coming from allied Super-PACs. After Cruz's win at the Iowa caucus CA was credited with having been able to identify and motivate potential voters. Ultimately the Cruz campaign spent $5.8 million on work by CA...
> After Cruz dropped out of the race for the Republican presidential nomination in May 2016, Robert Mercer and his daughter Rebekah Mercer started to support Trump. In August, it became known that CA followed their allegiance and worked for Trump's presidential campaign. Trump's campaign also worked with digital firm Giles Parscale. In September, the Trump campaign spent $5 million to purchase television advertising. The Trump campaign spent less than $1 million in data work.
> In 2016… Cambridge Analytica targeted potential voters with bespoke messages. Cambridge Analytica's data head, Alexander Tayler said, "When you think about the fact that Donald Trump lost the popular vote by 3m votes but won the electoral college vote, that's down to the data and the research."
> The head of Cambridge Analytica said he asked WikiLeaks founder, Julian Assange, for help finding Hillary Clinton's 33,000 deleted emails”. *Wikipeadia Ibid.*

Assange, has obviously become a pawn of the considerably weakened, **Russian imperialism**. Since **Vladimir Putin** saw advantages to displacing Clinton from the election, they used their considerable security apparatus to hack at the Democratic party. We rely heavily on a report by **Jane Mayer** in the ‘**New Yorker**’ for this section. She provides both a concise summary of very complex events, and insights from an astute, and non-aligned electoral scientist – **Kathleen Jamieson**:

> “Cyberwar: How Russian Hackers and Trolls Helped Elect a President—What We Don’t, Can’t, and Do Know,” by Kathleen Hall Jamieson, a professor of communications at the University of Pennsylvania, dares to ask….. whether Russian meddling had a decisive impact in 2016. Jamieson offers a forensic analysis of the available evidence and concludes that Russia very likely delivered Trump’s victory.… (In the) fall of 2017, as she watched the House and the Senate hold hearings on Russia’s social-media manipulations, and reviewed the

sampling of dozens of Facebook ads released by the House Intelligence Committee—all paid for by Russians during the Presidential campaign—she developed suspicions about the reasons behind Trump's victory. Before the hearings, Facebook's chairman and C.E.O., **Mark Zuckerberg**, had maintained that the amount of Russian content that had been disseminated on social media was too small to matter. But evidence presented to the Senate committee revealed that material generated by the Kremlin had reached a hundred and twenty-six million American Facebook users, leading Senator Dianne Feinstein to call the cyberattack "cataclysmic."
House Democrats later released not only the ads but also their "targeting data"—the demographics and the geographic locations of users receiving them—which indicated to Jamieson "whom the Russians were going for." Among other things, (Jamieson) could discern that the Russians had tried "to minimize the vote of African-Americans." Bogus Kremlin-sponsored ads that had circulated online—including one depicting a black woman in front of an "African-Americans for Hillary" sign—had urged voters to tweet or text rather than vote, or to "avoid the line" and "vote from home." *Jane Mayer; "How Russia Helped Swing the Election for Trump* "; *Annals of PoliticsOctober 1, 2018 Issue of the New Yorker; at: https://www.newyorker.com/magazine/2018/10/01/how-russia-helped-to-swing-the-election-for-trump*

The cyberwar electoral disruption, was cleverly done by reinforcing Trump's messages. The cyber-messaging targeted for this purpose, key Republican constituencies such as veterans and evangelicals:

"Jamieson argues that the impact of the Russian cyberwar was likely enhanced by its consistency with messaging from Trump's campaign, and by its strategic alignment with the campaign's geographic and demographic objectives. Had the Kremlin tried to push voters in a new direction, its effort might have failed. But, Jamieson concluded, the Russian saboteurs nimbly amplified Trump's divisive rhetoric on immigrants, minorities, and Muslims, among other signature topics, and targeted constituencies that he needed to reach. She noted that Russian trolls had created social-media posts clearly aimed at winning support for Trump from churchgoers and military families—key Republican voters who seemed likely to lack enthusiasm for a thrice-married nominee who had boasted of groping women, obtained multiple military deferments, mocked Gold Star parents and a former prisoner of war, and described the threat of venereal disease as his personal equivalent of the Vietcong. Russian trolls pretended to have the same religious convictions as targeted users, and often promoted Biblical memes, including one that showed Clinton as Satan, with budding horns, arm-wrestling with Jesus, alongside the message " 'Like' if you want Jesus to win!" …On Election Day, according to CNN exit polls, Trump, despite his political baggage, outperformed Clinton by twenty-six points among veterans; he also did better among evangelicals than both of the previous Republican nominees, Mitt Romney and John McCain". *Jane Mayer; "How Russia Helped Swing the Election for Trump* "; *Annals of Politics October 1, 2018 Issue of the New Yorker; at: https://www.newyorker.com/magazine/2018/10/01/how-russia-helped-to-swing-the-election-for-trump*

In addition, strategic releases of hacked information, that was presented as if it came from *Wikileaks* and Julian Assange – and not presented as in reality it was, as hacked by Russian cyber-agents. In reality Assange had received the materials from the

Russian hackers. The news media were complicit in how they presented information. In effect the wikieleaks news – hijacked the news media away from reporting upon Trump's '*pussygate*". Undoubtedly, the recording of Trump's highly arrogant and sexist remark, had been leaked by Democratic party propagandists. But it was in effect, silenced, by the revelations of Assange's leak from Hillary Clinton's emails:

> "The Russian hackers had also been alarmingly successful in reframing the American political narrative in the crucial period leading up to the second debate. On Friday, October 7th, two days before it took place, *three major stories* landed in rapid succession. At 12:40 p.m., the Obama Administration released a stunning statement, by the Department of Homeland Security and the director of National Intelligence, accusing the Russian government of interfering in the election through hacking. This seemed certain to dominate the weekend news, but at 4:03 p.m. the Washington *Post* published a report, by David Fahrenthold, on an "Access Hollywood" tape that captured Trump, on a hot mike, boasting about grabbing women "by the pussy." Then, less than half an hour later, WikiLeaks released its first tranche of emails that Russian hackers had stolen from Podesta's account. The tranche contained some two thousand messages, along with excerpts from the paid speeches that Clinton had tried to conceal, including those that would be mentioned in the subsequent debates. (Julian Assange, the head of WikiLeaks, has denied working with the Russian government, but he manifestly despises Clinton, and, in a leaked Twitter direct message, he said that in the 2016 election "it would be much better for GOP to win.")
> If the WikiLeaks release was a Russian-backed effort to rescue Trump's candidacy by generating a scandal to counterbalance the "Access Hollywood" tape and the intelligence report on Russian interference, Jamieson writes, it worked splendidly. The intelligence community's report faded from the headlines; that Sunday morning, none of its authors were invited on any major talk show. Instead, the programs breathlessly discussed the "pussy" tape and the Clinton campaign's e-mails, which were portrayed as more or less exposing both candidates as liars. Jamieson notes, "Instead of asking how we could know that the Russians were behind the hacking, the October 9 Sunday show moderators asked what effect the disclosures would have on the candidates' respective campaigns and what the tape and speech segments revealed about the private versus public selves of the contenders." If not for WikiLeaks, she writes, the media discourse in those crucial days likely would have remained locked on two topics advantageous to Clinton: Russian election subversion and Trump's treatment of women."*Jane Mayer; "How Russia Helped Swing the Election for Trump* "; *Annals of Politics, October 1, 2018 Issue of the New Yorker; at: https://www.newyorker.com/magazine/2018/10/01/how-russia-helped-to-swing-the-election-for-trump*

The Russian directed targeting by email and electronic social media, was revealed by various indictments from the Mueller Probe:

> "(In) February 2018.. the Justice Department, in connection with the Mueller probe, released a detailed indictment of thirteen Russians working at the Internet Research Agency, a troll farm in St. Petersburg. The operatives were described as having worked day and night waging "information warfare against the United States of America." Then, in July, Mueller indicted twelve Russian intelligence

> officers for hacking into the computers of the Democratic National Committee and the Clinton campaign. The indictment maintained that the Russian government had executed a sprawling and sustained cyberattack on at least three hundred people connected to the Democratic Party and the Clinton campaign, infiltrating their computers and implanting malware that, in some instances, enabled spies to covertly monitor their keystrokes. As the Times reported, the Russians had leaked stolen files "in stages," a tactic "that wreaked havoc on the Democratic Party throughout much of the election season." Strikingly, the July indictment showed that Russian hackers' first attempt to infiltrate the computer servers in Clinton's personal offices had taken place on July 27, 2016, the same day that Trump had declared, "Russia, if you're listening, I hope you're able to find the thirty thousand e-mails that are missing," adding, "I think you will probably be rewarded mightily by our press."
> *Jane Mayer; "How Russia Helped Swing the Election*

To further ensure Trump's electoral victory, the Democratic private data banks of its own supporters was hacked:

> "Another revelation…. was that the Russian hackers had stolen the Clinton campaign's data analytics and voter-turnout models. …
> Joel Benenson, the Clinton pollster, was stunned when he learned, from the July indictment, that the Russians had stolen his campaign's internal modelling. "I saw it and said, 'Holy shit!' " he told me. Among the proprietary information that the Russian hackers could have obtained, he said, was campaign data showing that, late in the summer of 2016, in battleground states such as Michigan, Wisconsin, and Pennsylvania, an unusually high proportion of residents whose demographic and voting profiles identified them as likely Democrats were "Hillary defectors": people so unhappy with Clinton that they were considering voting for a third-party candidate. The Clinton campaign had a plan for winning back these voters. Benenson explained that any Clinton opponent who stole this data would surely have realized that the best way to counter the plan was to bombard those voters with negative information about Clinton. "All they need to do is keep that person where they are," he said, which is far easier than persuading a voter to switch candidates. Many critics have accused Clinton of taking Michigan and Wisconsin for granted and spending virtually no time there. But Benenson said that, if a covert social-media campaign targeting "Hillary defectors" was indeed launched in battleground states, it might well have changed the outcome of the election Benenson said, "We lost Pennsylvania, Michigan, Wisconsin—three states of our Blue Wall—by about eighty thousand votes. Six hundred and sixty thousand votes were cast in those three states for third-party candidates. Winning those three states would have got us to two hundred and seventy-eight electoral votes." In other words, if only twelve per cent of those third-party voters were persuaded by Russian propaganda—based on hacked Clinton-campaign analytics—not to vote for Clinton, then Jamieson's theory could be valid.
> *Jane Mayer; "How Russia Helped Swing the Election for Trump* "; *Annals of PoliticsOctober 1, 2018 Issue of the New Yorker; at: https://www.newyorker.com/magazine/2018/10/01/how-russia-helped-to-swing-the-election-for-trump*

The effects of all the social media hacking were tremendous:

> "Of the four hundred and seventy Facebook accounts known to have been

created by Russian saboteurs during the campaign, a mere six of them generated content that was shared at least three hundred and forty million times. The Facebook page for a fake group, Blacktivist, which stoked racial tensions by posting militant slogans and stomach-churning videos of police violence against African-Americans, garnered more hits than the Facebook page for Black Lives Matter.
The Blacktivist ruse was part of a larger Russian plot to divide Americans, according to Senator Mark Warner, the vice-chair of the Senate Intelligence Committee. An expert told the committee that automated accounts typically push extremist views twenty-five to thirty times more often than authentic American social-media users do. "It blew my mind," he told me. "It was an OMG moment. The extremes are screaming while the majority whispers. Facebook initially claimed that Russian disinformation posted during the campaign had likely reached only ten million Facebook users; it subsequently amended the figure to a hundred and twenty-six million. Twitter recently acknowledged that it, too, was deeply infiltrated, hosting more than fifty thousand impostor accounts." *Jane Mayer; "How Russia Helped Swing the Election for Trump* "; *Annals of Politics, October 1, 2018 Issue of the New Yorker; at: https://www.newyorker.com/magazine/2018/10/01/how-russia-helped-to-swing-the-election-for-trump*

At the time of writing, the Mueller probe has not yet reported on its central task of assessing Trump's possible complicity and collusion with the Russian hackers. But a definite case seems to be building.

ii) Trump obeys the cowboys' orders

Since coming to power Trump has already delivered some **key policy changes**, which collectively – largely benefit the 'cowboys' of the oil and gas industry. These include:

i) the removal of almost all key regulatory holds on environmental pollution within the USA, and reversing important conservation rules;
ii) the removal of the USA from the already, somewhat weak - Paris Climate Accord;
iii) the 'reform' – shall we say, lifting of taxation from several sectors, to benefit the entire capitalist class;
iv) the imposition of trade tariffs on competitor nations, some of crippling magnitude – especially against China;
v) the more forthright stand against Chinese imperialism and aggression in the South China Seas;
vi) the disruption of prior treaties enabling trade between Iran and nations competing with the USA; and at the same time disabling the oil industry of Iran, a competitor of the newly resurgent oil and gas industries of the USA;
vii) the disruption of Far Eastern blocs to opening up trade opportunities for the USA, in North Korea;
viii) ensuring the entrenchment and USA base of revanchist regimes in the Middle east – in particular Israel and Saudi Arabia
ix) Intensifying the USA attack on world agencies such as the United Nations and the World Court;
x) the sanction of racist attacks under the dog-whistle of limiting immigration;
xi) the restriction of women's rights, currently under siege at the Supreme Court;
xii) the attack on standard democratic rights of a free press;

Some of these benefit all of the capitalist class (iii; vi; vii; viii) – in especial tax benefits – both industrialists and financiers expected this!;
Some however, benefit particularly, oil and industrial capital (i-vii);
Some appear to fulfill a purely anti-democratic, potentially pre-fascist function (x, xi, xii).

How is it that all these reactionary policies have been instituted in such a short time? How did Trump come to power?
We now know a little more than we did at the start of this clown's rise to the presidency.

Undoubtedly, Trump's capitalist backers have come mainly from industrial wings. This includes the 'dirty' polluting industries most prominently featuring coal-mines and oil. Namely the '**cowboys'** as termed by Bland (see Introduction). The notorious **Koch Brothers**, were instrumental in the backing and strategy to support Trump. Likely it is not needed to dwell too long on the viciousness and malignancy of the Koch Brothers and their industries, for most left readers. It is well known how they have fianced and ensured the take-over by right ideologues of the educational, university, legal and regulatory institutions of the USA. An excellent deconstruction of their empire is contained in **Jane Mayer's** carefully documented book: "*Dark Money: The Hidden History of the Billionaires Behind the Rise of the Radical Right; New York; 2016*".

A shorter distillation, with very relevant, recent added information, is found in an article of **Pam Martens**: *Koch Industries Is Staffing Up with Voter Data Scientists to Tip the November Election to the Extreme Right"; Counter-punch; July 23, 2018*.
As Martens summarises:

> "Koch Industries is one of the largest private corporations in the world with vast interests in fossil fuels, pipelines, chemicals, paper products, commodities trading and, most recently, a Wall Street-esque investment group, Koch Equity Development, that in November invested $650 million alongside Meredith Corporation to help it acquire Time Inc., publisher of iconic magazines like Time, Fortune and Sports Illustrated.
> Charles Koch is the Chairman and CEO of Koch Industries. Together with his brother David, they are majority owners of the company they inherited from their father which has grown to estimated annual revenues of $100 billion. Each brother's net worth is listed by Forbes as $51 billion. Their vast wealth has been used for decades to fund a dizzying maze of interconnected nonprofit groups pushing an anti-regulatory agenda in Washington, leading to the sobriquet, the Kochtopus."
> *Martens; Ibid; https://www.counterpunch.org/2018/07/23/koch-industries-is-staffing-up-with-voter-data-scientists-to-tip-the-november-election-to-the-extreme-right/*

The Kochs financed a 'front' shell organisation – **Freedom Partners**. The shell, Freedom Partners, had served as a non-traceable front. Despite the secrecy, the relationship to the Kochs is now confirmed to be close:

> "Since its formation in 2011, Freedom Partners (formerly known as Freedom Partners Chamber of Commerce) has funneled $486 million into Koch-related nonprofits or activities…. Freedom Partners is organized as a 501(c)(6) tax exempt organization that does not have to reveal its dark money donors to the public. Its Vice President, Nathan Nascimento, is a registered Federal lobbyist for issues near and dear to the heart of Charles Koch. It also has an affiliated Super

> Pac, Freedom Partners Action Fund, which does have to reveal its donors. Charles Koch and his trust have given $14 million to the Super Pac since 2014 according to the Center for Responsive Politics. The Super Pac runs attack ads on television against Democrats in election years. Time Magazine's Philip Elliott reported in January 2017 that "In seven of the eight up-for-grabs U.S. Senate races last year, the Koch-backed candidate won. In all, Koch-backed candidates at all levels of races prevailed 96% of the time—a record any outside group would covet."
> Freedom Partners' dark money donors have always been anonymous to the public, and now, thanks to a rule change announced just last week by Trump's Treasury Department, even the IRS will no longer require the names and addresses of the donors of 501(c)(6) organizations. (That same rule change will also apply to 501(c)(4) nonprofits.)
> Thanks to some high-priced lawyering, it's been hard since its inception in 2011 to tell where Freedom Partners begins and Koch Industries ends…
> All but one of Freedom Partners' 9-member Board of Directors is a current or former Koch company employee. The Board Chair is the same Mark Holden that is the General Counsel of Koch Industries. The 2016 tax return for Freedom Partners lists Robert Heaton as CFO and BDK LLP as the tax form preparer. Those two names also appear on the 2016 tax filing for the Charles Koch Foundation. Records at the U.S. Patent and Trademark Office show that a trademark attorney at Koch Industries, Warren L. Zeserman, obtained the trademark for i360 on May 3, 2016. The Secretary of State for California shows Demeter Analytic Services (reported to be the holding company for i360) located at the same address as Koch Industries' headquarters in Wichita, Kansas".
> *Martens; Ibid; https://www.counterpunch.org/2018/07/23/koch-industries-is-staffing-up-with-voter-data-scientists-to-tip-the-november-election-to-the-extreme-right/*

But the secretive involvement of the Koch Brothers in a different organization – **i360** – is even more illuminating. It appears that this is the heir to:

> "**Cambridge Analytica**, the voter database that harvested millions of Facebook users' profiles without their permission and helped the Donald Trump campaign to victory in the 2016 presidential election is now bankrupt and under Federal investigation". *Martens; Ibid;*

Thus, while Cambridge Analytica is now exposed, and can no longer play a role in further elections, i360 is set to take over:

> "The i360 website says that its database now has information on 199 million voters from all 50 states; information on 290 million consumers with 700+ data points; information on precinct election returns as well as data from the Census, NOAA, the Bureau of Labor Statistics and geo-spatial data; individual sentiment information on candidates and issues from its social media operations; and information from its grassroots groups (read Americans for Prosperity) and paid door-to-door knockers who are using a sophisticated hand-held device to update the database in real time in the pivotal weeks before an election.
> But i360 is far more than just a voter database. It has social media targeting operations and really scary data collection that reaches into people's homes. Consider this from their website:
> Through an exclusive partnership with D2 Media Sales, the strategic relationship

> between DirectTV and Dish, i360 is able to identify households that meet your target criteria and serve ads uniquely to those households – no matter which stations or programs they are watching. With dozens of i360 custom segments pre-matched to more than 20 million DIRECTV and DISH homes, campaigns can now reach the largest addressable TV advertising platform in the nation. One-to-one television targeting combines the emotional impact of TV advertising with the precision and accuracy of direct mail marketing – resulting in the most cost-effective and high impact buying solution." *Martens; Ibid;*

From the election of Trump, the Kochs had very quickly moved to ensure their stooges were in place in the government:

> "President Donald Trump, from the day he took office, has been little more than a titular figure head for the fossil fuels industry – with Koch Industries in particular calling the shots. The Trump administration took the unthinkable step of removing the United States from the **Paris Climate Accord** and there is breaking news that the **Environmental Protection Agency** will ease rules on methane gas emissions for oil and gas companies like Koch Industries.
> The only real difference between this coup and past coups is that Koch Industries and its front group, Freedom Partners, are so much more in your face than Wall Street's highly finessed but equally predatory cabal*".*
> *Pam Martens and Russ Martens;" As White House Coups Go, Wall Street Has Staged Plenty"; September 11, 2018; Blog Wall St on Parade, a Citizen Guide to Wall Street;*
> *http://wallstreetonparade.com/2018/09/as-white-house-coups-go-wall-street-has-staged-plenty/*

Independent agencies such as '**Public Citizen',** originally set up by **Ralph Nader**; also find undue influence of the Kochs in the current White House:

> "A Public Citizen review of the Koch brothers' connections to the Trump administration and their policy agenda in Washington, D.C. finds:
> 44 Trump administration officials have close ties to the Koch brothers and their political groups, particularly Vice President Mike Pence, White House Legislative Affairs Director Marc Short, EPA Administrator Scott Pruitt and White House budget director Mick Mulvaney.
> The bulk of Koch allies are in the White House, with 21 officials working there or nominated for White House jobs.
> Koch allies are also staffing jobs at the Environmental Protection Agency, Interior Department, Energy Department and the Treasury Department.
> The positions they are advocating overlap with the Kochs' economic interests, in weakening regulatory enforcement, lowering corporate taxes, loosening environmental regulations and opening up public land to oil and gas extraction.
> The Kochs have already achieved the majority of goals contained in "Roadmap to Repeal" — a policy document, published in January 2017 by Freedom Partners, a Koch group". *Alan Zibel* for 'Public Citizen';*"How The Koch Brothers' Agenda Has Infiltrated The Trump Administration"; November 30, 2017; https://www.citizen.org/sites/default/files/public-citizen-koch.pdf*

It may be objected, that there have been some actions of the Trump regime, that favour Wall Street and its financiers. However, a consistent theme since the 19th Century has been the increasing inter-connection of finance capital and industrial capital. The current upper hand of the 'cowboys' does not negate this:

> "You are likely wondering why, if the fossil fuels industry is cracking the whip at the Trump White House, there is also so much deregulation of Wall Street happening. That's because Koch Industries also has a sprawling trading division called Koch Supply & Trading with offices in Houston, New York City, Wichita, Mexico City, London, Geneva, Singapore, and Shanghai. According to its website, it trades crude oil, refined products and derivatives, metals, interest rates and currency futures, among other things. That aligns its interests directly with the deregulation crowd on Wall Street."
> *Pam Martens and Russ Martens;" As White House Coups Go, Wall Street Has Staged Plenty"; September 11, 2018; Blog Wall St on Parade, a Citizen Guide to Wall Street; http://wallstreetonparade.com/2018/09/as-white-house-coups-go-wall-street-has-staged-plenty/*

In contrast, in general, financiers had been backing Clinton, and the Democratic Party. These are the "**Yankees**":

> "According to the Center for Responsive Politics, Citigroup ranks as one of the top five donors to Hillary Clinton over the course of her career in public office. J.P.Morgan Chase and Goldman Sachs also register in the top five. (The monies come from employees and/or family members or PACs of the firms, not the corporation itself.) Citigroup has also paid the Clintons massive sums in speaking fees over the years and provided a $1.995 million mortgage to allow the Clintons to buy their Washington, D.C. residence at the end of Bill Clinton's presidency – a time when Hillary Clinton says the couple was "dead broke." Citigroup has also committed $5.5 million to the Clinton Global Initiative, a controversial charity run by the Clintons." *Pam Martens and Russ Martens: Hillary Should Ask Jamie Dimon What Kind of Genius Loses $6.2 Billion"; Blog Wall St on Parade, a Citizen Guide to Wall Street; October 4, 2016; at http://wallstreetonparade.com/2016/10/hillary-should-ask-jamie-dimon-what-kind-of-genius-loses-6-2-billion/*

Jamie Dimon the CEO of J.P. Morgan, the giant financial company we have already met, has been closely tied to the Democratic Party. He made clear what he expected the next president to do, and who it was that he expected would win the election:

> "J.P.Morgan Chairman and CEO Jamie Dimon hinted Monday that he expects Hillary Clinton to win the U.S. presidential election in November.
> "I hope the next president, she reaches across the aisle," Dimon, said at a conference sponsored, according to Bloomberg.
> … his use of the feminine pronoun indicates he is expecting the former Secretary of State will win the White House. Dimon's comment was met with "loud applause," Bloomberg reported.
> In May, Dimon told CNBC :..
> "If the next president does the right things around immigration, corporate and individual tax reform, [and] infrastructure spending, America would be booming," Dimon said at the time. "That boom would help the people who need it the most, the people at the bottom of the ladder." *Everett Rosenfeld; "Jamie Dimon hints at prediction that Hillary Clinton will win"; CBNC; 17 Oct 2016; at: https://www.cnbc.com/2016/10/17/jamie-dimon-hints-at-prediction-that-hillary-clinton-will-win.html*

The importance of the financial capitalists cannot simply be ignored by the 'cowboys'. But, in general relations between financial heads in Wall St and Trump have been volatile. However, represented by Jamie Dimon on the Trump established Business Roundtable, they still wait for Trump to deregulate the financial industry even further. As

one commentator put it:

> "Why has Wall Street stuck with Trump, I wondered. He (**Robert Wolf,** a longtime investment banker who was often described as one of Obama's closest friends on Wall Street. Wolf, a significant Democratic Party fund-raiser… said it is betting on tax reform, financial deregulation, and a continuation of the stock-market rally that has led to one record high after another. "They sold their soul," he wrote me." *William D. Cohan, 'The Real Reason Jamie Dimon Went Berserk About America's "Stupid Shit" - It wasn't really about "average citizens." It was really about the country's largest bank'; July 17, 2017;* https://www.vanityfair.com/news/2017/07/the-real-reason-jamie-dimon-went-berserk-about-america

Of course this implies the financial capitalists have another morality to that of profiteering. Nonetheless, this explains why the financiers are careful to give Trump some room. In the meantime they continue to make handsome profits:

> "JPMorgan Chase & Co CEO Jamie Dimon complimented the administration of President Donald Trump in his annual letter to shareholders on Thursday, saying tax cuts and deregulatory efforts are helping his bank make more money.
> Dimon, who runs the biggest US bank, drew a contrast between Trump's moves and other elected officials who he said had not struck the right balance for the economy between regulation and free commerce.
> … Dimon played to his roles as the public face of Wall Street and the chairman of the **Business Roundtable**, a CEO lobbying group. Dimon said new federal tax laws and "a more constructive regulatory environment" adopted since the 2016 presidential election give him hope that JPMorgan would be able to invest more of its excess capital to grow the bank and expand into new markets.
> Dimon also said the US had legitimate grievances with China on trade, but that "anything that starts to resemble a trade war" will pour risk and uncertainty into the global economic system.…
> Resolution of "serious trade issues" would be good for the US and the rest of the world, Dimon wrote.
> "We should acknowledge many of the legitimate complaints around trade," Dimon said. "Tariffs and non-tariff barriers to trade are often not fair; intellectual property is frequently stolen; and the rights to invest in and own companies in some countries, in many cases, are not equal."
> He also emphasised JPMorgan's ability in the new climate to earn a return on tangible equity of 17%, two points higher than the target before corporate tax cuts were enacted and nearly four points greater than the company delivered in 2017.
> Offering bank investors a view of the company stock, Dimon contended that it still made financial sense for JPMorgan to buy back shares "even at or above two times tangible book value" per share, which was $53.56 at year-end. JPMorgan shares closed at $110.99 on Wednesday".
> *Business Day agency staff; ;JPMorgan's Jamie Dimon praises Donald Trump's 'well-balanced' tax cuts;* 05 APRIL 2018 Business Day; https://www.businesslive.co.za/bd/companies/2018-04-05-jpmorgans-jamie-dimon-praises-donald-trumps-well-balanced-tax-cuts/

Nonetheless, relations between financiers and Trump are far from totally cordial. Jamie Dimon has ventured sharp critiques. Though, these have been often quickly retracted:

> "Relations between President Trump and Wall Street are complicated. Last

> year's tax bill greatly favored big financial companies, but some financial executives have clashed openly with Mr. Trump. J.P.Morgan's chief executive, Jamie Dimon, a onetime informal adviser to Mr. Trump, said last Wednesday in a speech that "I'm smarter than he is" and that unlike Mr. Trump's, his personal wealth "wasn't a gift from Daddy." Mr. Trump the next day called Mr. Dimon a "nervous mess," and Mr. Dimon has since said he shouldn't have made the remarks. Others, like Morgan Stanley's chief, James Gorman, and the chief executive of Goldman Sachs, Lloyd C. Blankfein, opposed Trump policies like his original travel and immigration ban". *Alexandra Stevenson, Kate Kelly and Keith Bradsher; 'As Trump's Trade War Mounts, China's Wall Street Allies Lose Clout'; New York Times Sept. 16, 2018*

The attention often focuses on Jamie Dimon, who it has been suggested, might be a Democratic candidate for the nest presidential election. They are both very rich individuals, although Dimon is apparently 'worth' less:

> "Trump currently ranks 248th on the Forbes 400 list of the wealthiest Americans, with an estimated net worth of $3.1 billion. Dimon's current estimated net worth is $1.4 billion, below the level needed to make the Forbes 400 list".
> *Donald Trump, Jamie Dimon tweets mark new low in feud between billionaires*
> *Kevin McCoy USA today; Sep 14, 2018; https://eu.usatoday.com/story/money/2018/09/13/donald-trump-jamie-dimon-again-off-again-relationship/1288996002/*

Do not feel too sorry for Dimon:

> "Jamie Dimon testifies in front of the House Financial Services in 2012…
> With JPMorgan Chase's stock trading around $92 per share, Dimon has also become a billionaire, at least on paper. He was paid $28 million last year". *William D. Cohan, 'The Real Reason Jamie Dimon Went Berserk About America's "Stupid Shit" - It wasn't really about "average citizens." It was really about the country's largest bank'; July 17, 2017; https://www.vanityfair.com/news/2017/07/the-real-reason-jamie-dimon-went-berserk-about-america Wall Street*

Indeed Dimon's company sits at the top of the financial tree:

> "…. It has been a wonderful few months for Dimon. His company, which is the largest bank in the U.S., has seen its stock rise thirty per cent since the election. Bank stocks can go up for a variety of reasons, but one reason is that investors believe that they will be able to receive a larger share of the nation's wealth. In a still slow-growing economy, this means that wealth will come from others. That is certainly the expectation in a Trump economy, and Dimon, in addressing his letter to his investors, but also to Trump and his Administration, seems to recognize that. He presented his expertise on what the government needs to do to improve Americans' lives, and his solutions largely benefit the very rich, especially those who make money from trading financial instruments; in short, he talked his book".
> *Adam Davidson; 'What Jamie Dimon Is Trying to Say to Trump'; April 6, 2017*
> *https://www.newyorker.com/business/adam-davidson/what-jamie-dimon-is-trying-to-say-to-trump*

A long history of back-and-forth sparring between Trump and Dimon, illustrates the tensions between financial capital and Trump's 'cowboy' constituency. This is well outlined by 'Triple Pundit' (*Tina Casey; JP Morgan CEO Offers Warnings to Commander-In-Chief Apr 10th, 2017; at https://www.triplepundit.com/2017/04/jamie-dimon-donald-trump/).* There is little

doubt that Dimon fancies himself as a potential presidential candidate. And his programme would be very similar to that of the Democratic party. And it would contain some clauses that are congenial to the Republicans also:

> "a recent letter to shareholders from Jamie Dimon, the C.E.O. of JPMorgan Chase… got a lot of attention on Wall Street this week… "The United States of America is truly an exceptional country," Dimon wrote… (But) "It is clear that something is wrong—and it's holding us back." Dimon writes like a more restrained Bernie Sanders. He laments the disappearing middle class. He points to household median wages, which are lower today than they were in 1999, and to the "dramatically increased student defaults" owing to the sudden explosion of student debt. "We should be ringing the national alarm bell that inner city schools are failing our children," he opines… "Over the last 16 years, we have spent trillions of dollars on wars when we could have been investing that money productively."… He has, indeed, given hundreds of thousands of dollars to Democratic candidates, including Hillary Clinton and Barack Obama… While his recitation of the problems came from the progressive wing of the Democratic Party, his solutions were entirely out of the Trump and G.O.P. handbook". *Adam Davidson; 'What Jamie Dimon Is Trying to Say to Trump'; April 6, 2017; https://www.newyorker.com/business/adam-davidson/what-jamie-dimon-is-trying-to-say-to-trump*

These solutions are what you would expect big business to say:

> "Reducing corporate taxes would incent business investment and job creation," he wrote. Not satisfied with mere job creation, he asserted that "counterintuitively, reducing corporate taxes would also *improve* wages." Most urgently, he called for a dramatic cutback in regulation. He said that regulations cost two trillion dollars a year, or "approximately $15,000 per U.S. household annually," as if the best way to understand regulation is that it is a cost coming out of each American's pocket. (It isn't.) For Dimon's book—the banking industry—regulation is definitely a hassle, and has become more of one since the passage of the Dodd-Frank financial reforms. He bemoans the fact that "since the financial crisis, thousands of new rules and regulations have been put into place by multiple regulators in the United States and around the world." This has cost banks money. He doesn't note that the explicit goal of much banking regulation is to protect consumers from bankers seeking profit, and to protect against another financial crisis". *Adam Davidson; 'What Jamie Dimon Is Trying to Say to Trump'; April 6, 2017; https://www.newyorker.com/business/adam-davidson/what-jamie-dimon-is-trying-to-say-to-trump*

But there is no doubt that the financiers are concerned about several strands of Trump's agenda. In especial it seems the issue of **trade tariffs**. They use their connections with China for example, in an effort to break deadlock negotiations. Thus far these are fruitless:

> "Today, China is hoping that Wall Street will once again use its political heft to soothe tempers in Washington. But as President Trump ratchets up the trade war with Beijing, Wall Street's words are falling on deaf ears...
> In the past, Wall Street was an effective advocate. In the late 1990s, when China's effort to lower trade barriers faced tough political opposition, China flew its premier, Zhu Rongji, to New York to meet directly with financial and business

> leaders. … Goldman Sachs and the American International Group, the big financial conglomerate, urged President Clinton to strike a deal. He did, and China joined the World Trade Organization in 2001.
> Wall Street also discouraged the United States from formally accusing China of manipulating its currency. Both President Bush and President Obama vowed to get tough on China's longstanding efforts to weaken the value of its currency to help its importers. Wall Street banks urged them to reconsider. Both ultimately backed down. …The Wall Street influence ran deep. Robert E. Rubin, a Wall Street veteran, served as Treasury secretary under President Clinton and helped forge the consensus within the Clinton administration on how to bring China into the World Trade Organization. Henry M. Paulson Jr., a former Goldman Sachs executive with a high profile in China, served as President Bush's Treasury secretary. Wall Street figures have cultivated China connections in other ways. …. Goldman Sachs last year said it would help China's sovereign wealth fund put $5 billion into acquiring stakes in American businesses.
> *Alexandra Stevenson, Kate Kelly and Keith Bradsher; 'As Trump's Trade War Mounts, China's Wall Street Allies Lose Clout'; New York Times Sept. 16, 2018*

> "JPMorgan Chase CEO Jamie Dimon is worried the economy's momentum could be derailed by President Donald Trump's trade wars.
> "If you do another $200 billion of tariffs and this national security thing about cars, I think that you're getting pretty close to reversing some of the benefits you've seen in the economy," Dimon told CNN Money's Christine Romans".
> CNNMoney exclusive: Jamie Dimon on the trade war, infrastructure 'emergency' and Trump
> http://www.wgrr.com/news/cnnmoney-exclusive-jamie-dimon-on-the-trade-war-infrastructure-emergency-and-trump/

Trump's aggressive raising of trade tariffs attempt to revive industry within the borders of the USA. This depends upon reversing the previous "out-sourcing" – with so called "**reshoring**", "**back-shoring**", or "in-sourcing". But, it should be noted that this is a policy that was already being promoted by sections of industry working with President Obama:

> "Even before the election, the Obama administration had begun focusing on strengthening industrial innovation and promoting advanced manufacturing through its Manufacturing USA initiative as the path forward to revive American manufacturing competitiveness and stimulate growth in advanced manufacturing capacity in the United States". *Joel S. Yudken, Thomas Croft And Andrew Stettner, for the 'Century Foundation'; 'Revitalizing America's Manufacturing Communities'; part of the Hollings Manufacturing Extension Partnership (MEP) based at the National Institute of Standards and Technology (NIST); October 16, 2017; https://Tcf.Org/Content/Report/Revitalizing-Americas-Manufacturing-Communities/?Agreed=1*

The **Organisation for Economic Co-operation and Development** (OECD), was established in 1960, and consists of 36 countries, and is based in Paris. Its various reports recently, include several on reshoring:

> "The reshoring policy debate is especially prominent in the United States with reshoring expected to result in a manufacturing renaissance in the country. At the start of his second term, President Obama hosted a forum at the White House focused on the growing number of companies choosing to "insource" jobs and make new investments in the United States. In a first study on the topic, the

> Boston Consulting Group reported for example that more than half of 200 US companies surveyed with sales greater than USD 1 billion were moving jobs back to the United States, or were planning to do so within the next two years (Boston Consulting Group, 2011). The same consulting company create projected that re-shored production coupled with rising exports may create between 2.5 million and 5 million jobs in the United States by 2020 (Boston Consulting Group, 2013)";
> *Koen De Backer, Carlo Menon, Isabelle Desnoyers-James, Laurent Moussiegt; 'Reshoring: Myth or Reality?'; OECD Science technology and Industry Policy Papers no.27; 2016; at: https://www.nist.gov/sites/default/files/documents/mep/data/RESHORING_MYTH-OR-REALITY.pdf*

Naturally, the impetus for reshoring is driven by motives other than altruism or patriotism. It is the drive for profits.

> "OECD (2011) showed that a multitude of factors play a role in the decision of companies where to locate activities including the size and growth of the local/regional market, (wage) costs, the availability of resources, human capital, the presence of suppliers and scientific infrastructure… Since companies have offshored activities to low-cost emerging countries in the 1990s and early 2000s, production costs have significantly increased in these countries. China for example has witnessed an average hourly wage increases of 15-20% per year which has significantly eroded its cost advantage in labour-intensive activities. While the average hourly wage in emerging economies was estimated to be around 2% of the Unites States average in 2000, this is expected to rise to 9% in 2015 (World Economic Forum, 2012). In addition, energy costs and building costs in some emerging economies are reported to have risen dramatically in recent years." *De Backer K et al; Ibid; OECD; 2016.*

This phenomenon is common to all dominant imperialist countries, including Germany:

> "Longitudinal data for German companies from the German Manufacturing Survey (between 1 450 and 1 650 observations in the individual surveys waves in 1997, 1999, 2001, 2003, 2006, 2009 and 2012) allows us to conclude that, by extrapolation, around 400 to 700 German companies per year have backshored activities. The most recent data show that about 2% of all German manufacturing companies have been active in backshoring between 2010 to mid-2012; a percentage that seems, surprisingly, to be decreasing. Also, the number of German manufacturing companies' offshoring activities abroad shows a steady decline, but is nevertheless four times larger than the number of backshoring companies in German manufacturing. The majority of repatriations of production activities by German companies originate in Eastern European countries, with shares close to 50% of all reshoring cases. The data also seem to suggest that backshoring by German companies can be characterised as a short/mid-term correction of a prior location decision, since around 80% of the backshoring cases followed with a 3-5 year lag after the previous offshoring decision (Kinkel, 2014). " *De Backer K et al; Ibid; OECD; 2016.*

Trump has taken the Obama initiative to a more concerted effort.

> "During all of 2016, candidate Donald Trump harped on the loss of US manufacturing jobs, scolding companies for moving their production out of the

> country. As those complaints mounted, jobs actually started to return to the US. The trend accelerated through 2016 and into early 2017. For the first time in decades, more manufacturing jobs returned to the US in 2016 then went offshore, according to the annual data report from the Reshoring Initiative. The report shows that the reshoring trend grew by over 10 percent in 2016, adding 77,000 jobs. That ties the 2014 record and exceeds the rate of offshoring by 27,000 jobs. The results bring the total number of manufacturing jobs brought back from offshore to more than 338,000 since the manufacturing employment low of February 2010". *Rob Siegel; 'Did Trump Create the Bump in Reshoring?'; Design News; June 07, 2017;https://www.designnews.com/automation-motion-control/did-trump-create-bump-reshoring/148237684856946*

Small manufacturing is an often overlooked segment of industry. However, it accounts for a large proportion of businesses in the USA. They potentially could benefit from policies of tariffs and reshoring:

> "Small- and medium-sized manufacturers (SMMs) comprise 99 percent of manufacturing establishments in the United States, employ over 70 percent of all manufacturing employees, and account for the large majority of new jobs created in manufacturing.52 SMMs form the backbone of America's supply chains and include all of today's small entrepreneurial start-ups. SMMs often lack sufficient financing, personnel, capacity, capital equipment, expertise, and experience—especially compared to large manufacturers—to improve their competitiveness, in areas ranging from innovation and productivity improvement, to workforce recruitment and training, to business development and modernization, among other needs." *Joel S. Yudken, Thomas Croft And Andrew Stettner, for the 'Century Foundation'; 'Revitalizing America's.." Ibid.*

Naturally, big business oil and energy interests are likely to benefit also, as the Kochs recognize. Amongst his earliest pledges, Trump announced:

> "Among his pledges, Trump has promised to "lift the restrictions on the production of $50 trillion dollars' worth of job-producing American energy reserves, including shale, oil, natural gas, and clean coal," as well as lift "Obama-Clinton roadblocks" to allow projects like the Keystone Pipeline to move forward. He has also promised to reallocate billions from climate change programs toward fixing America's water and environmental infrastructure. Trump also says he plans to withdraw from the Trans-Pacific Partnership and to renegotiate NAFTA or, failing that, withdraw from it entirely.
>
> The President-elect has also proposed an End the Offshoring Act, which would establish tariffs to discourage companies from offshoring workers and shipping products manufactured internationally back into the US tax-free.Other acts Trump has proposed include an expansion of military investment and an American Energy and Infrastructure Act, which he says will leverage "public-private partnerships, and private investments through tax incentives, to spur $1 trillion in infrastructure investment over 10 years."
>
> In early January, Ford Motor Co. announced that it had abandoned plans to build a $1.6 billion dollar plant in Mexico and instead would be investing $700 million into an existing plant in Flat Rock, Mich. and adding 700 jobs. Ford CEO Mark Fields told CNN this move is part of the company's new commitment to electric vehicles and in part as a "vote of confidence" for the "positive manufacturing

> business environment" Ford believes will grow under Trump.*https://www.designnews.com/business/tech-industry-more-optimistic-about-trump-presidency-public/44107291947265*

As the USA Managing Editor of the Financial Times, **Gillian Tett** has good sources in the corpate executive world. They have brought into the reshoring movement. However Tett points out the full change-over may be '*slow'*:

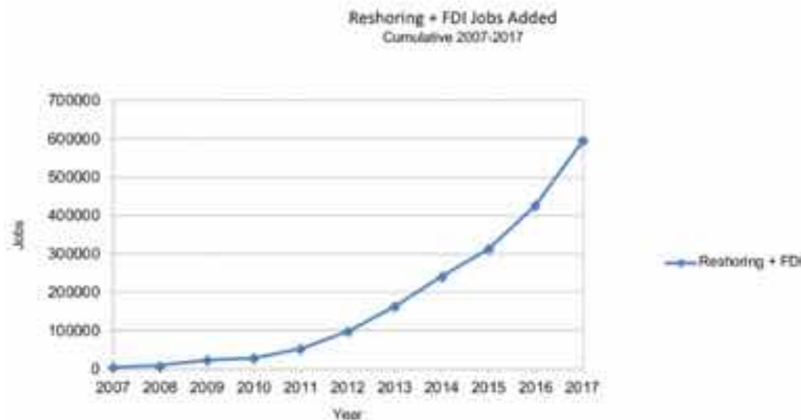
> "A company such as 3M, the American manufacturing powerhouse, seemed until recently a beacon of globalisation. It sells the Post-it note and other famous products all over the world. Indeed 60 per cent of its $30bn revenues, and 40 per cent of its workforce, sit outside American shores. But here is a curious thing: if you ask Inge Thulin, the Swedish-born chief executive of 3M, to describe corporate strategy these days, he does not speak of globalisation. Instead, he prefers to talk about "localisation" — and the benefits of operating in the mighty US of A. "We employ 20,000 people in manufacturing in America and we have expanded this by 10 per cent in the last five years," he told me last month at the Council on Foreign Relations in New York. "Our strategy has changed. If you go back [several] years, there was a strategy of producing at huge facilities at certain places around the world, and shipping it to other countries. But now we have a strategy of localisation and regionalisation. We think you should invest in your domestic market as much as you can." … I have heard several other executives echo it in private. For the past three decades western multinationals have been outsourcing production to low-cost places such as China, creating global supply chains. But today, instead of celebrating "free" trade, American executives are calling for "fair" trade, along with "reciprocity" and "equalisation" of trade deals. This is a euphemism for better terms for US companies. "What is new today, is the conversation [about trade]," Andrew Liveris, chief executive of Dow Chemical recently observed. "[American companies] have not had fair access to many markets for a while. We got used to that . . . but not any more." Or as Mr Thulin says: "Things like Nafta are working well, but it can be improved . . . what we want is fair trade." … But there is a further crucial factor behind this linguistic shift: when Mr Trump started talking about restoring US manufacturing last year, he was not swimming against the tide. On the contrary, he tapped into a subtle trend that was already emerging. To understand this, take a look at a survey of US companies conducted by Boston Consulting Group. This survey showed until recently that American companies were busy building cross-border supply chains: in 2012, 30 per cent said China was the most likely destination for US company investment. But in 2015, BCG found a shift had occurred: 31 per cent of companies planned to boost production in America, but only 20 per cent said the same about China. One reason for this shift is a rise in relative wage costs in China. Another is that production costs in the US have fallen because of automation and cheap energy. However, a third point is that chief executives have realised that long supply chains create political and logistical risks. "The days of outsourcing are declining," Jeff Immelt, General Electric chief executive, observed late last year. "Chasing the lowest labour costs is yesterday's model." Now, this does not mean people such as Mr Thulin, Mr Liveris or Mr Immelt are turning their back on the globe; in a world of "localisation", there is still incentive to keep overseas production serving overseas markets. Nor should anybody overstate the speed of this shift: it is subtle and slow. But the main point is this: even before Mr Trump arrived in

office, the C-suite was losing its blind faith in globalisation. For better or worse, we face a more localised world. And that trend owes as much to robots and digital technologies as any political firebrand — and will probably outlast any president, too”. *Gillian Tett; Financial Times, June 1, 2017*

It is fair to say that there is some doubt about the success, and the speed of the strategy of reshoring. Nonetheless lobby groups claim it has already increased the number of jobs. As our story about the Italian seamstress suggests, salaries may not be very good in the new jobs:

“In 2017 the combined reshoring and related Foreign Direct Investment (FDI) announcements surged, adding over 171,000 jobs in 2017, with an additional 67,000 in revisions to the years 2010 through 2016. This brings the total number of manufacturing jobs brought to the U.S. from offshore to over 576,000 since the manufacturing employment low of 2010. The 171,000 reshoring and FDI job announcements equal 90% of the 189,000 total manufacturing jobs added in 2017.
In 2017 announcements of combined Reshoring and FDI jobs were up 122% compared to unrevised 2016 totals and 52% compared to revised 2016 totals. We believe the huge increases were largely based on anticipation of greater U.S. competitiveness due to expected corporate tax and regulatory cuts following the 2016 election. Similar to the previous few years, FDI continued to exceed reshoring in terms of total jobs added, but reshoring has closed most of the gap since 2015”. *Reshoring Initiative 2017 Data Report: Reshoring Plus Fdi Job Announcements Up 2,800% Since 2010; at http://reshorenow.org/blog/reshoring-initiative-2017-data-report-reshoring-plus-fdi-job-announcements-up-2-800-since-2010/*

Figure 20: Reshoring Jobs and FDI jobs 2007-2017 (*Reshoring Initiative 2017 Data Report)*



“Around 60 per cent of the reshoring over the past five years has been from China, while the FDI comes heavily from Germany and Japan. The biggest projects have been destined for the Southeast US and Texas. Among the drivers for the trend has been rising Chinese wages, which are making plants in the People’s Republic less competitive than they were, said Harry Moser, the founder of the Reshoring Initiative. “We have at least stopped the net outflow and shown there is hope,” he said. China has become an increasingly important export market for the US, supporting almost 1m jobs in the US, according to the Department of Commerce”. *Sam Fleming; Financial Times; March 29, 2016; p.12. https://www.ft.com/content/0d833e52-f5e8-11e5-96db-fc683b5e52db*

As mentioned, not only the USA is experiencing this. Capitalists in other imperialist nations like the UK, are doing the same. This article explores the cost differentials of doing business. Interestingly it also points out that Chinese capitalists (yes – China is a capitalist state) are also moving production out of China – for now to countries like Bangla Desh:

> "Tom Davies (has)… new, eponymous company which made upmarket glasses frames. ..It has its own factory in China, shops across London and spots in 1,000 opticians worldwide. … in 2014 he said, "I'm thinking of moving production from China to the UK. It's not as cheap as it was… He plans to have 30 per cent of manufacturing in the UK by the end of 2017, 70 per cent in three years. In a curious twist on the industrial history of recent decades, teams of Chinese staff are coming over to train British workers. It may seem almost a suicide mission on their part, but Mr Davies is not closing the Shenzhen factory, just no longer expanding it as the business grows. .. .. The most surprising reason Mr Davies has for his move is economic. There may be an element of justifying his decision retrospectively, but he believes he can lower prices by making in Britain. Labour costs in China have risen. Many Chinese businesses I speak to are thinking beyond manufacturing in established cheaper bases like Vietnam and Bangladesh and are looking elsewhere. "The Shenzhen average [annual salary] in 2007 was £2,500," said Mr Davies. "It's now £8,000, and I have key people earning up to £55,000. Our car park is now full of workers' cars." The differential in premises costs is also not startling. His Shenzhen plant costs £2 per sq ft, but would go beyond £4 if he renewed his lease. His London cost is £8 per sq ft, although this factory also needed a £600,000 refurb. … Logistics costs will be lower making glasses in London. But the biggest saving will be because technology in his industry has moved on. A computer-controlled machine tool once costing £250,000 is now a twentieth of that, he says — ironically, from Chinese makers. The software is also cheaper and easier to use. All this means he needs fewer staff, Chinese or British, than he used to. The Made in England cachet, Mr Davies believes, will help in a business that has one foot in the fashion world". *Jonathan Margolis; "Opinion Asia manufacturing Made in England: why some manufacturing is coming home from China A refocusing of the 'world's workshop' might be a progressive step all round"; Financial Times; August 27, 2017; https://www.ft.com/content/141418ba-88b1-11e7-afd2-74b8ecd34d3b*

The rise in technology using either Artificial Intelligence or frank, robotisation, will accelerate this process of return of industry. What effect it will have on "return of jobs" – is another matter:

> "In some high-profile industries, technology is displacing workers of all, or almost all, kinds. For example, one of the reasons some high-technology manufacturing has lately been moving back to the US is that these days the most valuable piece of a computer, the motherboard, is basically made by robots, so cheap Asian labour is no longer a reason to produce them abroad. Robots mean that labour costs don't matter so much and capitalists can then locate in advanced countries with large markets and better infrastructure. Even the low wages earned by factory workers in China have not insulated them from being undercut by new machinery. Terry Gou, the founder of Foxconn, announced this year a plan to

> purchase 1 million robots over the next three years to replace much of his workforce. The robots will take over routine jobs like spraying paint, welding, and basic assembly".
> *Michael Roberts; "Apples, robots and robber barons";*
> *https://thenextrecession.wordpress.com/2012/12/12/apples-robots-and-robber-barons/*

Conclusions

Capitalism is inevitably going to move from one crisis to another, unless it is superseded by an alternative social system. Lenin said:

> "It goes without saying that if capitalism could… raise the living standards of the masses, who in spite of the amazing technical progress are everywhere still half-starved and poverty-stricken, there could be no question of a surplus of capital. This "argument" is very often advanced by the petty-bourgeois critics of capitalism. But if capitalism did these things it would not be capitalism; for both uneven development and a semi-starvation level of existence of the masses are fundamental and inevitable conditions and constitute premises of this mode of production. As long as capitalism remains what it is, surplus capital will be utilised not for the purpose of raising the standard of living of the masses in a given country, for this would mean a decline in profits for the capitalists, but for the purpose of increasing profits by exporting capital abroad to the backward countries." *Lenin VI; Imperialism, The Highest Stage Of Capitalism, A Popular Outline'; iv. Export Of Capital; Ibid.*

Isn't it surprising that the former Treasury Secretary says almost the same thing? Hear out Hank Paulson:

> "**Question**: Do you think we're on the precipice of another financial crisis, as I do? Or are you thinking that will be years away? Or is it, as ever, just very difficult to know? Do you think financial crises are inevitable given human nature and the DNA of our banking system?
> **Answer**: The timing, cause, and severity of the next financial crisis are impossible to predict. Of course someone will get it right and will be credited with doing so, but he or she won't spot the next one. But future crises are a certainty, they're inevitable. As long as we have banking systems, as long as we have fragile banking and financial markets, no matter what the political system, government policies will be imperfect and flawed, and they'll lead to excesses, which will manifest themselves in the financial system".
> *William D. Cohan, 'Interview: Hank Paulson Says the Financial Crisis Could Have Been 'Much Worse'; Barrons; Sept. 12, 2018*
> *https://www.barrons.com/articles/hank-paulson-looks-backat-the-turmoil-of-2008-1536759000*

We believe that this article, has covered several major changes in the world economy, and the USA economy over the last 50 years. In doing so, we have shown an evolution in the relationship of finance capital and industrial capital. The situation nowadays is quite different to those in Lenin's day, of a 'merger' between the two wings.

In relation to the domestic politics of the USA, there really does appear to be a significant fault line on some key economic issues, between the Democratic Party (primarily representing the interests of financial capital) and the Republican party (primarily representing the interests of industrial capital).

This division is not complete, but it is real – in our view. At the moment of writing several Counter-attacks by the Democratic Party against the Republican Trumpian coup are in progress. It is at this juncture unclear what the outcome will be.

Marxist-Leninists must assess both electoral politics from the tactical viewpoint of the working class. It is obvious that both the Democrats and the Republicans are not interested in the well being of the working class. But as far as the working class is considered, the salient question is always - is there any objective difference for the class, if one or the other party is in power?

We argue that Trump's green light to open racism and sexism, disables the workers movement to tackle the broader and more fundamental question of the socialist revolution. We do not even discuss here, the serious matters of climate pollution and change. In fact, we do not even consider the very real possibility, at some juncture - of an overt fascist take-over of the USA state.

We argue that Trump and the republican party in power – add to the hurdles of the working class. Therefore if there is a choice between the two main capitalist parties in elections – we contend that the Democratic party should be critically supported, unless there is another viable alternative. This therefore, is the advise given by Lenin to the British communists, of "support the labour party, as a rope supports a hanged man".

Our task in this article was to examine the relationship between finance capital and industrial capital. This was the overall objective of first, asking first, what changes have there been? Secondly, to assess whether the antagonism between the Democratic party and the Republican party currently had an objective basis? We believe we have found evidence of an objective difference, based on the two sectors of capital – industrial and financial.

It was not the objective in this article, to assess the strategy of a Marxist-Leninist grouping, to other non-communist parties – including the Democratic Socialists of America. That remains another task to complete. We believe however that it worth reminding ourselves that without a Marxist-Leninist party, it is dubious that the socialist revolution can be forged. This is now considered by many leftists as out-dated. We disagree.

Hari Kumar September 28, 2018