

## CAPITALISM DOESN'T WORK

The global financial crisis seems to be stabilising, though the pundits have declared it over a few times already, only to be exposed as yet another financial institution goes to the wall. Even if they are correct this time, though, a global recession looms. The banks are short of money to lend and, chastened by recent events, they are tightening up on previously lax lending practices. Around the world, consumer spending is diving and jobs will be next to follow.

This is not an aberration. Crisis is inherent in capitalism, because it is chaotic and operates according to the law of the jungle. No amount of regulation by governments and no amount of sacrifice by the working class can bring order to the market and all attempts to do so are futile.

The current crisis is a perfect example of the impossibility of a stable capitalism. For decades, the media have lectured the working class on how we mustn't indulge in militant unionism and pursue wage rises, because it would only cause inflation and then bring on a recession. Well, unions in industrialised countries are weaker than any time in a century, so for the last ten years we weren't able to get the big wage rises we achieved in previous boom times.

“Good behavior” by the workers, however, didn't lead to the economic stability that the capitalist economists believed it would. Instead, to the extent that overall economic profitability was restored, capitalist investors drove up the price of assets (e.g. shares, real estate) in an attempt to capitalise now the profits they were so confident in achieving in the future. What's more, they borrowed as much as they could in order to increase their investments on what looked like a “sure thing”. When things reached the stage where speculation itself increased the profitability of firms specialising in “financial engineering”, the value of future profits became over-extracted. From there on, all investment markets were nothing but a giant Ponzi scheme.

It was the attempt to keep the boom at fever pitch that led to the infamous sub-prime loans in the US real estate market. House prices couldn't keep rising unless there was an increasing number of buyers. Real wages in the US, however, have been stagnant for decades, so large parts of the working class were not in a financial position to afford to pay back a regular mortgage. This, however, was not a complete obstacle to the Wall St speculators. They came up with the idea of a loan with a low initial interest rate, but which converted to a higher rate later. If you sold on at a profit before the higher interest rate kicked in, you were safe. It was marketed as a way of bringing home ownership to sectors of the US population who had been locked out of it, but it could only work as long as prices continued to rise.

Eventually, the US Federal Reserve started raising interest rates, which had been maintained at extremely low levels since the last panic over the end of the dot.com bubble. Even before rates had reached “normal” levels, however, the real estate boom was choked off and vast numbers of workers were left with huge mortgages they couldn't

pay on homes that were massively over-valued. Once they couldn't sell at a profit before the higher interest rate kicked in, they were facing bankruptcy.

The fate of the swindled workers of the US was not of concern to the capitalists, but the fate of those to whom they owed money most certainly was. Supposedly, the risk had been spread by means of bundling the sub-prime loans up into Collateralised Debt Obligations and selling them to investors all around the world, but the Wall St bankers had been too clever by half. Not only were far more of the loans turning bad than had been budgeted, but the CDO contracts were so complex that nobody fully understood them or where the various elements of risk were. Once the losses started appearing, financial markets were gripped with fear and froze up, with banks in the US and Europe being afraid to lend to each other. In short order, there was a global financial crisis.

And the workers were demonstrably innocent. We hadn't caused a wages explosion, we hadn't been holding the economy to ransom, and we hadn't been obstructing the bosses' productivity drives. We'd behaved exactly as the capitalist economists want us to act, and the global economy still came unstuck. The capitalists had done it to themselves.