Global credit crunch ? towards a crisis of globalisation?

Mon, 01/10/2007 - 17:00

The year 2007 has not so far been kind to the ideologues of capitalism ? nor to anyone expecting the current boom economy in the US and Britain to continue unabated in the years ahead. A series of sudden events, culminating in a global credit crunch in August and even a good old-fashioned bank run in the UK in September, revealed that the capitalist system remains riven with contradictions that are prone to burst out in periodic crises.

The big question confronting all classes of society is how the financial crisis of 2007 will affect the underlying economy and in particular whether it will bring a US recession and a world economic slowdown in its wake. If so, how soon and on what scale?

The proximate cause of the credit crunch is an entirely predictable and on the face of it undramatic event: the end of the US housing boom. Yet this long expected, indeed inevitable, development has already had dramatic, apparently unexpected, consequences.

This summer saw the European Central Bank, the US Federal Reserve and the Bank of England repeatedly pump billions into the banking system. Credit lines dried up as banks refused to lend; large-scale mergers and acquisitions stalled. Major banks were unable to pass on loans that they would otherwise have syndicated and have been left holding at least $300 billion in debt unexpectedly on their balance sheets.

American Home Mortgage, one of the major US lenders, filed for bankruptcy as the sub-prime mortgage market in the US, which lends to high risk, low income home buyers on the expectation of continuing rises in house values, began to collapse.

Several banks, including French bank BNP Paribas, German IKB and Sachsen LB and US investment bank Bear Stearns, all hit trouble; Bear Stearns? CFO, Samuel Molinaro, said ?I?ve been out here for 22 years, and this is as bad as I?ve seen it.? Suddenly, in mid-August, Federal Reserve chairman Ben Bernanke reversed his previously strict anti-inflationary policy and announced a cut in the discount lending rate to enable banks to access emergency loans more cheaply.

Then, in the UK, Northern Rock, the country?s fifth largest mortgage lender, had to be rescued by the Bank of England as its credit lines, on which it was almost entirely dependent for its lending activity, were frozen by other banks. ?I can?t see any time when it has happened before?, said the bank?s chief executive Adam Applegarth. ?Every single market froze.? The Bank of England?s move alarmed private investors, especially as the Bank?s governor Mervyn King had insisted only days before that it was not his role to bail out banks that got into trouble because of their own errors.

Britain was shaken by TV and press images of large queues forming outside local offices of Northern Rock
all across the country, as depositors, many of them elderly, waited for hours to withdraw their life savings; a total of £2 billion was withdrawn in two days alone. The credit crunch had hit the High Street. As Northern Rock?s share price tumbled, other lenders, including Alliance & Leicester and Bradford & Bingley, also started to see sharp falls in their share prices: Alliance & Leicester lost nearly a third of its value in just a few hours? trading. The bourgeoisie were so worried that the integrity of the banking system could break that, on 17 September, in an unprecedented move, Gordon Brown?s government moved to head off the first bank run in over a century by guaranteeing the savings of all investors, effectively underwriting bank deposits from state funds.

Paul Sheard, an economist at Lehman Brothers, warned that ?The global economy appears to be at a turning point?First, the US housing recession has turned out to be considerably worse than we envisaged...Secondly, the subprime mortgage meltdown has triggered a broad sell-off across capital markets, with incipient elements of financial contagion and panic.? He concluded that, ?strong interactions between these spheres make for an extremely uncertain medium-term economic and financial outlook.? In the face of this turmoil, calls mounted for cuts in interest rates, to ease the cost of borrowing and stimulate investment once again, fending off the threat of a recession. When Bernanke cut the discount rate on 16 August, his reasoning was entirely focused on staving off a downturn, and he did not even mention his former priority of fighting inflation. ?Financial market conditions have deteriorated, and tighter credit conditions and increased uncertainty have the potential to restrain economic growth going forward?the Federal Open Market committee judges that the downside risks to growth have increased appreciably? he said. On 1 September, he reinforced his stance, saying: ?Obviously, if current conditions persist in mortgage markets, the demand for homes could weaken further, with possible implications for the broader economy?The Federal Reserve stands ready to take additional actions as needed to provide liquidity and promote the orderly functioning of markets.? And, indeed, further signs of a downturn did come in early September, when jobs data from the US Department of Labor revealed a surprise 4,000 fall in the US workforce, when economists had predicted an increase of 110,000.

So, on 18 September, Bernanke startled many with a bigger than expected cut in the headline Federal Funds rate of a full half point, from 5.25 to 4.75%, warning that ?The tightening of credit conditions has the potential to intensify the housing (market) correction and to restrain economic growth more generally.? Voices have been raised against this course, with influential figures from the Bank of International Settlements, the International Monetary Fund and investment banking and venture capital organisations arguing that bailouts and cheapening credit will only make the situation worse in the long run, postponing the inevitable and storing up problems that can only re-emerge as a more serious crisis in future. To understand this contradiction, and the cleft stick that the capitalist finance ministers find themselves in, we need first to take a short look at the pre-history of the credit crunch.

From housing bubble to credit crunch

In 1998, a global financial crisis tore across south east Asia and Russia. When a hedge fund, Long Term Capital Management, failed, a deep recession in the west was only averted by sharp cuts in interest rate. The cheap cost of capital spurred a stock market bubble (?the dot-com boom?) that then burst at the end of 2001. Again the US government, and former chairman of the Federal Reserve Alan Greenspan, sought to stave off a recession in the USA by drastic cuts in interest rates. This systematic lowering of the cost of credit was the foundation of the extended US housing boom. At the beginning of 2001, the Federal Funds rate stood at 6%, by the summer of 2003, after a succession of 11 cuts, it was just 1%. The consequent explosion of consumer debt encouraged a massive expansion of mortgage lending and home ownership,
house prices soared still further.

Loan companies lent a huge amount of money to people with poor credit histories to buy houses when interest rates were artificially low. They encouraged people to take out big mortgages by arguing that rising house prices made them risk free. House prices rocketed, rising by $12 trillion between 1997 and 2006, more than doubling over 10 years. However, increases on this scale made it more and more difficult for American workers to afford to buy a house, and those that did found they were mortgaged up to the hilt.

Aware of the danger that inflation posed to the economy in these circumstances, the Fed tried to ease it back down with a series of interest rate rises. From the beginning of June 2004, they began a long run of rate rises to June 2006, taking the rate back up above 5%.

But these came to an end when the Fed got cold feet in the face of a possible recession last year. When the U.S. Home Construction Index recorded a year on year fall of 40 per cent in the summer of 2006, the Fed called a halt to the rate rises. Many of the bosses? own economists think this was a mistake: the Bank of International Settlements called it ?sowing the seeds for more serious problems further ahead?. They said that by holding rates flat in the hope of stimulating investment and exports in the face of a massive balance of payments deficit (currently 6.5 percent of gross domestic product) the Fed was, in fact, just storing up even greater trouble for the future. And, in a sense, they were right.

Even though interest rates were held flat, economic growth in the US slowed to 1.3 per cent in the first quarter of 2007, the lowest growth rate for the US economy since 2003. At the same time, inflationary pressures grew stronger. The prices of vital consumer goods like oil and food kept going up, driven in no small measure by the huge and rising demand for raw materials in fast developing countries like China. This demonstrated the contradictory pressures on the economy; slower growth demanded lower interest rates, but lower interest rates would stoke up inflation still further.

Guessing that rate rises would be necessary, a panic hit the financial markets in June this year. Investors sold US government bonds, forcing their price down. This, in turn, caused the already jumpy stock markets to take fright. They plunged several times in June, each time staging recoveries that gave way to sharp selling of shares when new bad news emerged. And on each occasion, as Wall Street went down, London, Tokyo and Frankfurt followed.

The markets guessed that, with house prices in the USA now starting to fall, restricting the ability of millions of middle class and working class homeowners to extend their personal credit on the back of the equity in their homes, and with repossessions rising sharply, more interest rate rises could cause massive problems, even though they remained necessary to counter inflation.

Then the sub-prime crisis really hit home. The huge rise in mortgage repossessions and defaults on loans to sub-prime borrowers exposed not only the lending companies to risk, but banks and finance houses around the world. The loan books of the sub-prime lenders had been packaged up into complex financial instruments called Collateralised Debt Obligations (CDOs) and lent on to all and sundry across the world financial system. Last year saw a record issue of $470 billion of these. So the problems in the sub prime mortgage market do not just affect a handful of lenders ?foolish or greedy enough? to lend money to poor people. This is a mass of capital on which a huge amount of other lending and investment is based, and it is hugely overvalued and insecure.

In June and July, some US investment funds that had bought CDOs began to show huge losses, and rating agencies were forced to downgrade these types of debt, instantly making them worth far less than before.
This started a chain reaction. Many banks, hedge funds and other investment groups had borrowed huge amounts of money at cheap interest rates in order to buy masses of these CDOs and similar types of high-risk debt. They had hoped to make a quick profit of millions, and then pay back their debts. Now, interest rates were rising so their interest payments were rising too, but the assets they had bought were being downgraded and were falling in value. Caught between these opposing trends, many funds were forced to offload assets, shares, bonds, anything, onto the market to meet their obligations, so the prices of these assets also began to fall.

This aggravated the situation enormously. Banks were afraid that rising interest rates would mean recession in the coming years and so they were less inclined to lend. In fact, they needed to start calling in debts; the contagion of the sub-prime lending became a massive disincentive to extend credit. The lines dried up. The crunch hit.

By September, it was clear that the US house price fall was more serious than had been estimated. The Case-Shiller US house price index found that, in 15 out of 20 major cities, house prices were falling, on average, by an annual rate of 3.2 per cent. Only 12 months earlier, house prices had been rising by 7.5 per cent nationally, so this reversal marked the biggest year-on-year decline ever recorded in the 20-year history of the index. It was also the first year-over-year decline in nationwide house prices since 1991. This accelerating fall in house prices now threatens to turn into a full-blown recession.

In his 1 September address to the nation, US president Bush tried to calm the markets and the American consumer by insisting that the ?fundamentals? of the US economy were ?sound?. This is, of course, the carefully scripted response that any bourgeois politician is obliged to make in the face of nervous and volatile market conditions. But is the fact that the US economy has shown strong growth in recent years really grounds to believe that the credit crunch does not presage a real recession in the USA?

**Corporate Debt**

Some commentators have argued that the tougher credit conditions will not affect the plans of US non-financial companies for expanded production, because they do not need to borrow money to finance their expansion plans. This argument is essentially based on statistics that suggest a relatively low level of corporate debt at present, which, it is claimed, shows that the credit problems can be retained within the financial sector.

The British business newspaper the Financial Times has published data from the Bank of International Settlements and the Bank of England which show that corporate debt levels have been falling; between 2003 and last year the debt of non-financial US corporations apparently fell from a high point of over 38 percent of total assets to around 32 per cent of total assets (although it was still higher than in 2001, when it was 29 percent.)

Others, however, warn that these figures could be misleading. Over recent years company accounts have shifted from the traditional method of valuing assets at cost to a new ?mark to market? basis, under which assets are valued at fluctuating market prices, instead of using the methods applied in national accounts, which value assets at production costs less depreciation (adjusted to take account of inflation). This means that company accounts generally underestimate their real debt.

National accounts are much more revealing. Data from the Office for National Statistics show that the net debt of non-financial companies rose from 20 per cent of asset replacement value in 1989 to over 50 per cent at the end of last year. In the USA, too, compared with output, corporate debt is rising. As economic consultant Andrew Smithers pointed out in the Financial Times on 29 August 2007, the national account information published by the US Bureau of Economic Analysis reveals that company leverage (debt) is
rising rapidly, and that in order for the balance sheet data published by the Federal Reserve to conform with the accounts published by companies, the former are adjusted by the addition of statistical discrepancies which currently run at $800 billion a year.

He concluded that the increasingly common use by companies of mark-to-market values meant that the balance sheets they publish will give a misleading impression if compared with similar data from earlier years. A better criterion would be to compare corporate leverage to output, in relation to which US corporate leverage is high and rising well above its long-term and even higher than its post-1990 levels.

Neither is this the only way that balance sheets disguise the true level of corporate debt. Common procedures like selling assets and leasing them back disguise debts still further by hiding them off a company’s balance sheet.

Nor is it just the cost of borrowing that impacts on corporate profits. The credit crunch is also widely expected to have a broader effect on them. On 18 September, the International Air Transport Association slashed its profit forecasts for the global airline sector for 2008 by 19%, claiming that the credit crunch had reduced profit estimates by nearly $2 billion. A spokesman said the airlines would get hit either way; if interest rates rise the slowdown in economic activity will reduce demand for flights; if they are cut, inflation will spark continuing fuel price rises, either we get hit with higher costs or we get hit with lower demand.

The impact on consumer spending is also expected to be severe. US retail sales slowed in August with growth declining to 0.3 per cent. Peter Kretzmer, an economist at Bank of America, warned that, Recent financial distress and gradual slowing in the US economy are now limiting consumer resilience.

The Federal Reserve’s annual economics symposium in Jackson Hole, Wyoming, met at the start of September to discuss the crisis. Martin Feldstein, president of the National Bureau of Economic Research, gave a grim analysis, pointing to three dangers to the US economy; declining home prices, the sub-prime mortgage crisis, and a fall in homeowners borrowing money on the value of their homes. The effect of home price declines and declines in consumer spending could push the economy into recession.

The economists at UBS think a 1 per cent rise in the cost of capital, with drops of 10 per cent in share and house prices, would drag America’s output growth down by 2.6 per cent next year, pushing the economy into recession. The Economist magazine added, Americans are still a big source of demand for the rest of the world. A sharp drop in that demand would hurt. A crisis in America that left consumers with considerably reduced purchasing power would aggravate the trend towards economic downturn.

A report from the Economist Intelligence Unit, Heading for the Rocks? Will financial turmoil sink the world economy? identified two possible scenarios. The more sanguine, optimistic version, with a 60 per cent probability, saw central banks’ actions calming the markets effectively. However, the main risk scenario, with a 30 per cent probability, projected house prices continuing to fall in the US and followed by falls elsewhere, especially in the UK, Spain and Australia. Former Federal Reserve Chairman, Alan Greenspan, has warned of large double digit declines in home values larger than most people expect; already mortgage foreclosures are up 30 per cent year on year in the UK in the first half of 2007; and the EIU report says a predicted price fall in Spain is likely to be painful and drawn out. If the global carry trade continues to unwind, Australia’s interest rates, already high at 6.5%, could be forced still higher, with attendant casualties among homeowners and corporate borrowers. All of this would have a strong negative impact on consumer spending.

As for Asia, the impact of depressed consumer spending in the west is likely to be significant. The EIU says that, Although there has been much talk of Asia decoupling from the global economy, we believe
that a full-blown US recession would hit Asian exports hard. Exports of goods and services represented a staggering 38 per cent of Chinese GDP last year, twice the proportion in 1996. In India, the rise over the same period is from 11 per cent to 23%, in South Korea from 28 per cent to 43 per cent and in Taiwan from 47 per cent to 70%! Though there has been discussion as to the extent to which Asia has decoupled its economic fate from the US, the report points out that most Asian countries send between 13 and 20 per cent of their exports to the USA, and that therefore?our risk scenario includes an assumption that the region? s export performance is seriously crimped by the recession in the US.?

Perspectives

Bernanke?s rate cut of 18 September suggests that US policymakers have decided to risk a third attempt at avoiding a US recession by slashing interest rates, although as yet it seems likely that they will apply smaller, incremental cuts, as in 1998-99, rather than the very sharp cuts following 2001. So will it be third time lucky? Or three strikes and out?

The big issue is whether inflation will remain low enough for the Fed to get away with it. As Greenspan notes in his new book The Age of Turbulence (extracts of which were published in Newsweek magazine on 24 September 2007) the historically low level of inflation was the underlying reason that the US economy was able to avoid severe recession by cutting rates in 1998 and in 2001. The reason for these strong deflationary conditions, as Greenspan notes and as is obvious to every observer, was the vast expansion of cheap goods imported from China and Asia, itself a product of a world historic political event; the counter-revolution and restoration of capitalism in China and the former USSR in the early 1990s.

So how much longer will these conditions persist? Greenspan himself thinks they are already drawing to a close. Noting that these ?globally subdued price and interest rate pressures are exceptionally rare?, he says:

?China?s wage-rate growth should mount, as should its rate of inflation. The first signs are likely to be a rise of export prices, best measured by the prices of Chinese goods imported into the United States. Falling import prices from China have had a powerful effect. They have suppressed the prices of competing US-made goods and contained the wages of any who compete against the workers who produce the goods that vie with the Chinese imports. Accordingly, an easing of disinflationary pressures should foster a pickup of price inflation and wage growth in the United States. It should be noted that import prices from China rose markedly in spring 2007 for the first time in years?If my suppositions about the nature of the current grip of disinflationary pressure are anywhere near accurate, then wages and prices are being suppressed by a massive shift of low-cost labour, which, by its nature, must come to an end. A lessening in the degree of disinflation suggested by the upturn in prices of U.S imports from China in spring 2007 and the firming of real long-term interest rates raise the possibility that the turn may be sooner rather than later. So at some point in the next few years, unless contained, inflation will return to a higher long-term rate.?

The threat of inflation is no shibboleth, no mere ideological obsession of the dominant conservative economists and policymakers. Whilst US inflation fell slightly in August, dipping by 0.1 per cent after a sharp drop in energy prices over preceding months, oil prices have been climbing again very sharply and this is a clear overall trend. In mid-September, oil prices hit a record $81 a barrel. OPEC efforts to hold down prices by expanding production are unlikely to prevent further rises. The BBC quoted investment bank Goldman Sachs as saying ?We believe that this will be too little, too late, barring an outright collapse in demand, and now expect inventories to draw to critical levels this winter?, predicting that oil prices will reach $85 a barrel by the end of 2007. Food prices are also soaring. On 12 September wheat prices hit a record $9 a bushel mark for the first time.
These price rises are fuelling inflation in China, too. The People's Bank of China raised interest rates on 19 September to 7.02 per cent from 6.84 per cent after inflation reached 5.6 per cent in July, the highest recorded annual inflation rate since February 1997. The price of pork and other meat rose 49 per cent over the 12 months to July, warned the National Bureau of Statistics. China’s 11.9 per cent growth rate in the latest quarter will only drive inflation higher.

The problem for the US, EU and British fiscal and monetary policymakers is that they cannot now act to squeeze the inflationary pressures out of the system. They were hoping to do so with a series of gentle interest rate raises, but the banking and credit crisis has stopped them from doing so. It was the credit markets' fear of the impact of rate rises on the US housing market that drove the credit crunch, which in turn threatened a collapse of the banking system unless policy was reversed. This explains Bernanke's volte face; it also explains the humiliating U-turn of Mervyn King, the Governor of the Bank of England. He held firm all summer, and even in early September ruled out injecting liquidity into the UK banking system because the provision of such liquidity support undermines the efficient pricing of risk by providing ex post insurance for risky behaviour. That encourages excessive risk-taking, and sows the seeds of a future financial crisis. By 19 September he had been forced into a 180 degree turn, pumping £10 billion into money markets to try to drive down the Libor inter-bank interest rates.

As Alan Clarke of crisis-hit French bank BNP Paribas told BBC Online, clearly the financial market situation has deteriorated to the point that the slowdown implied for the economy is more severe than the Bank had seen as desirable.

The impact of maintaining a counter-inflationary stance this summer would have been politically as well as economically unacceptable for the US and British bourgeoisie. Both Bush and Brown are facing elections, Bush in November 2008 and Brown probably some time between the autumn of 2007 and next summer. The idea of compounding the unpopularity of the Iraq and Afghanistan wars at home with the high profile collapse of one or more financial institutions, with all the potential for social disorder that that implies, was too much for the White House and Downing Street, as well as for the key figures in bourgeois economic strategy. But they cannot delay indefinitely, and they know it.

**Capital and crisis**

For Marxists, the underlying cause of both credit crunches and crises lies in the deep contradictions at the heart of the capitalist system.

At a general, simplified, level, the problem can be seen in the whole way capitalists accumulate wealth. At the heart of production lies the relationship between the capitalist and the worker. Capital is not an independent factor of production; in reality, all the profit the capitalists earn stems from human labour that the capitalists own and control. A worker receives in wages not the value that he or she adds to goods or services in production, but roughly what it takes to stay alive and get back to work week after week. The difference between the two values is surplus value; it is the source of profit and the capitalist appropriates it all.

As capitalists compete with one another, they use various methods to boost profit; one is to raise productivity by introducing more advanced machinery. But, over the years of any given industrial cycle, this creates unbalanced development. Because each capitalist is trying to outdo the other (and because of misleading price signals that arise from the operation of the credit system) the way capitalists raise labour productivity starts to undermine the very basis for profitable accumulation in the future. As living labour forms a reducing component of capital relative to technology and other factors, the rate of profit comes under downward pressure. This eventually results in a crisis of overaccumulation: the startling fact is that, under capitalism, although billions languish in poverty, there is too much capital, too many commodities,
too many workers employed and too much money. This is what the capitalists? own theorists are grudgingly forced to acknowledge when they speak confusedly of an ?excess of liquidity?, or of the need to re-price risk downwards?. Of course, there isn?t too much? value in any objective sense, it is just more than can be applied profitably given the pressure on the rate of profit. When there is overaccumulation of capital, ultimately some capital must be destroyed (?devalued?) to restore the conditions of profitable accumulation.

This tendency towards overaccumulation and breakdown can be offset by a range of factors like lower food prices, faster turnover times, expanded world trade and so on. However, as we have seen in the case of Chinese exports and inflation, none of these factors can fend off overaccumulation forever.

At a more complex level, we have to take the credit system into account. As competition hots up in the expansionary phase of an industrial cycle (the 7- to 10-year cycles of stagnation, recovery, expansion, speculative fever, crisis, slump that characterise the history of capitalism), capitalists fuel their expansion ever more by reliance on loan capital, credit or investment in an equity stake in the business (share capital). Relying on a cut of future profits deriving from future exploitation of the working class, the parasitic capitalists of finance and credit develop ever more complex methods and instruments that increasingly detach themselves from the real underlying economic activity on which they are supposedly based. Collateralised Debt Obligations are just a startling example of these forms of fictitious capital. We should be aware, as against liberal theorists who want to tame capitalism by discouraging ?bad lending?, that fictitious capital plays a necessary role in the expansionary phase of each cycle. Because capitalism is a market system, not a democratic plan of production, money is necessarily advanced to fund production before profits are realised. A disjuncture between the anticipated returns and the actual value of goods or services produced and sold is inevitable.

This leads inexorably towards a credit crunch as overaccumulation brings a sudden adjustment back towards the actual values. There is a rush out of fictitious credit, loans, shares, bonds and strange ?derivatives and instruments? towards the higher quality measures of value: money, preferably money backed by a strong state. The banks call their debts back in, crushing companies, bankrupting investors, throwing workers and whole communities onto the scrapheap. Then, when asset values have fallen sufficiently, they start to buy them up again on the cheap, ready for the time when profitable accumulation resumes and the industrial cycle recommences its upward path.

Finally, we need to take into account the real social, political, national and international terrain on which these crises take place. When a crisis and devaluation strike, the first thing the capitalist thinks is how he can make others pay the cost. This means a real destruction of real capital in real places on the ground. The struggle then turns to the question of who is going to get it in the neck and where.

As investors and financiers dump funny money and turn to the real thing, attention focuses on the stability of the various national currencies. Each state has to prop its currency up, if necessary at the expense of others. Today, in a period of heightened international tensions, with the dollar very weak because of the USA?s historically vast trade deficit, and with the USA owing over $4 trillion in external liabilities, there can be little doubt that a global crisis of devaluation would inflame international rivalries still further.

Either the US and British capitalists would once again succeed in rebalancing the world economy by ?switching? the crisis into another zone such as the Far East or even China itself or, more dramatically but perhaps more likely, the world would sink again into protectionism as the USA, the EU and the Asian countries each tried to manage the effects of a global deflationary collapse.

In the early 1990s, the USA was able to force Japan and Germany to bear the brunt of the devaluation of
capital. Japan went into a long recession; negative interest rates annihilated (devalued) the savings of millions of middle class Japanese. Germany languished in a long slump with mass unemployment from which it is only now slowly starting to emerge.

The problem they face today is that the collapse of house prices in the USA is inevitable. This time the devaluation will be keenly felt in the heartland of global capital.

When the US Federal Reserve can no longer stave off crisis, can no longer rely on low inflation to cut interest rates, it will reluctantly turn to the alternative. Although inflation is itself a form of devaluation of capital, the bourgeoisie rightly fear it because it socialises devaluation, makes everyone aware of it across the whole of society, and focuses opposition to it not on this or that capitalist but against the government and the financial institutions: in short, against the state. Therefore, faced with this possibility, they will react against it as they did in the late 1970s and early 1980s. Like Paul Volcker, Chairman of the Federal Reserve in 1978, they will raise interest rates sharply, to what Marx called ?a level of extreme usury?. In Margaret Thatcher?s words ?the weak will go to the wall?.

The reason the world?s politicians, bankers and financiers are so afraid to do this is that they sense the possibility of a large scale crisis, a crisis of globalisation. One that would smash to smithereens their lie that globalisation has brought us a wonderful new pattern of crisis-free development, and pitch the world into a new period of intense attacks on working class people and sharpening rivalries between the capitalist powers.

All the more reason for the working class to resist now. From the fight to defend public sector pay and jobs, the fight for public services, the fight to preserve social gains, union rights, welfare and health provision, to the fight to defeat the occupations and war drives of imperialism in the Middle East, central Asia and Africa, we must understand that we are not just fighting to stop the capitalists running down our living standards today, but to prepare for a great offensive when the crisis comes.

The expansion of capitalism in the East, and the credit fuelled booms in the US and Britain, have not opened a new paradigm of long crisis-free expansion; on the contrary, they have expanded and intensified the contradictions of global capitalism. The working class must prepare for a crisis of globalisation in the years ahead, and global organisation is the key. The purpose of Marxist analysis of the motion of the international economy is not to predict this or that outcome in the class struggle, not to foist our own tasks onto the historical processes through ?optimistic? hopes or to abandon our posts through superficial pessimistic assessments of capital?s ?strength? and ?growth?, but to prepare the working class for struggle.

Our message must be: a crisis of globalisation is certain at some time in the years ahead; we must convert resistance to each offensive of capital into a globally directed and coordinated assault on the rule of capital itself.

Source URL: https://fifthinternational.org/content/global-credit-crunch-%E2%80%93-towards-crisis-globalisation