On the Political Economy of Global Recession

The Plagues of Capitalism – Energy crisis, climate collapse, hunger and financial instabilities

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Contents

There is no historical proof that the ten biblical plagues that the God of the people of Israel inflicted upon the Egyptians, according to the second book Moses in the old testament, including poisoned wells, mosquitoes, smallpox, cattle plagues, avalanches of frogs, swarms of locusts, or a solar eclipse ever took place. But it is an undeniable fact that today, billions of people are suffering from hunger, that the fossil fuel supply for the future is insecure, that the global climate threatens to collapse, and that the global financial crisis is causing horrendous losses in the trillions, that millions of jobs are being destroyed, and whole branches of industry are in trouble, and the incomes of the masses are declining in the current global financial crisis. The modern plagues afflict the people just as much as the plagues of Egypt did more than 3000 years ago.

The financial crisis turns into a crisis of the real economy At the beginning of October 2008, the IMF valued the losses of the global financial crisis at US$ 1400 billion. Only a month later, the Bank of England doubled this estimate to US$ 2800 billion. This is almost three times as much as the losses indicated by the Bank of England in April 2008 (US$ 1150 billion) . Obviously, the crisis is out of control - despite government subsidies and guarantees to the amount of some US$ thousand billions on both sides of the Atlantic.

These sums seemed absurdly high only a few months ago, and in the meantime government subsidies and guarantees were also necessary in Japan, China, Russia and Latin America. Almost daily, new financial assistance is supplied to ailing banks and large industrial companies, for instance, nearly US$ 50 billion was given to Citigroup at the end of November 2008 (*SZ*, *Sueddeutsche Zeitung*, Nov. 25th 2008) or to the air plane leasing division of the damaged AIG, the world's biggest insurance corporation, or the seemingly almost ridiculous amount of $ US 13.4 billion to the three car giants in the USA. The losses of the credit card operators are still hidden in their accounts; they are expected to inevitably be revealed in 2009. The "public contingent liabilities" in the euro area have now risen to more than 2000 billion euros, according to the ECB monthly report of November 2008. These liabilities, if realised, would then amount to 21% of the GDP of the EU-members. Considering the approaching recession, it is not unlikely that this happens.

In contrast to the forecasts of many, even critical economists only a few weeks ago, the crisis has left the financial sector and grown into a serious crisis of the "real" economy. Unemployment is increasing exponentially, the pressure on incomes is rising. The tax revenue of the governments and local authorities is declining, and therefore financing social benefits is more difficult, particularly since so much money has been absorbed by the banking sector to compensate for the losses in bank balance sheets and to replace equity capital lost through speculation. The European Central Bank estimates that the fiscal costs of the present financial market turbulences amount to about 3% of the GDP in the euro area; the European Commission has decided on an economy stimulating package of 200 billion euros in order to achieve some kind of coordination of the hectic economic stabilisation measures of the various EU countries. In November, the White House assigned 150 billion US dollars for fiscal interventions.

After his election in November 2008, Barack Obama promised fiscal means that would secure 2.5 million jobs. Shortly before Christmas this promised number of jobs was raised to 3 million. Paul Krugman proposed an economy boosting package of US$ 750 billion for the USA. This would amount to about 6% of the US national product, and would approximately double public debt. Obama seems to be approaching this target, there are even speculations that the package to counter the crisis could be more than US$ one thousand billion and that US "deficit spending" would then amount to about 10 per cent of US GDP.

China will also spend large sums with a promised cash injection of 460 billion US dollars. China has accumulated huge reserves and does not even need to incur debt to revive the economy. These gigantic amounts could still be exceeded if loans defaults have to be covered by insurances because of the real economy crisis. Credit default swaps (CDS) of up to US$ 60,000 billion could then be due and explode the financial sector despite state assistance. The financial crisis sharpens to a catastrophy. The fact that some states were already virtually bankrupt in 2008 (Iceland, Ukraine, Hungary, Baltic states etc.) had particularly fatal effects and the credit risk of government bonds has generally risen.

Suddenly, there is an echo chanting "yes, we are, yes we can" following President Nixon's exclamation almost 40 years ago: "today we are all Keynesians". Even those who rejected any calls for demand management with active fiscal policies as economic nonsense and a dangerous intervention in the workings of the free market not so long ago, are now joining in. They seem to realise the gravity of the situation: the costs of the financial crisis are absorbed, and additionally, hundreds of billions of euros and dollars are being pumped into the global economic system. The urgency is understandable. Which explanation could be given to the voters that 20 per cent of the national product has been made available to banks and bankers, but there still is no money to secure and create jobs? Post-neoliberal Keynesianism serves primarily to provide legitimacy for redistribution measures to rescue ailing financial institutions and businesses.

Everybody knows that the outrageously wicked proposal by Josef Ackermann (CEO of the Deutsche Bank) to create a public "bad bank" to take over "toxic assets" from private banks so they could again become "good banks" could only work when it is presented not only as a practical constraint without alternatives but also with some offers to employees and other citizens.

_The crisis - collapse or a fountain of youth for the system?

Banks and other financial institutions are absorbing a fifth of the national product to compensate their losses with public funds and to exchange their toxic assets for good central bank money. Climate change will cost a fifth of the global national product over the next decades - if nothing is done to prevent it. These findings are from the well-known report by Nicholas Stern for the British government in 2006 or from the reports of the Intergovernmental Panel on Climate Change (IPCC) . We can choose which plague causes greater shudder: the massive losses of the global financial crisis or the astronomical costs of climate change. Climate change has become bitter reality and consequently determined public debate. However, after the collapse of some globally operating big banks (Bear Stearns; Lehman Brothers), the public debate solely revolved around the rescue packages for the financial sector. The financial and economic crisis also provided the most important argument for putting a break on climate policies: charity begins at home. The horrendous costs of the financial crisis have also made us forget that at least 923 million people in the world suffer from hunger , according to the FAO, and that the energy crisis is not in the least over - because fossil resources are limited (Peak Oil), even if the oil price has declined since August 2008 as a result of the financial and economic crisis; because industrial production is stagnating or even decreasing. But this will change again very soon; the basic trend for the price of fossil fuel is inclined to increase.

The present financial crisis is not a novelty in the history of capitalism. Many people have lost a lot in the historical financial and economic crises and it will not be different in the present global crisis, even if the full force of losses have not yet reached the “man in the street” at the beginning of 2009. In financial and economic crises, “only” money was and will be lost, the capitalist economic system is not collapsing. On the contrary, economic crises are a kind of “fountain of youth” since, as Josef A. Schumpeter states , the system renews its power base through “creative destruction” in times of crises. This was also clear to Karl Marx: “the crises are always only short-term violent solutions to the inherent contradictions, violent eruptions, which for the moment restore the disturbed equilibrium…” - until the next crisis occurs.

This is different for natural disasters, including those caused by mankind. In general, they not only incur high financial costs, as has been calculated in the aforementioned “Stern report” on the costs of climate change compiled for the British government , but also cause irreversible changes which are mostly destructive to the natural environment. Even if we could offset an extinct plant or animal species with money, we are unable to bring it back to life. In the previous history of mankind, regional or local cultures fell victim to ecological and other catastrophes; the societies on Easter Island have disappeared, the Maya and Inca cultures, too. In the era of globalization, crises in nature can result in the global collapse of climate, energy supply, biodiversity and consequently of food production. That would not only be a bitter financial loss, but would also mean the irreparable destruction of natural habitat and consequently also of human livelihoods.

In view of the financial and economic crisis, as well as the ecological crisis (the energy crisis resulting from “peak oil”, the threatening climate collapse, inadequate supply of water and food in many regions of the world), we must recall what Karl Marx described as the crucial point of political economy. The crucial point is the definitive recognition of the “twofold character” of labour and of the commodity: the prevalent understanding of the economy is that we are dealing mainly with value and monetary cycles, and these are interpreted as basically reversible. Disbursed capital returns to itself - augmented with the profit. Thus, profit is also called “return on capital”. At the same time, irreversible material and energy transformations occur in production, transportation, communication and consumption, which inevitably increase the entropy of the Earth’s system. This need not concern us as long as we are nowhere near the limits to the availability of resources or the sustainability of sinks to cope with pollutants. But we have to take them into account as soon as we approach the natural limits of the planet Earth with an increasingly large "ecological footprint". We will fail if we do not take them into account, and a social and political failure in view of these ecological limits will have more far-reaching consequences than the monetary losses of the financial and economic crisis. However, debates on these limits do not rely on objective natural facts, but depend on our knowledge, they are determined by social and economic interests, and, not least, are politically filtered. Consequently, it is not possible to consider the crises in finance, economy, energy and climate separately and isolated from each other, since they of course mutually have an effect on each other.

The "mother of all crises" is the production and consumption model of the capitalist centres. This requires high rates of productivity increase, is based on mass production and mass consumption and is therefore based on the massive consumption of raw materials, fossil energy and land area. Biodiversity, and hence the evolution of life are also impaired by monocultures. At the same time, the industrialised countries are economic and political power centres of the capitalist world and have the potential to confront the systemic
crisis - if the elites would choose to accede. Money is one of the means of state intervention in economy and business but it is not available when finances are needed to combat hunger or the threatening climate collapse - or "just" to create jobs. Incredible amounts of good money have to be pumped into the financial system to neutralize bad, toxic money and to save the system from collapse. The industrial countries have reduced the means to combat hunger to 12 billion dollars, the Oxfam charity organisation complains. This amount will only suffice to provide each of the 923 million hungry people with 11US dollars. The UN World Food Programme urgently needs US$ 5.2 billion for 2009 to provide minimal help to the starving in Haiti, in the Congo and elsewhere. For the hungry, there are not even crumbs of peanuts available - whereas massive amounts are spent to save the banks. This is also indicative of a collapse, the moral collapse of financially-driven capitalism.

Real surpluses and financial claims

What were the causes of this financial crisis in 2008, probably the severest in the history of capitalism? The financial claims of the financial sector institutions have to be serviced in real terms, and as long as that remains possible, it is business as usual and no-one even remotely thinks of a problem with payments or even a financial crisis. The ability to service demands can be undermined from two sides: a decline in the surpluses of the real accumulation process which must service financial demands, and at the same time, the profit requirements of financial investors increase. Both of these occurred before the financial crisis. The gap opened wide between a financial sector completely going wild with increasingly absurd profit claims
and the capacity of the production sector. Capitalist economy is not just a virtual event as post-modern theorists like to assume. Real surpluses must be produced if they are to satisfy the virtual demands which only exist as bits and bytes.

Real surpluses must increase all the more, the greater the capital value already is, in order to consolidate or increase the yield or rate of profit (the relationship between surplus and advanced capital). This also applies to the growth of national product. The absolute increase must rise so that the growth rate does not decrease
in time. In contrast to virtual surpluses, however, real surpluses cannot be increased exponentially. There are many explanations available in economic theory; beginning with the classic law of diminishing returns, via the Marxist theory of the falling rate of profit to the post-Keynesian theory of secular stagnation to the
theory of limits to growth in ecological economics.

When real surpluses decrease relative to advanced capital or to the gross domestic product, then the recipients of financial returns are served for a while from the material substance and continue the "accumulation of capital by dispossession" through the redistribution of already produced material value from the global south to the north, from debtors to creditors, from those dependent on labour to proprietors of wealth and capital. Therefore it is no accident that the proportion of wages and salaries in all industrial countries has been reduced by five to ten percent and the corporate and capital incomes have been correspondingly increased over the past two decades of globalisation. This redistribution from the "real economy" to service debt to the financial sector can be maintained for a while, but not for extended periods, since the material substance is undermined. The legitimation resources of societies in the global area are overburdened, and even the economic mechanisms will not permit an unlimited continuation of accumulation by dispossession. The redistribution of income in favour of capital asset owners not only triggers social resistance but also causes a reduction in mass demand which is no longer available to provide for the accretion of goods or to "regularly" service mortgage debts. Cost savings during the accumulation process initially have a positive effect on the profit rate. However, the environmental damage caused by the irreversible character of such production and consumption inevitably returns and diminishes the profitability of capital. This, at the latest, is the case when the "social costs of private enterprise" (K. William Kapp) provoke social and political resistance, because the living conditions of the people are deteriorating.

Therefore, real surpluses meet the limits which apply to all transformation processes for materials and energy. Limits in capitalism appear in the form of a falling profit rate, which can disrupt the dynamics of accumulation. The crisis is then unavoidable.

At the same time, financial claims increase as if there were no natural limits and as if the social contradictions of real reproduction and the accumulation process did not exist. Financial innovations appear to enable a nirvana of huge profits and dream salaries of managers. There is a worldwide competition of the financial locations for high returns and interest rates. New financial institutions are set up to increase the returns for "investors": investment banks, all kinds of funds, special purpose vehicles. They introduce new financial instruments, always promising increasing returns without providing information on the real risks. Rating agencies have contributed to disguising the risks of "accumulation by dispossession", although their task should actually be to reveal the risks. This has occurred on a massive scale through the securitisation of mortgage loans which were the foundation for dubious credit pyramids and fictitious capital. These paper assets enabled high earnings as long as the increasingly high speculative pyramids were based on increasing property values, e.g. on exploding house prices.

Everyone wanted a share of the business. New financial centres are made attractive by deregulation and weak supervision, as for example, icy Iceland, where hunting customers among the bargain-hunting finance investors from all over Europe was much less uncomfortable than catching cod in the North Atlantic.

The acrobatics of the financial jugglers became increasingly more daring. For example, by increasing the "leverage" of equity capital. With one euro, more than 10 euros, or even 100 euros were moved in order to gain high financial surpluses, and the gains are increased enormously in comparison to the amount of equity capital invested. Thus, financial investments enable double digit profits even when real growth is minimal. The financial sector appeared to be completely independent of real conditions, as if it was a virtual economy were fat profits could be created out of nothing. Unsurprisingly, work is considered worthless, or even scorned, in such an environment, and unions as organisers of labour are only seen as trouble makers for businesses, and economists fail to understand theoretical principles that interpret labour as creating value, and instead they indulge in the prevailing superstition that value is formed by gambling in the casino.

At the same time, debt is growing enormously, and it is used to expand financial transactions and consumption rather than as investment in production. This is obviously the case in the USA. The consumer debt in the USA has sharply increased from less than US$ 740 billion in 1975 to almost US$ 11,500 billion in 2005, or from 62.0% to 127.2% of the disposable income. The ratio of total debt to GDP has risen from
approx. 160% at the beginning of the 1970s to 340% in 2005.

On the other hand, this debt corresponds to equally increasing monetary wealth. In search of investment opportunities, this "demand" leads to the supply of new "vehicles" promising high returns. There is a geopolitical dimension to the debt explosion in the USA, since a large part of the monetary wealth it entails is hoarded as foreign currency reserves by China, Japan, Russia and some other countries with a positive balance of payments, such as Germany.
Given the dominance of the financial sector over the "real economy", it is not surprising that short-term thinking and the principle of shareholder value determine entrepreneurial behaviour. But, as John
Maynard Keynes already established in his "Treatise on Money" which was published before his "General Theory of Money, Interest and Employment", financial markets are unstable because financial market
participants expect future yields, but the future is uncertain and full of risks.

Financial instabilities can intensify to financial crises. Due to the liberalisation of the global financial markets since the late 1970s, several speculation waves have affected different world regions leading to serious debt and financial crises:
at first, the third world was hit by the debt crisis of the 1980s. The result was a "lost decade". A decade later, the emerging markets had to face a financial crisis, beginning with Mexico in 1974, and then the crisis reached the "Asian tigers" in 1997, Brazil suffered a setback in 1999, and Argentina in 2001. The USA also went through some financial crises: the "Savings and Loan crisis" (1987) and the crisis following the wave of unfriendly takeovers (1986 and 1989), the "New Economy" crisis in 2000, and finally the "subprime crisis" which in the meantime has not only affected the US real estate sector but many other business sectors. It has caused massive losses in almost all countries of the capitalist world economy, and it will continue in
2009.

The lesson is simple: returns of 20% and more on equity capital with real growth rates of 1% or 2% are impossible over the long term, they are neither economically, nor socially or ecologically sustainable.

Only a fool can deny this. At some point, the financial claims of the financial sector can no longer be met in real terms. The securitised claims can no longer be realised, they are worthless. In the current financial crisis, this was first visible in the mortgage crisis in the USA, but includes credit cards, consumer credit and other credit relationships. This requires a massive need for depreciation which nobody can estimate since deregulation and the widespread securitisation practices have led to a lack of transparency close to blindness. There are loud laments about "wrong deregulation" from the most devoted neoliberals. They say these have unleashed such a "greed" which was even rewarded with wrong incentives. Greed could be a valuable explanation to some extent, although greed should not be defined as a psychological defect but as a feature of "character-masks" "in the stock exchange game of the Bankocrats" (Marx). They act like Captain Ahab in Herman Melville's "Moby Dick" where he says he is "quite rational", only the objective or the rules are crazy.

Solutions for escaping the crisis maze The financial crisis is only one aspect, although a particularly important one in the crisis of the capitalist system. This needs to be taken into account when searching for ways to escape the crisis labyrinth. Some of the solutions to the financial crisis which are on offer threaten to intensify the energy, climate and food crisis, and their repercussions could thrust the capitalist economy, and consequently also the financial systems, into new and deeper crises.

We must again remember the crucial point, the dual character of all processes in a capitalist economy: production, circulation and consumption necessarily cause a change in nature. Conversely, the
transformation of materials and energies and living nature also have consequences for economic and financial processes and therefore also for regulating the crisis. This is apparent considering the three most
often discussed rescue packages for the financial and economic crisis:
(1) the state bears the banks' losses, i.e., losses are socialised
(2) massive investment opportunities are to trigger an economic revival,
and (3) externalisation of the costs of overcoming the crisis and the geopolitical conflicts arising from it.

Firstly: The liquidity trap or the lack of profitable investment opportunities

The crisis cannot be handled by pouring money into the tight purses of the financial institutions. This will not stimulate the real production of surplus which would be the only way to satisfy financial demands. If government funds replace dissolved equity capital or even if the state takes over commercial banks in one legal form or another, the institution as such remains intact, that is, bankruptcy is avoided. If government funds are used to buy bad assets, then the "toxic assets" in the bank safes are replaced by good central bank money or secure government bonds. Holes are filled in the financial institutions by enabling an exchange of assets: they are given good assets with a government guarantee instead of valueless assets which should be written off, or they replace the equity capital of financial institutions which were gambled away by managers in an "irrational exuberance" (Greenspan).
However, a comfortable continuation of the finance-driven model is probably not possible for the financial institutions and their managers who have been saved with cash infusions of a few billions.

The returns of the previous bonanza period can no longer be achieved, even if the government-provided means are actually invested. The lucrative business with subprime mortgages is now over, securitised
assets are checked with a Geiger counter before they are included in a portfolio, and the levers of the "leverage" system which were so profitable have been capped, so as not to fall into the same risk trap
again. Neoliberalism with its strong belief in the market is treated like an old cloak that has gone out of fashion, including the toxic financial products, and is now stylishly beefed up as the dernier cri in the form of a neoliberal Keynesianism: "we have to rethink - yes, even completely Keynesian".
Supply policy, the nuts and bolts of neoliberal concepts, is now ineffective because the private sector has suddenly become diffident and unwilling to take risks. Consequently, the state must provide liquidity which can no longer be obtained on the interbank market, and must additionally support businesses through massive demand or possibly even take them over in contradiction of neoliberal dogma. Otherwise the liquidity trap snaps shut.
The state is able to divert income flows to the financial sector through its tax monopoly. This constitutes a unique privilege which is now used by the private financial institutions and other businesses.

The question is, whose taxes are used and who pays for the means that are directed to private businesses to compensate for their speculation losses? How can the redistribution in favour of the financial sector be legitimised by "those above", and how can the acceptance of this redistribution manœuvre "by those below" be achieved? Inevitably, the question of "gouvernementalité" or "governance" of a global redistribution arises. Political conflicts are preordained. Can Keynesians claim a victory in view of the massive intervention to the economy? Perhaps, but it is only a Pyrrhic victory.

Secondly: The ecological pitfalls of Keynesian demand-side policies

To whom and for which business can the banks lend the capital provided by the state? A regular servicing and repayment is only possible if a bank succeeds in getting the money to "work", by investing in new investment opportunities and finding new solvent debtors. Rescuing financial securities with the aid of government guarantees is not enough, the real economy has to produce a surplus to service theses securities. Following the financial crises in Asia, Russia, Turkey and Latin America, capital surplus mostly flowed into the new economy and pumped up a speculative bubble there. When this burst in 2000, the rescued capital was invested in the real estate sector - until the subprime crisis erupted in 2007. And now? In contrast to the financial crises in the globalisation era, the nation-state is now called upon.
Through investment programmes, the state must ensure that bank credits function again, in a more subdued fashion than was previously the case. The investment bank business is over for the moment, and banks must again assume more of a mediation role between "savers" and "investors". This function is necessary in a capitalist money society, but here, dream profits cannot be achieved. Investment banking, for
which university professorships have just been created in Germany, no longer offers any perspective.

In fact, new investment opportunities are being repeatedly discussed. The ecological crises not only imply the potential of a collapse but are also said to offer new possibilities for investors in the financial markets, even if investors would not receive the opulent double digit returns they have enjoyed until now. The International Energy Agency (IEA) has presented the investment requirements of the oil industry and the necessary infrastructure over the next 20 years with its "World Energy Outlook 2008″. According to the IEA, a 20,000 billion US dollar business could be possible: the renovation and extension of the oil producing installations, pipeline construction, investment in refinery capacities, tankers and other vehicles of transportation, etc. However, the new business opportunities for investors would lead to collateral consequences. The fossil fuel system could again be extended by some decades. The car would still
continue to secure individual mobility. This is good news for the car industry which has come across a somewhat bumpy road because of the financial crisis, the threatened climate collapse and the need to
reduce pollutant emissions. But these investments are not secure.

Firstly, because "peak oil" is now an economically relevant reality (i.e., oil production has reached its peak). The oil price then tends to increase, even if it decreases at times because of reduced demand due to the crisis. Secondly, the political stability in the oil regions is endangered not only because of "state failure" and an ungovernable situation in some countries, stability is also undermined by the political and military conflicts in which the big oil consuming countries are involved. Thirdly, the global logistics networks are
also vulnerable as the new forms of piracy clearly show.

Because of peak oil, the IEA also believes that it is necessary to link up 20-30 nuclear reactors per year to the electricity grid over the next two decades. That would amount to about 1300 worldwide by the year 2030. A business volume of hundreds of US$ billions would be waiting, mainly for the benefit of big energy corporations. Abandon nuclear energy? No thank you, the financial crisis will not allow that. Considering the political conflict around one single nuclear reactor in Iran today, spreading hundreds of nuclear power stations all over the world is an absurd, even suicidal scenario. This reinforces the assessment that today's crises express different forms of a systemic crisis of the capitalist mode of production.

Consequently, it would be appropriate to not only look for solutions to the financial and economic crises, but also to look for an integrated strategy that would include a solution for the "collateral crises".
Climate protection also offers favourable investment opportunities, at least at first sight. What initially appears to be a threat in the climate reports turns out to be an opportunity at a second glance. The
threat consists of the possible loss of a fifth of the global national product due to climate change (according to the aforementioned Stern report). But there is a possibility to avoid this disaster for mankind
if 1 per cent of the global GDP is invested in climate protection.

Investments in climate protection would become big business if emissions trading were globalised in the Kyoto II agreement as prepared for Copenhagen 2009. At present, the volume of European emissions trading amounts to less than US$ 100 billion. Optimists expect a potential of up to 20,000 billion US dollars worldwide, especially if climate protection also includes preventing clearing and degradation of forests. These are probably exaggerated expectations since the emissions trade could only achieve this extent when all countries agree and as many business sectors as possible are included – and when the financial markets "normalise" after the crisis. If climate policies are left to the financial gamblers on the global financial markets with "market-based instruments", this generates hope in their circles. Climate politicians, however, fall into deep depression at this prospect of financially-driven climate policies.

There are also investment possibilities in the extraction of minerals, commercialisation of the sea beds and in the cultivation of agro-fuels. Converting whole landscapes with monocultures of agro-fuel would be a productive investment, but it would give rise to many conflicts. Social movements, such as peasant organizations like Via Campesina, and others are organising resistance against the monocultures of big transnational corporations in agriculture, for social and ecological reasons. Political and scientific institutions in the industrial countries also see dangers because of the negative consequences for biodiversity, forests and the environment. Whether these business sectors can absorb a large part of the unused and not yet devalued capital (including the capital substituted by governmental rescue funds), is questionable. Only when resistance and doubt do not exist or are overcome, can the ecological threat be
transformed into economic opportunities for investors. Until then, the expected massive investments will not take place. The consequences for the financial sector are fatal. Repayment of the government rescue
packages to public budgets will only be at least partially possible when financial institutions succeed in lending the financial rescue packages provided by the states as credit to solvent debtors for investment. Again, the importance of the twofold character is apparent: the financial obligations of the banks can only be met if debt can be converted into concrete claims on investment. Debts must be serviced from really produced surpluses. The price would be high, since this would mean the continuation of the development model of ecological destruction - unless the crisis is used in a different way than to date, that is, as an opportunity for a "systemic change of the model".

Thirdly: Geopolitical conflicts or: the devil takes the hindmost

A high price will also be paid if the transfers to the financial sector are not (or cannot) be invested in

the real economy. Then the taxpayer would have to bear the realised losses, or they would be redistributed in an inflationary process and "spread" among the market participants. The losses of the financial institutions would then affect everybody, although to different extents, due to the loss in purchasing power of the currency. Especially people with material assets or those who manage to convert their financial assets into
tangible assets in good time would suffer least. Concepts of social justice would be violated and demands for equalisation of burdens would be raised.

Consequently, it might seem reasonable to attempt to externalise the losses of the finance sector and the subsequent loss in purchasing power by devaluing the currency. Admittedly, only countries whose
currency is a reserve currency can do this, others cannot. If these countries depreciate their currencies, then this could develop into a devaluation race as in the 1930s, in order to maintain or expand market shares on contested world markets. However, devaluation with the aim of externalising financial losses is different. Since many countries have accumulated dollar reserves, some of the reserves being huge, the USA could devalue the dollar so that American taxpayers do not have to bear the losses of their financial system that amount to trillions. This could prevent internal political conflicts, but the price would be high even for the USA. There would then be a threat of geopolitical conflicts between the USA and countries with large dollar
reserves, i.e. the EU, China, Russia, Brazil and other emerging countries. These countries would gain influence, within the G20, for example. The big emerging economies could no longer be served at the "side table", as is usually the case at G8 meetings. They will be part and parcel of regulating the global financial crisis and in eliminating what are euphemistically called "global inequalities".

These are the result of the twin US deficits: the national budget and the balance of trade, which has been financed by foreign countries and has lead to the accumulation of large dollar claims against the USA.
Consequently, the USA must not only support banking institutions and ailing businesses, but also consider external creditors. This leaves little scope.

A devaluation would mean relief, but then the US dollar would no longer be able to play its role as oil currency. Despite all political relationships and dependencies, the oil exporters would convert to trading in a different currency to the US dollar. The USA, which import two thirds of their oil consumption, would have to pay for their imports with a foreign currency that would have to be "earned" through their exports. This could only work if the US had a positive savings ratio. The crisis would cause a diversion of financial flows.

Even the trading currents, "well established" over previous decades, would be redirected, when the USA would no longer sweep the world markets empty like a credit-financed vacuum cleaner.

So the crisis is by far not over yet. The crisis on the financial markets is still primarily being fought with trillions of dollars and euros. No one wants to even think of the losses, and consequently they have not yet been distributed between the classes and the nations. The plagues of climate collapse, peak oil and hunger are neglected in the discussion. The conflict to determine who will be the hindmost for the devil to take has only just started.

P.S.

* From Great Recession website. This entry was posted on Sunday, February 1st, 2009 at 9:04 pm:

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