Interview

The G20, Empire, and Anti-Capitalist Demands

Tuesday 7 April 2009, by LILLEY Sasha, PANITCH Leo (Date first published: 7 April 2009).

Sasha Lilley: This past Wednesday, before the start of the G20 Summit in London, France and Germany asked for more regulation as a response to the unraveling of the financial system, while the US has stated it would like to a see a coordinated global stimulus plan without such regulation. How do you see these divisions within the most powerful nations of the Group of 20?

Leo Panitch: I think they're enormously overplayed. I really don't think they amount to a row of beans. The American administration is entirely interested in changing regulatory forms. Not that it has really been an unregulated system that has led to this crisis. I think that's an illusion. The American financial system is probably the most regulated in history. The regulatory agencies were promoting these kinds of innovations and speculations in finance.

Sasha Lilley: Can you elaborate - as most people on the Left think regulation got stripped away and hence finance ran amok?

Leo Panitch: There was a change in the mode of regulation, but there wasn't less regulation. And in a lot of ways, when you have freer markets you need more rules, if nothing else to protect the more property owners who are in the market, to lay the rules under which they can sue each other and go to court when they are not able to make their obligations. Now, that's finally blown up in their faces and obligations cannot be met, and it's certainly possible to say that the agencies should have developed forms of controlling some of the stuff that was developed. But they weren't interested in that. They saw their role as developing the kinds of regulations that would promote this financial speculation. And this financial speculation was absolutely necessary to the kind of dynamic globalization that capitalism produced - to the cost of a great many people around the world all the way through it, especially in the Global South. But nevertheless everyone was going on about how dynamic capitalism was and it couldn't have been that dynamic without finance.

Now the point is that this was also true in Europe. The European Union, for all of the talk of the Left that it was going to be the union of the social charter, which would protect social rights, was primarily over the last two decades a union which sponsored the freedom of financial capital and promoted the financialization of European banks and insurance systems. That's why it's the Deutsche Bank that's holding most of the subprime mortgages in the black communities in Cleveland. This was facilitated by the European regulators.

Now that's not to say that there isn't going to be - now that if you like the barn has burnt down - that there isn't going to be some new regulations introduced with regard to the type of fire prevention, now that they see what has happened. But the United States is as interested in this as the Europeans are. The only difference is that the Europeans need to find a way to do this amongst themselves, given the integration of the European Union and capital markets. They can't do it with thirty different states - that's their main concern. The United States will want multilateral regulation, but will of course - as it's always wanted, as every empire wants - it wants to be able to exert its imperial rights over that regulation as the leading state in the capitalist world. And it will do that. It will get it.

But these disagreements are really minor. Maybe a slightly bigger one is whether Germany wants to stimulate as much as other countries might. They've always been particularly neurotic about inflationary tendencies. And to some extent it was the German Bundesbank, their central bank, which really controls the European central bank now, which was always more Hayekian, if I can use that term, or Friedmanite or Monetarist, as I guess is the term that most people know, long before the US Fed was. The Germans ran their economy through the Second World War period right through the 50s and 60s, as if though they'd never heard of Keynes. And they still are the least Keynesian.

Sasha Lilley: And you mean by that, not interested in public spending to stimulate the economy.

Leo Panitch: Yes, not interested in fiscal deficits in stimulation of the economy. And they're afraid of inflation by virtue of the theory of the money that their bank operates with - you don't create money in order to promote the economy. But these differences are not serious; they are entirely minor and far too much is being made of them.

Sasha Lilley: You just mentioned empire with respect to the US. How should we understand the role of the US within the Group of 20?

Leo Panitch: It is the imperial state. It penetrates economically and certainly did financially, not least through the investment banks that were the source of so much of the problem, all the other states. You can see the extent to which the imperial relationship continues, by virtue of the fact that the American dollar has gone up in the course of this crisis and that capital everywhere around the world has been running to the safe haven of the US Treasury bond. That is seen and it has been seen by international capital since the 1930s as the safest investment in the world because the United States is seen as the safest capitalist state, the least likely to default on its debts. This is as true of China as it is of Europe; it's as true of Japan as it is of China. And as the Chinese have said, they of course desperately want guarantees from the United States that it won't default on its debt. They would very much like an IMF-sponsored international reserve currency that wasn't the dollar. But they're saying all these things because they are so utterly dependent on holding US Treasury bills for their own monetary stability. And they can't find a way of getting out of it. And this shows you the extent to which the imperial relationships that built this global capitalism we've been living through continues.

Now perversely, what we're seeing is the continuation of that through the creation of a worldwide, very severe economic crisis, probably depression. That's perverse, but it shows how central the American state and the American economy is to the whole of global capitalism. What begins as a very minor section of its financial markets - subprime mortgages - and the effect of that is that the whole world goes into a tailspin. That's a perverse example of the imperial relationship, but a real one. The Onion had a great headline in November 2007, just after the crisis began, and the headline was: "Bush Proud the US Can Cause Markets around the World to Collapse".

Sasha Lilley: What you're arguing is quite different from what a lot of analysts on the Left have been saying recently, which is that US empire is on the decline, that there's pressure on the dollar, and that while it may have gone up right now, the expectation is that it will go down, and that, as you say, there is a search for other currencies. I wonder if you could talk a more about why you don't think that US power is waning.

Leo Panitch: Well, it's perhaps a matter of wishful thinking on the part of the rest of the Left. US power is confronted by a series of very, very difficult problems. And indeed trying to integrate the states of the Global South into this informal empire may prove to be even more difficult a challenge than the old empires faced with their colonies. But the notion which is most common, that either Europe with its presumably - and it's really ludicrous - more "civilized" capitalism or China - it used to be Japan that was the favorite example but nobody points to that any more - are inter-imperial rivals to the United States, are challenging the American state's imperial role in the making of global capitalism, that is what I don't agree with.

I think that the crisis of the empire is a crisis of all the capitalist states in the empire, so there isn't a relative loss of American power. There are enormous problems that the contradictions of a financialized globalization got them all into. And they're all scrambling to find a way, under the aegis of the American state's umbrella, to manage this crisis. So for me it's not that it isn't a problem, it's that people tend to look, I think naively, at there being somewhere else that's better, somewhere else that's stronger, somewhere else that's autonomous of the American empire, and I don't think that's true.

The other side of this I guess is the Left's tendency to think that there was this great form of regulation back before Ronald Reagan or back before Jimmy Carter and that suddenly what happened was that all these state agencies decided to get into bed with capital and stop controlling capital, as though the American state was this independent, social democratic, neutral guarantor of the public's interest against business before 1975 or 1980. That's nuts.

Sasha Lilley: So you're talking about the legacy of the New Deal.

Leo Panitch: Yes. What happened was that the New Deal, which brought in real reforms, saved Wall Street from its demise in 1932. That did mean that the JP Morgan empire was displaced with Goldman Sachs, but the effect of the New Deal banking legislation was to create the conditions under which the Fed, and the other agencies created at that time, nurtured finance back to health. And it was so healthy by the end of the World War Two that it was able to write Bretton Woods in a way that suited New York bankers.

Sasha Lilley: And Bretton Woods was, of course, the conference that took place in 1944 which established international regulation and also gave rise to the International Monetary Fund

Leo Panitch: Right. And the International Monetary Fund has been, with the US Treasury, the agent if you like of American capital. Everyone blames the IMF for imposing conditions on countries that need loans from it, but it's really the bankers who want to ensure that those countries open up to the free movement of capital and maintain fiscal responsibility so they don't default on any of their debts that the private bankers lend to them. That's the interest the IMF serves and it's been Wall Street primarily that it has served.

So what happened was that, sure, there has been a very active state that has set up price controls - that is, banks couldn't compete with one another through higher interest rates to get your deposit or my deposit, so in that sense, there was a bit of price control that was introduced during the New Deal. But that was precisely the same type of price control that you had in private utilities like electricity or telephones and so on, which limited competition but brought giant monopolies into the economy. And what happened was these banks grew back to health and outgrew the New Deal regulations. They grew so big they out-spilled them and they started investing all around the world and indeed in markets, especially in London where there was no regulation in the Euro-dollar market or the Euro-bond market, all of which was conducted in dollars. And insofar as that was going on they then were able to turn around and say, we need to get rid of these price controls in the United States because we can do business elsewhere. And one needs to remember that workers and their pension funds were demanding that these price controls be removed because they weren't getting the benefits of competition when they tried to invest pensions in the stock market through investment banks and so on. They wanted discounts below what the New Deal prices allowed for, given how large their investments were.

So by the 1960s, this all exploded the New Deal regulations; it was well beyond what they could control or even wanted to control. What happened was that you got this explosion of financial innovation and the creation of new agencies or the active role of old ones in promoting them. And they promoted them because it made a lot of money on Wall Street. New York's revival from the 1970s was all bound up with the enormous innovation and dynamism and speculation of Wall Street. But it isn't just speculation. If you're going to trade around the world and you have fluctuating currencies and fluctuating interests rates and different rules and regulations and different court systems, you need to be able to speculate over what the currencies will be six months from now when you need to be able to deliver whatever you promised to sell on the other side of the world. So that speculation has been absolutely functional to the credit that is needed in global trade. We couldn't have had the explosion in global trade without the hedging of risks that this financial innovation involved.

It's all mixed up with the dynamism - and tremendous inequality and unevenness - of a capitalist world system. And people who don't want to confront that, and that's most of the Left, and are looking for an easier way out than trying to get beyond capitalism will try naively to say, back in the 1950s we controlled all this. Well, back in the 50s you didn't yet have this dynamic capitalism, which recovered so tremendously through the postwar era and exploded in the way it did into globalization in the sixties, seventies, eighties and nineties.

Sasha Lilley: For the Left to come up with solutions which don't hark back to a golden age that may not have existed, what solutions do you think we should be looking at? One of the focuses of the demonstrations in the streets of London have been around the banking system and in its most spectacular form, protestors stormed the Royal Bank of Scotland. There's been calls on the streets to make banks a public utility. What do you think of that demand by the Left?

Leo Panitch: I am very much in favor of that. And the main reason that I'm in favor of it is that taking the banking sector, the whole of the financial sector, into the democratic public domain - however limited our democracies are - would remove the economic power of that fraction of the capitalist class that are the bankers. Who have enormous power. They're not the only ones who are powerful, but it would remove their power. And that's the most important reason to take capital away from them.

Now that could also be said of the importance of nationalizing other sectors. But let's just address this. That's the main reason, that you shift the balance of class forces in this society by doing that. And the failure to do that means that Obama needs to say, while at the same time as saying that there is a scandal in giving AIG executives their million dollars in bonuses, he needs to say, we need to find a way of preventing that, while not preventing getting the cooperation of the private bankers in getting the banking system back on track again, that's the way he put it last week. That's exactly what Paulson said. Paulson was the Treasury Secretary before Geithner, under Bush. And he had the gall, having been the highest paid CEO on Wall Street with the largest bonuses before he became Treasury Secretary, back when he was head of Goldman Sachs, he had the gall when he was trying to get his TARP plan through Congress to say that he thought salaries on Wall Street were unconscionable and we needed to do something about it. But in the same breath he said we need to find a way of doing that that doesn't get in the way of the TARP program working.

Now, what all that means about not getting in the way is simply a reflection of the inherent class power on Wall Street that is linked to the American state. So the most important reason for making banking a public utility is to shift the balance of power in society.

Now on top of that, banking ought to be a public utility insofar as banks can't exist without state deposit insurance; that's been proven since the 1930s and every government in the world has them and follows the American state in having them. Insofar as we can see that a volatile global financial system constantly produces financial crises in which central banks immediately act as lenders of last resort, using public funds to do so, you can see why this shouldn't be something private.

What we've arrived at is a world in which a great deal of finance and production is completely social, is totally socialized, but is privately owned. And that's increasingly irrational. And the reason for turning banking right now - given how much the bankers are demoralized, confused, don't know what to do, are on their heels, feel illegitimate in society, etc - it's an enormous opportunity to turn the credit system, which is necessary, into a public utility, but to do that in a way that changes the criteria upon which lending is done. Just to have the banks nationalized and then for them to act as though they were identical to the previous private banks would make no sense. And the kinds of thing that Stiglitz and Krugman are calling for, which is nationalize them, take the bad debt off the books and then give them back to the private sector, would be fundamentally democratic. So Stiglitz and Krugman only look radical because of how little radical the Democratic Party is, not because what they're proposing is radical at all.

Sasha Lilley: So the bad debt would be socialized, but the public would not be left with any control over the banks.

Leo Panitch: Exactly. The proposal is to give the banks back to the private sector on the thesis that we can't have a properly democratized state. I agree the existing state is very problematic, once we start thinking about how we would want to have banking as a public utility, we immediate need then to start thinking about how we would change the Fed, how we would democratize it so it wasn't run by regional bankers. What we're talking about is a massive, hopefully peaceful, change. But that's what needs to be on the agenda is light of the tremendous crisis that we're facing.

Sasha Lilley: What would the mechanics of bank nationalization, the process of nationalizing a bank, look like?

Leo Panitch: Well, the Federal Deposit Insurance Corporation does it all the time. During the early 1980s, when thousands of banks went out of business - there was a tremendous concentration of banking during Reagan's early years when there were very high interest rates - the FDIC was constantly doing it. It's even done it with very big banks like Continental Illinois. In the last year, it's been done it with some two or three dozen banks. What it does is that it simply goes in, declares that the bank is not functioning and has the total right to do it, and takes it over. Then inevitably having sold off the bad debt at a discount, and it's able to do this because it's been using taxpayers' money or collecting insurance fees from the banks in order to exist, it then sells of some of that debt, recoups in other words some of its costs, and then sells or tries to sell that bank back to the private sector. And it usually finds a bank that will take on this bank now that it's been cleaned of its old assets.

So it's not a big deal in terms of the legal means of doing this - it's been done with big banks, it's been done with small banks, they know how to do it legally. The problem is that this nationalizing of the banking system as a whole, the whole financial sector - which would also mean near-banks, the insurance companies that played this kind of role, the hedge funds, the investment banks and so on, not just the Bank of America - they'd all have to be brought into a public banking system. That's a very big deal. It's not a matter of just getting lawyers to sign a few documents or bringing all the stakeholders together in a room. For this you need to build the kind of movement in society that doesn't exist, that puts this on the agenda, that explains to people why it's worth running the risks to do this. Because of course, bankers would scream and yell and say what little you still have in the banking system you're going to lose.

You need, in other words, a very different set of political forces in the United States before you can even have this. The reason for raising it, and it's why the people were on the street in London, is that they're on the street in order to build the kind of movement that will change the political conditions in the society. And this is not only true in the United States. This is going to involved a lot of international solidarity where movements support each other as they learn about how to do this kind of thing, how to put these kinds of things on the agenda, and they're all about changing the balance of power in our societies.

Sasha Lilley: What about a broader call for nationalization of industry going beyond the banks? Because of course these protests are going on in the UK where in enormously dramatic ways in the 1980s and 90s, under Thatcher and then continued under Blair, the nationalized industries of that country were privatized.

Leo Panitch: I'm really glad you raised that, Sasha. Back in the 1970s, a lot of the left of the socialist and social democratic labor parties had on their agenda the nationalization of the banking system. In 1976, Tony Benn and Ken Livingston, who was just mayor of London, and the left in the Labour Party passed a resolution at the Labour Party conference calling for the nationalization of the five largest banks and the seven largest insurance companies in Britain. And they were arguing that unless this was done, that the reforms that had been won during the period of the Keynesian welfare state in the 50s and 60s was going to be lost, that you had to build on those and go beyond them if you weren't going to lose them. And they were ignored, defeated, called Neanderthals by all of the leaders of the social democratic parties and that kind of thinking was marginalized in the 1980s and 90s. And we see the consequences of that today. The privatizations that occurred were very much in the wake of the failure to go on and control, take over, the power of the City of London, which was always the most powerful element of British capitalism in the twentieth century. The City of London was the backbone of Thatcherism. Thatcher got her start and her ideas got their start in bulletins that were circulated in the City of London in 1972-73 during the miners strike and so on. The failure to do that led to the loss of so many of the reforms that had been won on the basis of a different balance of class forces that came out of World War Two.

We need to remember, however, that those weren't what we want them to be today either. Those nationalized industries were, in the main, industries that were nationalized because they had been bankrupted by the capitalists who ran them, whether they had been railways or the mines. Despite of an enormous battle in the labor movement to have workers elected to their boards, their boards were appointed and it was mostly businessman and technocrats and the odd university professor who were put onto those boards. They were not democratically-run enterprises.

And even the government agencies that people most needed, welfare bodies, etc, people who were dependent on them were afraid of them. Single mothers on welfare, desperately needing the welfare state were afraid of the welfare state. They were afraid a social worker will show up one morning and find that there's an extra toothbrush on the sink and therefore they're going to be cut off by virtue of somebody having a boyfriend. So people were afraid of this bureaucratic welfare state. And it's one of the reasons why politicians like Thatcher were able to get traction amongst working people when they pronounce themselves as anti-state - which they weren't of course, they were moving people out of welfare offices and into prisons, and you can't find anything more statist than prisons. But there was a certain appeal that people who were dependent on these institutions nevertheless were attracted to, because they were uncomfortable with a state that was never democratic, didn't serve them very well.

So as we put these ideas newly on the agenda, they have to be not only about taking capital away from capitalists, but about democratizing. We desperately need to do this for the auto sector. The scandal of saying that you can't reopen the contracts of bankers, whereas you insist that the autoworkers constantly reopen their contracts, is an example of the class nature of all of these capitalist states. You know, during the Second World War, the auto industry wasn't producing cars, it had been converted into producing plane fuselages. We need to take the whole of that industry, including the parts sector, into the public domain and convert it into ecologically sustained production. Some of that can be vehicles that are run on hydrogen or electricity, but a lot of it should be public transit. And there's no reason why the enormous skills and tremendous machinery that is a legacy now of generations shouldn't be turned over and converted to the making of solar panels. Tool and die makers in the auto industry and the machines that they work with have the capacity to do this. If these companies are simply sold off to the highest bidder in little bits and pieces, we're going to lose a tremendous social legacy. It's a scandal.

P.S.

*Source: Pacifica Radio. Leo Panitch's ZSpace Page.

http://www.zcommunications.org/znet...

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