

Editorial

Is Neo-Liberalism Finished?

The crisis afflicting U.S. financial institutions is being characterized as a crisis of neo-liberalism. This is undoubtedly the case. It shows that the normal methods utilized by neo-liberalism have been inadequate to prevent the collapse of profits and that a direct handout of at least a trillion dollars from the U.S. government to the biggest finance capitalists is needed to prevent the collapse of the entire house of cards. In fact, the total may be many times that before the dust settles from the sub-prime mortgage crisis.

But if neo-liberalism is in crisis, does that mean that it is on its way out? If so, what will replace it? Some, including U.S. presidential candidate Barack Obama, are suggesting that the “greed” characteristic of neo-liberalism will be replaced by the “benevolence” of a return to Keynesian economics. Neo-liberal policies are presented as an aberration,

the work of some overly greedy individuals rather than the only hope of salvation for a dying monopoly capitalist system.

If the policies of Keynesian economics were capable of maintaining the profits of the monopoly capitalists those policies would never have been abandoned in the 1980s. Nor has a miracle occurred during the past 25 years to restore the effectiveness of those policies. Keynesian policies are simply not an option for the monopoly capitalist system of today.

Neo-liberalism, which in simplest terms is the direct plunder of the public treasury by the biggest and most powerful monopolies, is not just a policy option. Rather, it was and is the only method remaining to keep the entire capitalist system from collapsing. In a very real sense, neo-liberalism represents the epitome of the imperialist system

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Commentary

The “Debate” on the Canadian Economy

Prime Minister Stephen Harper has objected to the format of the upcoming leaders’ debate on the basis that it does not place enough emphasis on the economy. Harper claims that the issue of the economy has become more urgent in the past few days due to the financial meltdown in the U.S. and the rejection by the House of Representatives of Bush’s bailout package. At the same time he insists that the Canadian economy is extremely healthy and will not be significantly affected by the problems south of the border, despite the opinions of many prominent economists to the contrary.

The U.S. economy was already on the ropes when Harper called the current election. In fact, that was cited by political commentators as one of the

main reasons he called the election now instead of next year. So why the sudden need for more debate on the economy?

Does Harper intend to tell Canadians that he has reconsidered the policies of his government promoting the deep integration of the Canadian and U.S. economies given the obvious weaknesses of the American economy? Will he present a new platform with measures to build a self-reliant and independent Canadian economy which will be far less sensitive to the bursting speculative bubbles of our southern neighbour? Does he intend to admit to Canadians that capitalism has failed them and that it is time to begin discussing alternatives?

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Paying the Rich and Fleecing the Poor

Last week U.S. President George W. Bush announced a \$700 billion bailout of the financial industry in the United States. This falls on the heels of an earlier announcement of the federal takeover of mortgage giants Fannie Mae and Freddie Mac and an \$85 billion bailout of AIG, one of the biggest insurance companies in the world with over one trillion dollars in holdings. Bush claimed that the bailout was necessary in order to “save jobs” because if the big banks collapse it will result in a recession.

The Bush bailout package has now been rejected by the U.S. House of Representatives, with many congressmen worried that they will be voted out of office in November if they dare to support it. However, Bush has pledged to bring back a “new” package next week. The “new” bailout will undoubtedly be attached to a variety of populist measures to “punish” the financial institutions for their recklessness. This, coupled with intense pressure on the politicians both from their parties and from Wall Street, will no doubt get the “new” bailout passed.

The difficulties besetting the big U.S. banks are directly related to the collapse of the sub-prime mortgage market. This was a scheme designed to create the highest possible returns on investment by creating a booming housing market by enticing the people – mainly the working poor – to buy homes they could not afford. The mortgage loans often started with very low interest rates that escalated after a couple of years to the very high interest rates that high risk loans can demand. Many of these mortgages were provided with no or minimal down payments. The artificial demand created by the sub-prime lending binge in turn produced a massive housing bubble with house prices reaching astronomical values. It also spurred a construction boom based on the escalating demand for houses that could command ever higher prices.

As with all such bubbles, the U.S. housing bubble finally broke in 2007. Housing prices leveled off and then started to fall and new houses remained unsold. High interest rates caught up with people who had taken sub-prime mortgages when they could not meet the payments. The declining value of their

houses overtook those who purchased at the height of the market or had low down payments as they discovered that they owed more than their homes were worth. As a result, millions of Americans are in the process of losing their homes either through foreclosure or simply because they have walked away from the obligations on their overvalued property. The housing market bubble fuelled by the sub-prime mortgages has collapsed, as has the construction industry. The widespread packaging and resale of mortgage loans throughout the financial sector as high yielding “asset-backed commercial paper” has spread the collapse of value well beyond those that made the original bad loans. It has infected the entire U.S. financial sector and the financial markets around the world, particularly Europe. The downturn in the American economy is expected to drag down markets around the world and could lead to a global recession.

However, the sub-prime mortgage collapse is only the tip of the iceberg. While it may have been the trigger for the most recent financial crisis in the U.S., it is a symptom rather than a cause. At the root of the problem are two phenomena unique to capitalism. The first is the anarchy of production under capitalism which leads to periodic crises of over-production – the boom and bust business cycle. During such crises it becomes impossible for corporations, on average, to sell their products at a profit. Some companies go bankrupt, production decreases and profit levels are eventually restored leading to another boom period. At this time, an over-production crisis of unprecedented proportions exists due to both new technologies and the entry of China into the global capitalist system.

The other phenomenon at work is the tendency identified by Karl Marx for the average rate of profit to steadily decline under capitalism. This is due to the increasing organic composition of capital; in other words investment in fixed capital (buildings and machines) tends to increase faster than investment in living labour, as workers are replaced by machines. Since surplus value and, therefore, profits are produced only by living labour, the rate of profit has

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to decline. This tendency for profits to decline has been overcome periodically by the introduction of new technologies and new forms of organization of production. However, such reversals are always temporary and once the new forms become generalized throughout the economy the downward trend in the rate of profit returns. The latest reversal in the rate of profit, due to the widespread introduction of computers and the invention of the Internet, lasted for less than 10 years and may have been even shorter if not for the wholesale looting of Russia and the rest of the former socialist bloc.

This tendency for the rate of profit to decline led to the adoption of Keynesian economics by most capitalist economies after World War Two. The main feature of Keynesian economics is the artificial stimulation of the economy by government intervention. One form of such intervention is the welfare state, which in essence is the transfer of wealth from the working class (through taxation) to the poor and working poor through various forms of public spending (such as health, education, and social assistance). By the 1980s this form of intervention was no longer sufficient to prop up profit rates and a new mechanism was invented – neo-liberalism.

Neo-liberalism is a system of transferring money from the public treasury without going through the production cycle. One method is the privatization of publicly owned assets, usually at fire-sale prices. Another method is deregulation. Regulations in a capitalist economy are designed primarily to regulate the competition between capitalists – to prevent some capitalists from being robbed by others. Some regulations have a secondary benefit of protecting consumers from unscrupulous business practices. Neo-liberalism seeks to eliminate regulations and allow the most powerful capitalists to swindle not only consumers but also weaker capitalists. It is essentially the law of the jungle.

It is important to note that neither Keynesian economics nor neo-liberalism actually reverse the tendency for profits to decline. Rather, they both increase the profits of some sections of the capitalist class at the expense of other sections as well as at the expense of the working class and people. For example, the windfall profits achieved by some capitalists by swindling the working poor in the U.S.

sub-prime mortgage scheme will eventually reduce the profits of those capitalists selling consumer products as those workers will have less to spend on such products. So profits may increase in some sectors, but the average is still declining.

Most workers instinctively know that George W. Bush is insincere when he states that his motivation in handing over a trillion dollars to the bankers is to save jobs for workers. On the other hand, many commentators do consider him to be sincere in attempting to stave off a recession. However, in truth, nothing George W. Bush does can prevent a recession. The U.S. was headed towards recession long before the sub-prime mortgage crisis. If Bush were sincere in wanting to postpone or reduce the depth of the upcoming recession, he would have given the one trillion dollars to the poor and working poor in the U.S. This would have enabled them to meet their mortgage payments, buy food and clothing and also buy some of the surplus consumer products glutting the market.

However, handing over one trillion dollars to the big banks still leaves millions of Americans homeless and broke. Furthermore, it will actually exacerbate the coming recession because it effectively removes one trillion dollars from circulation in the economy and puts it in the hands of billionaires who will use it to buy up other companies rather than to buy consumer goods. And to rub salt in the wound, those same billionaire bankers will end up not only with a trillion dollars from the government but most likely also with the repossessed houses of the workers who are being evicted from their homes.

While the U.S. bailout may keep the financial markets afloat for a few more months, it will do nothing to stave off a recession, which is already a reality in the U.S. and will soon be in many other countries. It is clear that the big capitalists are already reconciled to the fact that a recession, or more likely a depression, is upon us. What they are intent on accomplishing now is to grab as much loot as possible in order to position themselves to buy up their competitors rather than being bought up by them. The biggest swindle in the history of the world is taking place before our eyes, being conducted by the most powerful state in the history of the world on

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Neither Harper nor any of the other political leaders has any intention of discussing such matters. All of them, including Jack Layton, will be arguing that Canadians should continue to place their trust in the rapidly decaying capitalist system and that each of them is better qualified than his or her opponents to manage the capitalist system through its looming crisis. Harper will argue that the policies of free trade and deeper integration into the U.S. markets will bring Canadians security and prosperity, despite all of the evidence to the contrary. Dion and Elizabeth May will argue that taxing polluters will solve all of the economic problems Canada is facing. Layton will argue that a return to some form of Keynesian economics will save the day, although if the NDP somehow manages to form the official opposition after October 14 he will no doubt quickly abandon those positions and adopt the “Third Way” neo-liberalism of Tony Blair as the best way to prove to the capitalist elite that he is fit to lead the country.

Since all of the political leaders will be presenting one or another variation of the status quo, they might as well debate the weather for all the good it will do. A debate on the Canadian economy is meaningless unless it examines how the economy is organized, who benefits and loses from that form of organization and what alternative forms of organization exist. There is no evidence that any of the parties contesting this election are interested in that debate.

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behalf of the most powerful monopoly capitalists. Nothing positive can come out of it for the working class and people.

With this crisis, the huge financial institutions have clearly demonstrated that they are incapable of managing the economy. Their narrow pursuit of maximum profits not only goes against the interests of the vast majority of people, but has put the entire international economy on course for perhaps the greatest depression since the 1930s. Far from paying them for creating this disaster, the people of the world should be demanding that the major international financial institutions should be nationalized and the management of the economy be put under the control of the people.

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described by V.I. Lenin just prior to the First World War in his classic book, *Imperialism, the Highest Stage of Capitalism*. It is parasitic, moribund and reactionary to the core. If anything, it is the Keynesian welfare state that was the aberration, made necessary by the existence of a socialist alternative to monopoly capitalism and imperialism.

It can be concluded from this that although neo-liberalism may be in crisis, it is not on its way out. There is no possibility that it will be replaced by a kinder, gentler form of capitalism. Rather, as the crisis deepens and broadens, neo-liberalism will become increasingly vicious and barbaric. It will go after broader and broader sections of the people to rob them of their savings and their possessions. It will resort more and more to lawlessness and military aggression to achieve its aims. This is the nature of capitalism in its highest and final stage.

Those who think that the horrendous crimes against humanity committed by the imperialists of the twentieth century are a thing of the past, something that will never be repeated, are in for a rude awakening. Today, as never before, the alternatives are clear: capitalist barbarism or socialism. Either the imperialists/neo-liberals will plunge the world into its darkest period ever or the working class will rise to the occasion and save humanity from catastrophe by overthrowing the whole rotten imperialist system. There is no third way and no turning back the wheel of history.

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