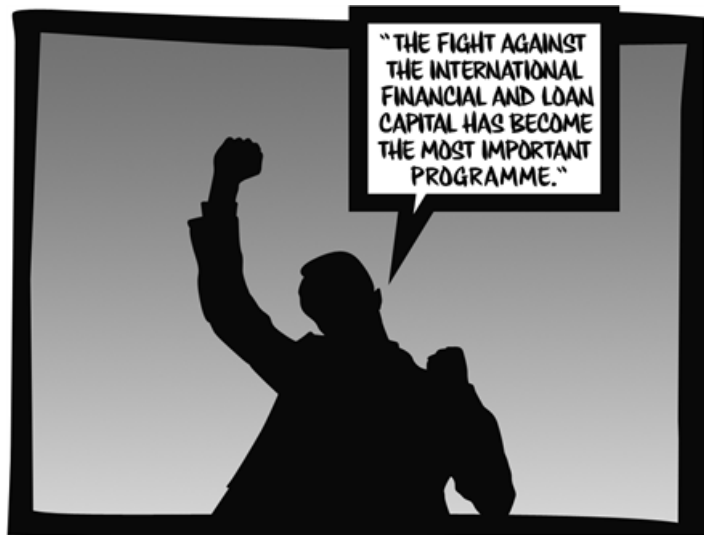


Hermann Lueer

The so-called Financial Crisis Irresponsible speculators and greedy bank managers?

Once the successful businesses suddenly reach their end, once suddenly everybody wants to see money instead of credit there is no questioning the economic system, but the alleged culprits are looked for: a financial system gone crazy, unscrupulous credit granting, untruthful ratings, fraud, rampant greed and naked self-interest ... In the 70s during the so-called first and second oil crises it was the oil sheikhs who took the blame, today it is the greedy bank managers and irresponsible speculators who take the blame.



Starting with the proponents of the market economy right across the camp of left-wing critics »financialization« is supposed to be the problem. A new form of capitalism, some call it financial capitalism, should have caused the crisis. »Whereas in previous times financial markets had a subordinate and instrumental role to the real economy, this relationship has been turned around. The grasp of "financial interests" on the "real" economy increased tremendously by making all economic activities subservient to profits in the financial markets and creating financial instruments to make profits only through the financial markets, while at the same time failing to serve sustainable production and farming, and stable savings by 'normal' customers.«¹

Is the productive »real economy« the victim of parasitic financial capital? The amount of credit granted in order to finance growth has been appreciated, but not the financial capital's businesses with debts that they acquired through the granting of that very same credit. Is the use of credit in the »real economy« not testimony to exactly the same excessive drive for profit that the »greedy« bank managers have been accused of? Banks do the same thing as all capitalists do: they make more money out of money. »Every business owner has too little capital for their business; every one wants to use and multiply more capital than they have, that is, more than they gained when earlier exploitation was successful. With the help of credit every company accelerates their capital turnover and doesn't wait for the advance to come back to them after having sold their produced goods; every one pre-empts successful sales – on which they speculate – and uses their capital yet again for a new round of production and exploitation, even before the cycle is complete ... Even in production and sales it is all about making more money from money ... goods are manufactured when it's profitable to do so, and their manufacture is then discontinued as soon as a more profitable operation turns up for the lovely money. The moving of capital between products and industries proves how impartially capitalists consider production as means of increasing their money. And if they use labour for the production of profit-making commodities then in a way that profit has to come out of that too: closely calculated wages, long working hours and high work demands ensuring the difference between the cost and the selling price *which is what it comes down to.*«²

¹ <http://attac.se/kampanjer/3503/the-time-has-come-lets-shut-down-the-financial-casino>

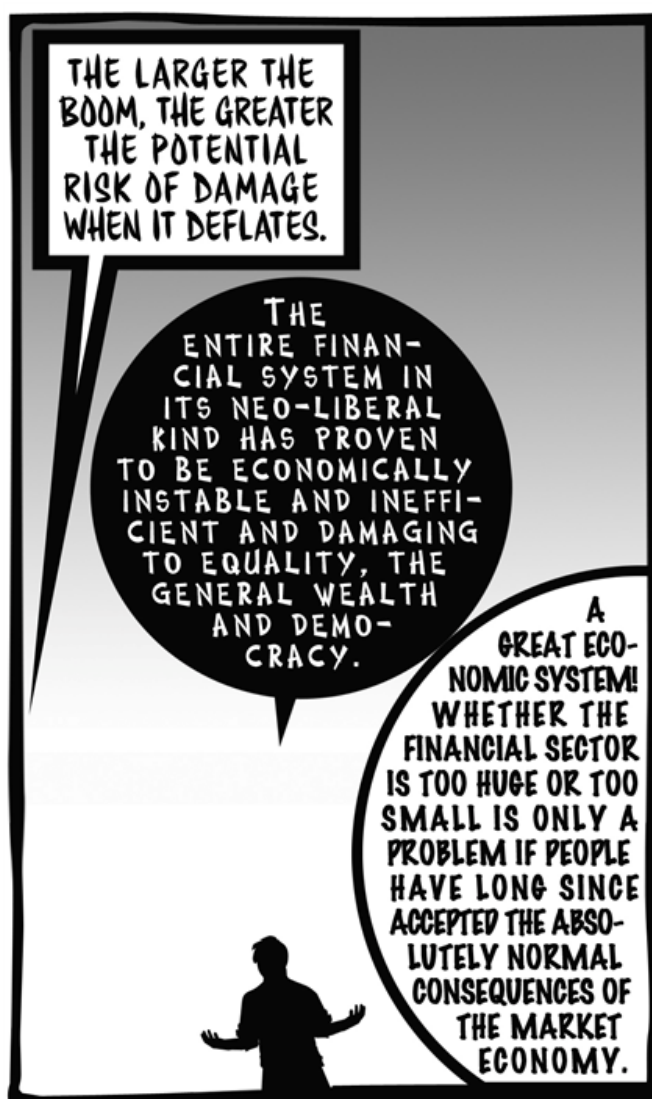
² Gegenstandpunkt 1-09, S. 57

The sheer complexity of their specialist financial instruments and the inconceivable scope of the traded amounts considered from the narrow-minded view of one's own wallet is also often used as proof that something has gotten out of control here and that the financial capital has separated itself from the »real economy«. The volumes traded globally irrespective of the »real economy« for »pure« speculation purposes on the raw materials market, the foreign exchange market and other capital markets supposedly led to the distortions of the markets and the irresponsible risk positions, which threaten to plunge the solid businesses of the »real economy« into ruin, too. Instead of pursuing their actual »service function« and to supply the »real economy« with credits, the financial sector allegedly dealt too much with businesses, which would not create any »real values«.

A remarkable reproach. Ultimately, the manufacture and distribution of »real values« in the sense of useful objects of utility are not the purpose of the so-called »real economy«. Like in the financial economy the »real economy« is also about the abstract value, the money and its abundant accumulation. It is also the »real economy«, which stops the production in the economical crisis: Not because means of productions are lacking, but because money is lacking! And if the businesses of the »real economy« boom, the distortions of entire areas relating to the production locations moving from one low-wage country to another are at least equally real for the people affected as the consequences of the derivate deals transferred all around the globe. Nobody can seriously claim that the financial capital has not made available enough loans for this kind of »real economy«.

»Quite the contrary to being a predatory breed of capitalists picking over the successes and ruins of a productive economy, financial capital represents and defends the interests of all capitalists in capitalism. ... Financial capital plays a dominant economic role in pooling the social surplus, creating credit-money in advance of production, disciplining wayward firms by withholding credit and in determining what new branches of industry to channel new investments. ... The financial system is necessary to capitalism's functioning, and innovations in financial markets provide competitive advantages for the originating capitals and the states they reside in.«³

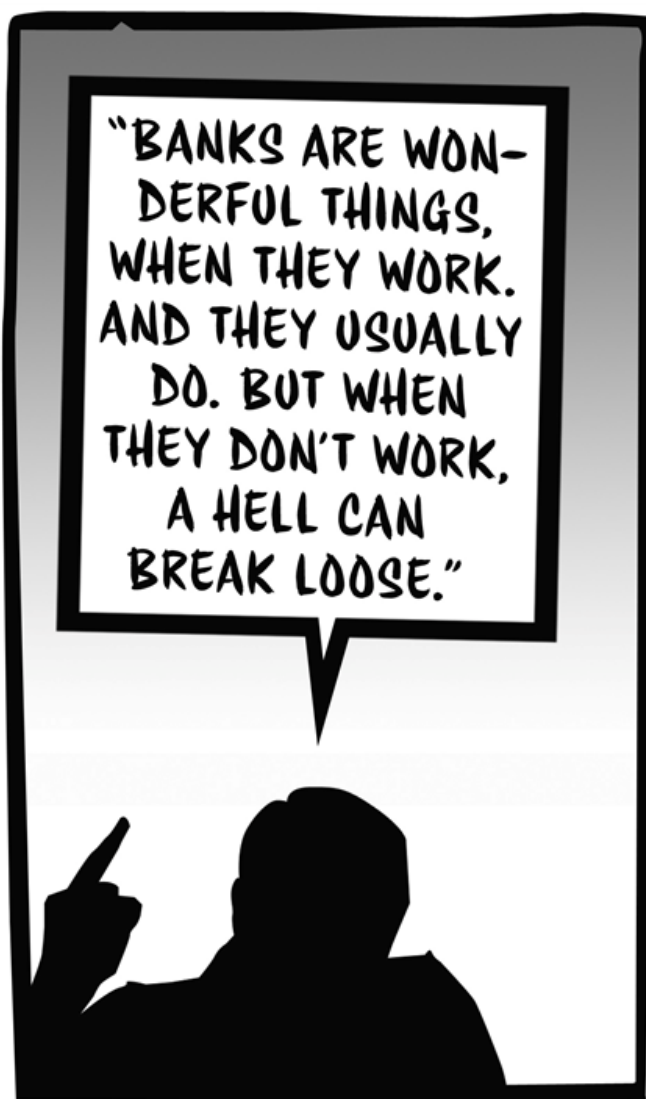
No-one disputes the fact that *on the basis of* the non-financial sector's booming demand for credit or capital, pure trade and arbitrage business in the financial economy – as a derivative (so to speak) of the speculative deals in the non-financial sector - have to a certain extent taken on a life of their own. However, this sector of pure trade and arbitrage business implies and is based on the fact that the quite »normal« world of the market economy provides the necessary foundation. If only one of the bubbles, which are uncoupled from the »real economy«, had burst in the »financial sector« there would be no reason for excess capacities in the automotive



³ Greg Albo, Sam Gindin, Leo Panitch, In and out of crisis. The Global financial meltdown and left alternatives, kindle ebook position 486

industry, the shipbuilding or construction sector, the chemical companies etc. »The "fictitious capital" generated in financial markets is not purely speculative in the sense that playing slot machines in a casino is speculative. Behind a new firm or a new product rests the 'speculation' that it can be sold at a cost and price that generates profit. The populist distinction between the financial and "productive" sectors relies on a one-sided notion that finance speculates in pieces of paper, and not in providing real goods and services.«⁴

In view of the unpleasant consequences of the economic crisis the question is often raised if mistakes have been made, which prevented a »soft landing«, if they could not reduce the downturn. As nobody is seriously interested in the reasons of the *necessity* of the market economic crisis, success or failure become proof for alleged mistakes. »... a combination of excessive borrowing, risky investments, and lack of transparency put the financial system on a collision course with crisis.«⁵ concludes the official National Commission on the Causes of the Financial and Economic Crisis in the United States. What some short time ago was a proof for the particular efficiency and creativity of the market suddenly degenerates to exaggeration, self-indulgence etc. The representatives of the banking world, in particular, are in the centre of criticism; a rather reputable profession at times of successful businesses, the activities of which were accompanied by the concern if one's own national banking world is big enough for the international competition. This is not surprising insofar as everything is about money in the market economy and as the financial sector made the provision and administration of money its particular field of business activity. The loans, which were not granted to pillage the credited business partner to ruin, but for the purpose to take



part in his processes of utilisation and accumulation, are the precondition for the growth of the market economy, which is directed at the multiplying of money. All monies, which are advanced, earned and re-spent in the market economy, circulate thanks to the enterprising »mediation services« of the financial capital. Thus, the entire business world depends on the functioning of the financial sector. The crisis of the market economy is therefore always a banking crisis, too. If the speculations of the companies – in competition against one another to increase their profits by expanding their productions of goods and services – collapses largely in one sector, the trust for the banks is immediately at risk with the losses from the non-refundable credits. No matter to what extent money was created upon the demand of the companies, the trust in the non-existent solvency of the banking world was based on the contradiction of the permanent success of the companies competing against one another for the »solvent demand«.

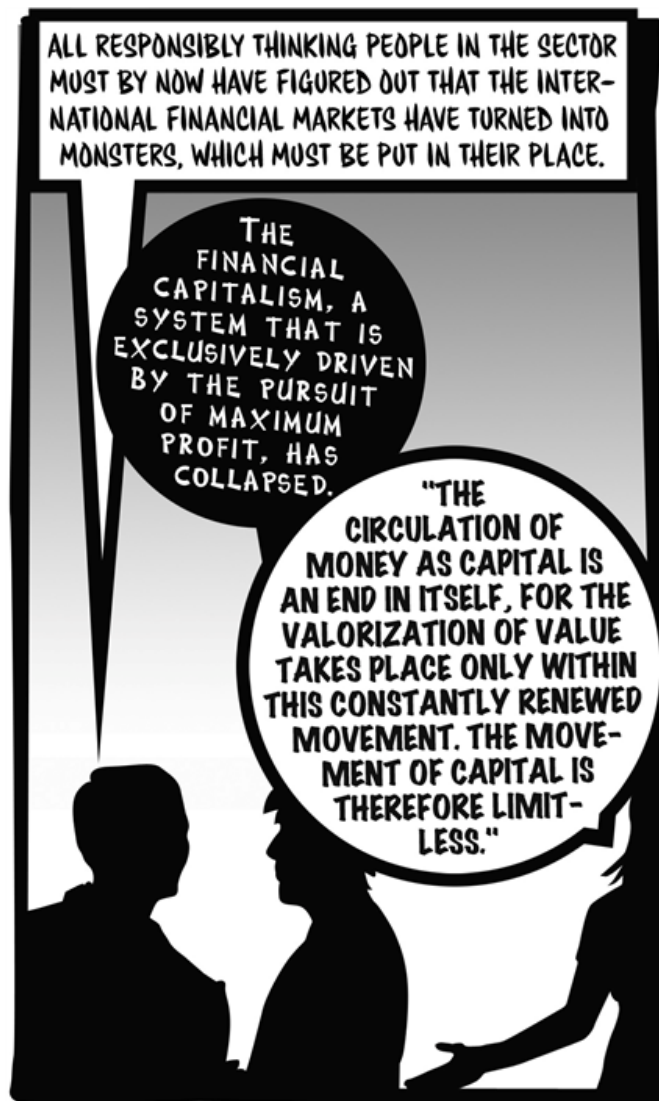
⁴ Greg Albo, Sam Gindin, Leo Panitch, In and out of crisis. The Global financial meltdown and left alternatives, kindle ebook position 480

⁵ Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States, Kindle ebook location 351

With the increasing payment losses, it becomes obvious in the crisis that too many loans have been granted. With hindsight, the credits were too risky – measured against the absent success of the businesses undertaken – and the customers' solvency was evaluated wrongly. In the same breath as the banking world is reproached to have accepted irresponsible risks and to have ignored errors within risk management, it is now demanded of the same with the reference to the alleged »service function« of the financial sector not to have any credit crunch emerge. Professor Krugman argues: »What the world needs right now is a rescue operation. ... policymakers around the world need to do two things: get credit flowing again and prop up spending.«⁶ In order not to put the economic growth at risk, the companies shall be enabled using credits to extend their production capacities in competition for market shares. The already highly indebted consumers shall provide the required »solvent demand« for the further business growth of the market economy due to the generous granting of consumer loans. Disregarding the purpose of profit orientation, which is usually praised as efficient control mechanism, the entrepreneurship should simply serve the functionality of the market economy.

In this situation, the entrepreneurs and the banking managers do exactly what they did years earlier in the boom. They assess the success prospects of their businesses and in view of the significantly deteriorated framework details conclude that in many cases caution is required for credit businesses. The state that made the entire society dependent on the successful multiplying of money with its creation of the market economy in return demands from the banks a higher level of willingness than they are willing to offer from their business calculations. As the successful business, however, cannot be instructed, rescue strategies and economic stimulus packages, which are financed using state credits and which amount to trillions, shall ensure the maintenance of the business activity and thus shall prevent the market economical catastrophe: The extensive destruction of *existing* riches and means of production.

The exaggerated pursuit of profit and exorbitant returns targets supposedly misguided the financial world and thus, via too risky transactions, led to the financial crisis. »It was greed – pure unfettered greed – which produced the collapse.«⁷ The in the crisis widely common reproach that e.g. 25% capital returns are too exorbitant ignores the fact that the pursuit of profit aimed for in the market economy in itself is excessive and that the benchmark of the sufficient returns is determined by the competition only. As the own level of indebtedness is the bank's basis for operating the credit business, the banks rely on continually proving their attractiveness with above-average growth rates and re-



⁶ Paul Krugman, *The Return of the Depression Economics*, 2009, S. 184

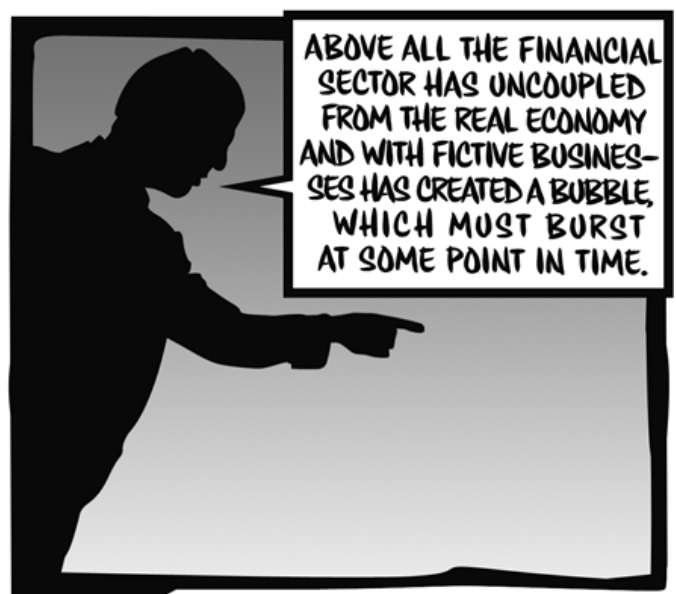
⁷ United States Senate Permanent Subcommittee on Investigations, *Wall Street and the Financial Crisis. Anatomy of a Financial Collapse*, 2011, kindle ebook, position 11

turns key figures in the competition against their competitors. This is the only way to issue new shares on the capital market at competitive prices for the own capital acquisition or to refinance the bank's growth efforts by issuing bonds. The price management of their own shares is not undertaken as a vain end in itself, but is demanded by the shareholders, who themselves base their decision, which shares they will invest in, on the returns expectations. Thus, the reproach of the moral breach or individual craze is completely beside the issue. Like all other companies, the financial capital is forced to grow permanently as well as to achieve above-average profits and accordingly, is forced to continually introduce new financing technologies due to the competition of the other capitalists.



»And that I'd argue, is the core of what happened. As the shadow banking system expanded to rival or even surpass conventional banking in importance, politicians and government officials should have realized that we were recreating the kind of financial vulnerability that made the Great Depression possible – and they should have responded by extending regulation and the financial safety net to cover these new institutions. Influential figures should have proclaimed a simple rule: anything that does what a bank does, anything that has to be rescued in crises the way banks are, should be regulated like a bank.«⁸

According to the recommendation of Paul Krugman, the Nobel laureate in economics, and many others who caution against the unrestrained financial sector before or after the crisis, federal interventions should distinguish between »healthy« and »unhealthy« financial business deals. The »exaggerated« credit granting should be prevented so that »healthy« speculation for successful businesses may take place uninterruptedly. According to this cynical proposal, a certain part of the credit-financed



⁸ Paul Krugman, The Return of the Depression Economics, 2009, S. 163

houses, ships, automobiles, computers or nutrition, for which needs and means of production are available, shall not be made available as a precaution, as too many existing houses, ships, automobiles, computers and production capacities must be scrapped once the speculation bubble bursts. The market economical madness, whether too few or too many loans have been granted, whether enough solvency is provided via the financial sector for the growth of the economy, whether the markets are already »overheated« and must be regulated more severely, obviously has not got anything to do with the supply and the satisfaction of needs. Ultimately, the required capacities are available unchanged and the goods and services are not required less. However, this is not what the market economy is about. Only the purpose to turn money into more money decides what is produced for whom and whether there is a production at all. For this purpose, »modern capitalism could not function without a highly developed credit system, involving banks, stock exchanges, and other financial institutions. This credit system makes it possible for capitalists to finance spending on a scale that would not be possible from their retained earnings alone.«⁹ If for this purpose the credit-financed expansion of the production capacities has been pushed too far in competition against one another and measured against the »solvent demand«, houses were built, ships, automobiles, computers and nutrition were produced, which are worthless from a business perspective. Then the production facilities are closed and people become unemployed who were employed in speculation to turn money into more money by buying means of production including cheap labour forces.



In the market economy, the low level of private consumption becomes the global impediment to wealth. *Within the framework* set by market economy this absurdity is not surprising. »Economy = Market Economy« does work like that. Only those can eat in market economy that can pay for it and if not enough people can pay, there is no reason for production. Thus, mass destitution and existing riches can simply go hand in hand. However, this is only normal if the purpose to turn money into more money is the prevailing principle of the economy. Then, the question, whether the finan-

cial sector would have to be regulated more severely, becomes a justified concern regarding the functionality of the market economy. That on the one hand there will never be enough loans in order to allow for the business growth and that at the same time too many loans threaten the stability of the money economy, then is the permanent contradiction, which market economically determines every normal economical crisis.

⁹ David McNally, *Global Slump. The Economics and Politics of Crisis and Resistance*, PM Press 2011, kindle ebook, position 1378

The final report of the National Commission on the causes of the financial and economic crisis in the United States »blames predatory lending for the large build-up of subprime and other high risk mortgages in the financial system.«¹⁰ »Mortgage banks realized that they could make a ton of money by selling mortgages to anyone and everyone, and the criteria for loans became progressively looser using schemes known as "creative financing".«¹¹ Financial institutions are accused of having seduced people into buying houses and other consumer goods that they patently could not afford. In other words: the »most preposterous consumer loans«¹² were financed. But what is actually more preposterous? Granting consumer loans to people who don't have the funds so they can fulfil their wish of buying their own home, or, once the houses are built, expel people because they can't pay their loans, leaving the houses empty or even tearing them down? In all the excitement about the global financial capital the fact that in the richest industrial nations in the world the majority of the population can't afford to buy a house out of their lifelong earnings but rather have to spend a portion of their monthly income on rental payments to the minority of home owners has gone unchallenged. In capitalism, existing means of production



and personal needs are ultimately not a sensible reason for building houses. People who work for others for little money and who will possibly no longer be needed in *their* businesses in the foreseeable future are regarded in capitalism as »subprime«. Giving these people, who form the majority of the population, a share in the available wealth, endangers the functioning of the market and potentially can even lead to a capitalistic crisis, in which millions of families are expelled from their homes and swell the ranks of the homeless. Thrown out of their homes, maybe they then go on to build houses with their children out of cardboard and rubbish. On the edges of towns in which their empty homes are under foreclosure and cannot find a buyer.

The market economy as an efficient system of controls for regulating supply? At the latest, the crisis will make it obvious that the owners of the means of production are not interested in producing and distributing useful articles. They are only the means to an end. »The mere fact that millions of houses sit empty while millions of people are homeless shows that usefulness is not the issue. However much homeless people might have use for these houses, the market dictates that you get what you pay for, not what you need.«¹³ The real goal is to increase the capital invested. The investments in raw materials, machines, and labour power and the sale of the corresponding articles of use must generate a sustained profit for the investor or he will stop

¹⁰ Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States, Kindle ebook location 10901

¹¹ United States Senate Permanent Subcommittee on Investigations, Wall Street and the Financial Crisis. Anatomy of a Financial Collapse, 2011, kindle ebook, position 11

¹² Sahra Wagenknecht, Wahnsinn mit Methode, S. 58

¹³ David McNally, Global Slump. The Economics and Politics of Crisis and Resistance, PM Press 2011, kindle ebook, position 1211

production. This simple principle – there has to be something in it for the owner of the means of production – is the core difference between the market economy and the planned production of useful goods. Just producing additional means of subsistence is, according to the market economy goal to turn money into more money, not a good enough reason to produce. For how many people this decision means absolute misery is uninteresting from the standpoint of the market economy. Demand (human need) that cannot be paid for simply does not exist for this purpose.

Despite the looming disastrous consequences for millions of people arguments against the market economy are not wanted, even though already long before the financial crisis the results of the globally successful market economy offered enough opportunities for system-critical questions. After all, the market economy represented a permanent crisis for a large part of the population already at the same time as the successful business operation: For people, who live on the breadline even in the rich industrial nations despite long and intensive work, who after thirty years of professional life are threatened by old-age poverty, who grow up in child poverty and who are affected by the cuts in the public educational system and health care. Not to mention the sixth of mankind living



undernourished in abject poverty and miserable working conditions outside the successful industrial nations without access to clean water. The exclusion of the existing riches is obviously not a question of the market economical crisis.

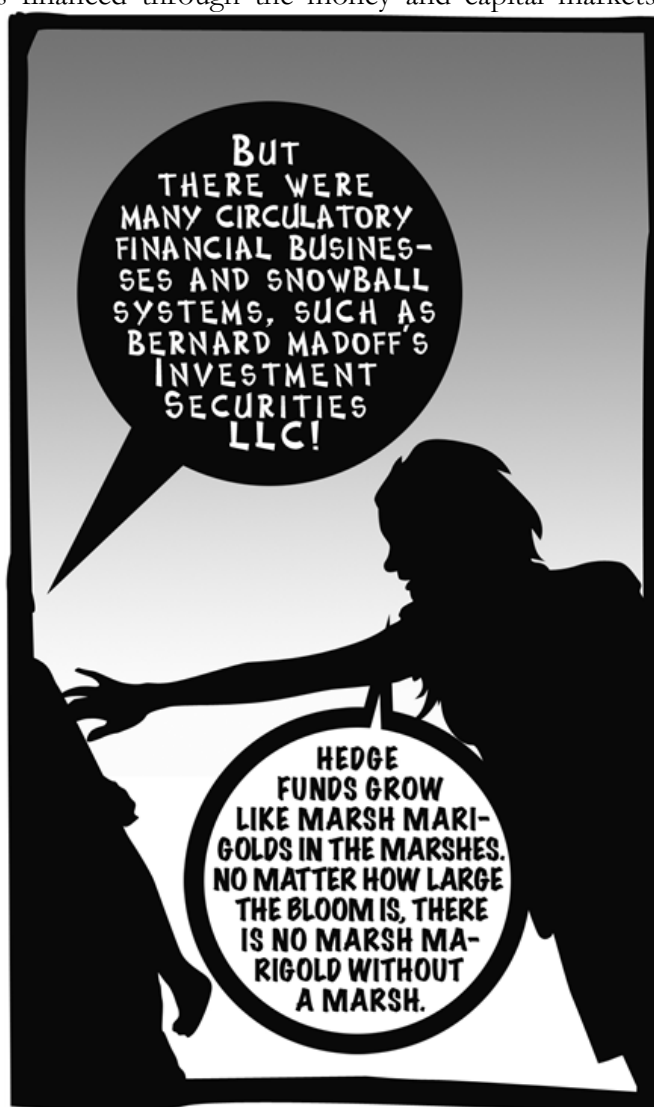
»It is the Commission's conclusion that excess liquidity did not need to cause a crisis. It was ... the failure to effectively rein in excesses in the mortgage and financial markets – that were the principal causes of the crisis.«¹⁴

At this point there is no denying that in the course of thriving business in the »real economy« as well as in the financial sector increasingly risky business practices, which went beyond the limits of existing legislation, were the order of the day. However, a popular misconception concerns the nature of state regulation. »Since financial markets are seen as inadequately supervised, ... this raises analytical and political questions about what form regulation should take to displace the ill-advised policies of neoliberalism. Yet the fundamental relationship between capitalist states and financial markets cannot be understood in term of how much or little regulations the former puts upon the latter.« The regulatory agencies weren't interested to control the rampant speculative activities. »Their role was developing the kinds of regulations that would promote financial innovations. And the resultant financial speculation has been central to the kind of dynamic globalization that capitalism produced to the cost of a great many people around the world, especially in the Great South.«¹⁵ Consequently, for the purposes of a functioning market economy the state will in view of the crisis regulate through legislation any one of the disruptive

¹⁴ Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States, Kindle ebook location 511

¹⁵ Greg Albo, Sam Gindin, Leo Panitch, In and out of crisis. The Global financial meltdown and left alternatives, kindle ebook position 505 and following

excesses in the »real economy« as well as in the financial sector, *without resolving the reason for the crisis*: In the market economy, due to the state protection of private ownership of the means of production and the commodities produced by it as private means of business, all economic actors are obliged to earn money. He who owns no money is excluded from the existing wealth and in order to get access to the food he needs must tender his own labour power as commodity every day on the employment market. Whoever owns money can have others work for him and thus, using his wealth, can increase the power to control the labour services and products of others. Since in the market economy things are only produced if profitable business beckons, and the availability of money is the limiting factor on economic growth, the state, in the interests of its economic growth, legalises credit and security trades as a means of creating money and capital. This way the state encourages economic growth with loans and securities, which despite the existing social production capacity would otherwise not come into being *in the market economy*. By means of credit and securities, money or capital is made available which has not been generated by profitable work and still has not been earned by anybody, indeed simply represents anticipated growth. This is a kind of economy on whose success the state bets, and where the state is dependent on the fact that successful capitalist business performance justifies it, and so prevents the crisis exposing the truth that credit and securities are merely an inflated fiction. On this basis companies, with their expanded businesses financed through the money and capital markets, compete for the limited »solvent demand« of the population whose wages and salaries have at the same time been included as a cost factor in their profit calculation. Then, if the speculation on successful business in competition with others (financed by credit and securities) has produced more goods and services than can be sold to solvent customers, profitable business comes to a standstill. Parallel to this, with the deterioration in business prospects, trust in the creditworthiness of the various economic actors is lost. The money and capital created previously through credit and securities, made on the assumption of profitable business, is now withdrawn as the result of value adjustments. Everybody now wants to see money instead of credits. Production facilities are closed and by making unnecessary manpower redundant en masse, people are left with no way to make a living. Once the opportunity for the owners of the means of production to make more money from their money disappears, the *market economy* reasons for having anything produced is gone, even though during the crisis all production capacity is still available and consequently there is absolutely no material reason for a mass impoverishment of the population.



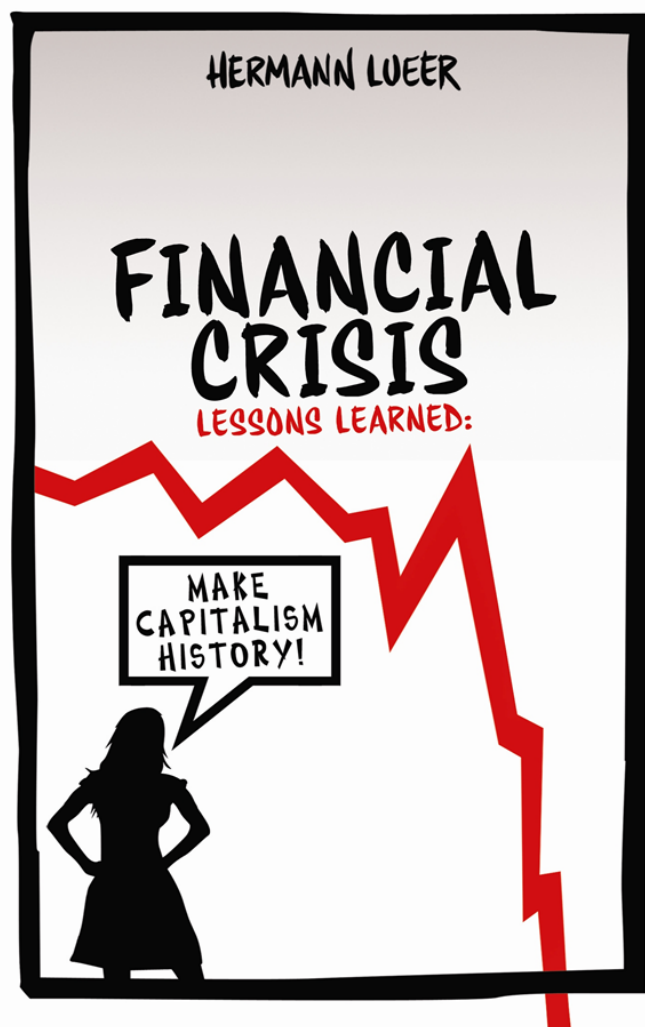
Drying-up the market economical cesspool and organising the social productive forces as planned in order to ensure the population's supply with foods and other useful items, is not a common political programme even in view of the devastating consequences of the financial crisis. Boxed into the framework set by market economy all economic objects shall continue to be

committed to earning money and thus shall continue to be subjected to the power of money. The exclusion of the consumers from the goods, which are in the private property of the owners of means of production, shall continue to be balanced via money only. What is produced for whom under which working conditions or if anything is produced at all, shall continue to be decided on the basis of whether and how the owners of means of production may turn the money invested into more money. In its own business interest, the financial sector shall continue to supply the companies with loans so that production takes place in speculation for successful businesses. The market economy shall function properly. And this exactly it did: Due to the continuous development of sophisticated securitization concepts the financial sector succeeded to significantly extend the scope of credits and correspondingly the scope of the crisis.

Lessons learned: It is not the special character of the credit granting, but merely the volume of the speculation for future successful businesses globally built on credits and securities that is the special characteristic of the financial crisis in comparison to previous market economical crises. Accordingly, the devaluation potential is larger if from the money perspective it is determined that many quite real things – houses, automobiles as well as production capacities with relevant workplaces – do not have any prospect of turning money into more money and are thus useless. For the affected population it is secondary what the trigger is for the review of the intrinsic value of houses, automobiles, washing machines or nutrition. The financial crisis is thus not the result of irresponsible speculators and greed banking managers, but a necessary consequence of the totally normal, serious business process of the market economy, which is not merely about the manufacture of useful items to supply the population, but about the accumulation of capital, the turning of money into more money

With the fight against international financial capital, solidarity between employees, employers and honest bankers is promoted. This solidarity hides the fact that by daily making available the labour power for the performance of the market economy, the questions of *what* is produced, *under what working conditions* and *for whom* it is produced, is not being measured by the needs of the population, but by the profitable business of those who own the means of production. If then in the course of boom and bust, from time to time even the question of *whether anything is to be* produced at all, becomes a question of survival for a large part of the population, this is nothing but the inevitable consequence of this false interpretation of solidarity.

For more than 200 years, the labour movement has tried in vain to tame capitalism; it's time to demand it be eliminated!
05.12.2011



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