Neoliberalism is Dead, Dominant, Defeatable – Then What?

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The global financial meltdown of September 2008 has been broadly predictable since the onset of the so-called subprime mortgage crisis in the United States a year earlier. In reality, of course, it had been on the cards a lot longer. Marx's diagnosis of capitalism suggests that as money flees the falling rate of profit in the productive sector – steel, transport, construction, producer services, and other commodities – it seeks refuge in finance. There, instead of making commodities (material or otherwise), even larger profits ("interest" actually) can be made simply by passing money from hand to hand at a good percentage, packaging other people's money, and broadly (and wildly) gambling on the future of just about anything. (My personal favorite is environmental derivatives, which quite literally pay for non-production; with "woodpecker futures," for example, a certain international paper company "sells" its non clear cutting of forests on grounds of environmental protection – US$250,000 per saved woodpecker). In such a situation, interest and rents are made regardless of what might actually undergird any investment. Until someone asks what the myriad bits of paper derivatives actually give them rights to, they pass at face value.

The discrepancy between what the global economy produces, on the one hand, and how it is valued in financial markets, on the other, gravitates in fits and starts from the optimistic to the arbitrary to the truly fantastical. If companies and individuals can buy a million euros worth of financial derivatives by putting 10,000 down and staking the rest on other such leveraged investments, promises, and bits of paper, the scale of "over leveraging" of corporate capital potentially has no limit. A curve of economic production, broadly conceived, rises gradually upward – say at a GNP rate of 3% per year – while a curve of financial profiteering might return 15% per year on financial speculation. At some point this discrepancy has to be reconciled; fantastical expectations have to come back to ground. A piece of paper that reads $1 million may only be worth $1000 when the investor actually checks what the paper gives property and rights to. This scenario describes the present moment, most centrally with the US subprime mortgage debacle and its fallout. In the process – such are the contradictions of capitalism – it becomes thoroughly rational for lenders, uncertain about what value anyone else's paper actually represents, to withhold credit. Production and are consequently circumscribed by the lack of credit. The financial crisis that bubbled up in 2007 and hit with full force in 2008 is a precise expression of this contradiction.

Within just one week, in September 2008, with neoliberalism evidently coming to a crashing end, the United States government nationalized two major mortgage banks (Fannie Mae and Freddie Mac) along with the world's largest insurance company (AIG), oversaw the bankruptcy of three other major investment banks, and deregulated the remaining such banks. Japanese, British and Chinese capital all swooped to buy up the dregs of failed US banks. The same week the Russian stock market declined 11.5% in a single day, capping a 55% decline over the previous year, and stock markets plunged worldwide, most notably in Asia. In Britain, the Northern Rock bank had been nationalized some months earlier and another bank rescue was cobbled together, but on the cusp of the meltdown the British Chancellor conceded that Britain faced the worst financial crisis in 60 years. Amidst this turmoil, no corporation knew what anyone else's assets were actually worth and the capitalist class quickly fragmented: no-one trusted any of their class compatriots to be able to repay new or existing loans. Consequently credit, the lifeblood of modern capitalism, simply dried up. Capitalism, in this instance, may not have become vulnerable from external attack so much as from internal collapse under the weight of its own contradictions. In a single day six "national" banks – Canada, Japan, Switzerland, US, Britain, and the European Central Bank – organized an unprecedented infusion of US$180 billion into the global financial system, on top of an estimated $500 billion infusion into national economies in prior months. And the US government announced an unprecedented $700 billion bailout of Wall Street. The ruling class is quite handy at bailing out its own.

Media and political responses veer between disbelief and the resort to psychology. Stunned by the scale of economic collapse, the political right seem like deers caught in the headlights. On the one hand, conservatives react with knee-jerk predictability, blaming the demise of capitalist institutions on the very neoliberal strategies that lined their pockets through privatization and deregulation – as if neoliberalism had been a communist plot all along. On the other hand, liberals too hang on to the capitalist dream seeing the current capitalist crisis as a necessary "readjustment": the curve of financial speculation has to be adjusted back toward the curve of social production. Or there is a resort in psychology: a "loss of market confidence" becomes the real cause of capitalist crisis, as if capitalism itself is suddenly transubstantial. Mean-