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'Fact: the cat eats the mouse.' – Karl Marx November 2009 | #0

Financial Crisis 2008ff

1 A short review of events

2007 saw the worldwide breakdown of the particular market for commercial paper (collateralised debt obligation). Bit by bit it became evident that just about every important financial institution was involved in this market and was heading for trouble. Subsequently, (for the time being) shares of banks came under pressure at the stock exchange. At the beginning of 2008 the breakdown in value spreads to other kinds of shares and affects the whole stock market. Already by the end of 2007/early 2008 some financial institutes start to struggle and states start to support the financial sector with substantial financial aid. However, those aids do not stop the downward trend. In summer/autumn 2008 quite a few renowned banks are about to collapse and the most severe financial crisis for 80 years unfolds. Among nation states controversy emerged about how to support the financial sector and in Iceland and Hungary we saw the first threats of national bankruptcies. A general commercial crisis began to unfold as well. Crisis management dominated the news and we kept hearing that this and that rescue package by one nation state was at the expense of another national economy[1], which sparked more material for controversy as well as adjusted rescue programs by the other nations.

2 Explanation attempts in the media and the purpose of this text

An almost funny explanation of the crisis goes like this: A lot of poor people in the USA received credit for building a home. Because these poor people – for a variety of reasons – cannot afford to pay their mortgages any longer, we have a worldwide financial crisis.

It might very well be true that the bad mortgages in the USA were the final straw that broke the camel's back. However, it does not explainhow the camel itself actually works (to stick to the analogy). This is what this text tries to establish. We will not try to explain the so called sub-prime or mortgage crisis, since that crisis is only one crisis in one part of the financial sector and does not explain, why so many financial institutions are about to go bust. Thus, this text simply starts in the middle of the crisis and tries to explain a few principles of the financial industries, which in turn explain the impact of this crisis.

This text does not offer any critique along the lines of mismanagement and the like, which dominates the news coverage of the crisis. According to this theory:

- bank managers have failed,
- rating agencies have failed to rate bank activities properly and
- governments have failed to supervise bank managers and rating agencies.

What is interesting about these accusations is that they are always made whenever a bank has to acknowledge a bad balance sheet. Other banks, on the contrary, are honourably mentioned until the shit hits the fan over there. Then, obviously, there too failure/mismanagement had its way. From the spontaneous change of praise and blame it is clear that the sole criterion is whether everything runs smoothly or not: if everything seems alright, those in charge can do no wrong, and when things go wrong, they are a bunch of fuck-ups. So to explain the crisis this theory can only resort back to the crisis. It explains nothing, but maintains the illusion that capitalism without crisis is possible[2]. On the contrary, this text shows that the crisis is a result of rather normal business principles and that this place is in trouble because everybody (bankers, other capitalists and politicians alike) did the 'right' thing according to capitalist logic.

Of course, in crisis, the conditions for many people worsen dramatically. However, we think it is short sighted to wish those 'good ol' times' were back when everything was running smoothly. This is not because we think – like some Marxists – capitalism will inevitably fail due to its crises. Instead, in this text we show that crisis is produced by a well-running capitalism whose principles are hostile towards human needs and wants – in good and bad times. Thus we will also refrain from making suggestions how 'we' (who is that again?) can make capitalism run again.

3 The banking business: lending borrowed money (with the example of Lehman Brothers)

The trigger for the Lehman Brothers' bankruptcy was that it apparently was dependent on short-term credit by other banks, which was only granted on increasing rates of interest. Lehman Brothers used borrowed money to pursue its business interests on the financial market. For instance, they offered long-term credits to finance real estate purchases. Long-term credits bear higher interest rates than what Lehman Brothers had to pay for their short-term credits – if everything had run 'smoothly'. The difference in interest rates can be used to make a profit. The short-term credits, of course, have to be paid off, before the long-term credit came back in total. They have to be 'refinanced'; a business based on debt has to be maintained (or initiated) by more debt. Lehman Brothers paid off short-term credits with other short-term credits (potentially, even from the same bank). Of course, if no short-term credits are granted anymore, the investment bank is in trouble.

From there, there are many courses how this can lead to bankruptcy; the final point is reached, when short-term credit has to be paid off but no liquid money is available to do so. A potential course; if the interest rate rises for short-term credit – for whatever reason – then the rate of profit goes down, because it is derived from the difference between the two interest rates. The trust in the bank to keep on generating profit gets lower with a couple of creditors which in turn leads to higher interest rates for

[1] cf. the 'buy American' clause in the American stimulus package.
[2] The same applies to blaming politicians. Their failure is also proven by the mere fact that the credit sector is not functioning as desired.

borrowing and finally to no credit-worthiness at all.

Investment banks depend more than ordinary commercial banks[3] on credit from other banks. Those credits from the 'inter-banking commerce' were hardly available when Lehman Brothers went bust and if they were offered then only for quite high interest rates. More about this in Section 5. Compared to investment banks, ordinary commercial banks – those which offer current and savings accounts – are currently better of. They have a source of money, which is independent from the inter-banking trade. This shows, however, that this way of using debt as a source of liquidity is a very normal operation in the banking business. HSBC and Barclays permanently accept money from their account holders, promise an interest rate and 'work' with this borrowed money by lending or otherwise investing it. The end of the line for an investment bank is reached when they cannot get hold of credit from other banks any longer. The end of the line for a commercial bank is when their account holders withdraw their money in large numbers.

All banks and financial institutions are engaged in refinancing (starting business based on external funds) and are dependent that the massive refinancing never stops. The ability to make a profit based on interest rates depends on other parties eager to lend money in order to earn an interest.

4 The domino effect of credit chains

When a bank lends money to an enterprise, the company gets its hands on money and the bank receives a bond. If the company goes bust then the bank also has a problem since it probably has to bin the bond. However, if the bank sold the bond to, say, another bank then it is not affected by the bankruptcy of the company. Instead, that other bank might be in trouble. However, this process does not explain an escalating financial crisis.

Indeed, things are slightly different; assume some bank A grants a credit to some company and receives a bond. Now, bank B offers bank A another credit, because it assumes bank A possesses some sort of security in the form of the bond. Bank A now has additional funds and lends it to another company or another bank. Some third bank, bank C, now offers bank B credit because it assumes bank B possesses some sort of security in the form of its bond from bank A. This process can be repeated for banks D, E, F etc. Now, if the company – where the whole process started – cannot pay bank A, bank A cannot satisfy bank B's demands, bank B gets in trouble paying bank C etc.

All financial institutes worldwide were involved in such credit chains, in which one credit is the security for the next credit. This simple principle applies to ordinary credits and rather complex financial products too. Only based on those credit chains can the devaluation of a particular sort of security trigger such global consequences.

However, to understand the banking industry and the financial crisis, it does not suffice to assert that this is all quite wild and shady. Instead, the question is in order how this process is possible in the first place. We will get back to this point in Section 7. For now, we return to the starting point, the investment banking crisis and their trouble with inter-banking commerce.

5 Rising interest rates in the inter-banking trade and its breakdown

Recall, that those institutions which offer short-term credits to other banks depend on debt themselves to stay liquid. If they are forced to pay up, because their refinancing sources dry up, they have to keep money as money, simply to pay their debt, which is to say they cannot use their money as capital any longer, i.e. to invest it in order to augment it. Their money changes its function all together: it is not money capital but a means of payment (cf. Karl Marx. *Capital Volume 1*. Translated by Ben Fowkes. Penguin Classics. London 1990. p.232ff). For this to happen a bank does not have to have any problems itself; it is sufficient that it expects problems with other banks. The bank doubts that its short-term credits can be refinanced by short-term credits of other banks. Banks do not trust their own cycle of debt and confirm their suspicion through their own restrictive allocation policy – a cycle which eventually leads to a breakdown of inter-banking commerce with short-term credits.

As long as the banks pursue their interest to augment all the money they can get hold of, they grant each other credit. Through this process, the banks are capable of financing more and more projects, which promise an augmentation of their money. This also explains why credit reached such amazing dimensions so quickly. However, if banks have to use their money to satisfy payment commitments they cannot credit each other and thus eventually all their money is reserved for payment commitments.

One trigger of this kind was in 2007-2009, when suspicion fell on a particular branch of the financial industry (the so called mortgage crisis in the year 2007). This triggered a partial change of function of money: some banks needed hard cash for their payment commitments and thus could not invest it otherwise. This nurtured the distrust in the entire circulation of debt, lead to more restrictive allocation policies, etc.: a self-reinforcing principle.

6 Debt replaces money, but it does not work the other way around

The credit cycle expresses a foundation of the financial industry: debt and credit replace money proper, increasingly if it works well. However, the reverse does not apply: money cannot replace debt and credit. This is fundamental to understanding the current crisis.

Proper money was and is still available. In newspapers like the Financial Times amazement was expressed that banks did not lend each other money despite the fact that high interest rates were available and that on the other hand relatively large amounts of money were parked with the central banks for relatively low interest rates.

However, the essence of a functioning banking industry is that actual possession of money becomes relatively unimportant through treating promises on debt like money proper. During boom, debt is accumulated in such quantities that in case of crisis, the available money reserves are not sufficient to balance outstanding claims. This principle shows up in all areas of the financial market, an important example is again Lehman Brothers.

When it went bankrupt, the bank – according to the liquidator – was in possession of ca. $600 billion worth of assets. What are those assets? They consist of shares, commercial papers, state bonds and other securities in which Lehman invested. Apparently, the bank did not buy those assets using its own money but mainly using credit[4]. Those assets in turn were nothing but the debt of other banks with Lehman Brothers. Not only Lehman Brothers attempted to use debt as a means of investment, that is business as usual. Shares, state bonds, commercial papers and all the other stuff which lays around in a bank are treated like assets[5], like actual wealth. These assets then basically exist twice, on the one hand for the new debtor, who might build a new office park using the money, and on the other hand for the bank as creditor, which treats the payment commitment as asset.

This works because other banks and investors agree with it and are happy to buy and sell claims on future flows of payment. The price – which is determined at the stock exchange or in the inter-banking trade – is not only used to bolster gains but also provides security for payments. Here too, credit creates new credit by replacing money as means of payment. If the price of those securities goes down – because fewer investors want to buy them than others want to sell them – then the bank's security to make payment goes down too. In that case, banks have to prepare, sell off securities, pro-

[3]To avoid a misunderstanding: in the USA, law allows the separation of investment banks and commercial banks. In Europe this is not the case. Here almost every bank has an investment branch besides its other businesses. Investment banking is thus not an American phenomenon but appeared there in its purest form.

[4]According to court records Lehman Brothers had $613 billion of debt by the time of liquidation (reports the German *Handelsblatt*, Sept, 15th, 2008).

[5]Treating payment claims as asset is what Marx called 'fictious capital' (cf. Karl Marx. *Capital Volume 3*. NY 1894. Chapter 25).

tect their balance and hold on to more hard cash to maintain their credit worthiness. Thus, they sell the securities and contribute to the slump, which in turn further fuels the sell off of securities.

Financial capital grows in circles and in circles it goes down again. The direction is upward if the banks put trust into the idea that claims on future money are as good as augmented money. The direction is downward if this trust is not universally shared anymore and everybody is after hard cash. During the boom and the crisis of the banking industry we can see how each bank is dependent on its competitors.

7 How come the banks can turn debt into gold?

The fact that in the financial world debt is as good as proper money and augmented money requires an explanation[6]. Under normal circumstances nobody bothers with this question. These days, the outcry over greedy managers is everywhere and thus the crisis is treated as a simple problem of quantity[7]. The quality of the material which the financial industry deals with does not concern anybody even now.

A granted credit fixes a priori by what amount money has to be augmented – the interest rate. This implies an indifference to *how* this augmentation is accomplished. Superficially, things seem to be a bit different when we consider shares which are traded at the stock exchange, because the dividend is variable. However, by assigning a price to shares, i.e. claims on future income, those involved posit that augmentation of money will definitely take place in the long run. Only the question 'how much?' remains subject to speculation; the speculation on the gains of single enterprises which account for the well known fluctuations in the stock market. Even a banker probably knows that investing money and the production and profitable sale of a commodity can be two distinctly different things. The fact is acknowledged by an adjustment of the interest rate or by the requirement for additional securities. However, that debt guarantees augmentation is presupposed when assessing them.

When augmenting money by lending it for an interest rate or when trading debt, it is presupposed that accumulating money is simply a question of owning money. This presupposition, that an amount of money contains the potential for augmentation, points towards the sphere of the capitalist economy where capitalist wealth is first produced. This warrants a small digression from the main topic.

In this economy, no one works, no technology is developed, no soil is developed, if no money can be made by doing so. Whoever owns enough money can start a production, hire workers, who produce a collection of commodities which brings back a profit if sold successfully. On the other hand we have the employees, who are absolutely dependent on someone to buy and use their labour power.

The difference between what the workers receive as wage and what they produce as commodities (and thus abstract wealth) is the kernel of the economic growth which is measured in money[8]. Hardly anyone knows or acknowledges this but a hunch about it surfaces in statements such as: workers are not supposed to ask for a rise in times of crisis, because now it is most important that companies grow. Once the upswing is here they are encouraged not to demand higher wages again because that might kill it. When the boom peaks it is about to turn dark anyway and thus a wage increase would be counter productive. Afterwards we are back to recession. At any given moment in time workers are encouraged to be reasonable enough not to demand wage increases. Otherwise they would hinder economic growth and soon have no wage at all.

Workers are completely dependent on capital. If capital is healthy, it does not imply anything about their wage, or the output squeezed out of them. However, if capital goes bust everybody knows that now even harder times are ahead. This subordination of production under profit and this separation of the fruits of labour from those who produce them is the reason for poverty in various forms.

Under capitalist rule, hunger alone is no reason for any enterprise to move a single finger or even to start the machines. It has to be solvent hunger[9].

The need to struggle through life by means of wage labour is only satisfied relative to profits. To work for one's life, needs and wants is secondary in this society; primary is whether labour is needed to make profits. The less wage paid and the more performance is squeezed out of the employee the better for gains. Thus the miserable state in which workers get to work for others and – as by-product – for themselves: low wages and thus limited satisfaction of needs, ruined health, stress at work, angst, little vacation and work hours which do not leave energy for the spare time. For us, a list of reasons to reject capitalist economy. For the banking industry, crumbling down so impressively these days, they are the self-evident foundation.

If access to everything is mediated by money, so too, the ways and means to augment money – using the detour, via production, of commodities – become an issue of owning money. A certain amount of money, then, is already equal to capitalist power; control over soil, means of production, knowledge and people. This is presupposed when interest is ubiquitous in a society. The size of capital becomes a weapon in the competition of capitals among each other: the more capital one enterprise can raise the better it can set up production and sale, the better it can prevail against its competition. Companies have an incentive to get their hands on money they did not earn yet. They want to extend their business using borrowed money to an extent which would not be possible with only their realised gains.

This need of companies for more money to increase their gains is taken advantage of by the owners of money when they give money the form of a commodity. They lend money and secure themselves a part of the profits – which were generated elsewhere – by fixing an interest rate. The trust in the social production process, which aligns everything towards gains, explains one half of the puzzle: why debt and claims on debt can be treated as assets themselves and function as replacement for money. Because interest rates are paid quite naturally, at least by and large, the financial industry assigns a price to pure legal claims on yet to be produced, abstract wealth.

Some on the Left follow a theory which claims that the financial industry grew so much because productive capital was in crisis already. The rate of profit would shrink for the so called 'real economy'[10] and so investing there would become unattractive. Thus, according to these

[6] Marx differentiates between concrete and abstract wealth. Concrete wealth refers to concretely useful stuff. For instance, a car can be used to get around or a computer can be used to write this text. Abstract wealth on the other hand describes a commodity's attribute to be used to gain access to all kinds of things which are owned by others. For instance, in this society cars obviously have the quality that one can sell them, get money for them, which in turn can be used to gain access to all kinds of other things. Abstract wealth is social access power, essence of economic power in capitalism. 'In any case the market for commodities is frequented only by owners of commodities, and the power which these persons exercise over each other is no other than the *power* of their commodities' (Karl Marx. *Capital Volume 1*. Translated by Ben Fowkes. Penguin Classics. London 1990. p. 262). 'But money is itself a commodity, an external object capable of becoming the private property of any individual. Thus the social power becomes the private *power* of private persons' (*Capital Volume 1*, p. 229ff). Bourgeois economics on the other hand considers exchange and money as tools to solve an economic problem of coordination. It is thus surprising when a fan boy of market economy explicitly acknowledges the social quality of money: money is 'the power of control over the current output' (Wolfgang Gey. *Globalisierung und Marktrisiko in der monetären Theorie*. Regensburg 2006. p. 69, own translation). (all emphasis by us)

[7] For instance, Lehman Brothers marketed special credits to communities and councils in Germany and offered a 5.11% interest rate if they grant the bank short- and medium-term credit. Deutsche Bank on the other hand only offered 4.9%. Those councils which took Lehman Brothers' offer are now in trouble getting their money back. A commentator in a German newspaper complained that no one asked where Lehman Brothers would get the interest from. As if everybody knew where the interest of Deutsche Bank came from. A similar criticism can be observed when UK councils are blamed for moving their assets to Iceland instead of leaving them with 'safe' British banks.

[8] Btw. this would not change if the workers owned the factories and compete against each other on this level. They would have to exploit themselves.

[9] This phenomenon gives rise to all kinds of charities and churches collecting donations or clothes for those who do not have any money. They do not tackle the reason for poverty, but only try to mitigate the results of production for the market by the means of redistribution. Let us ignore for the moment that these charities live on poverty because charity only works if poverty is permanent: if the objective of all members of society is private gain against others it is not surprising when only insufficient funds can be raised to turn destitute people into provided-for people.

[10] While the term 'real economy' has several unwanted implications, we will use it as a shortcut for productive and commercial capital in this text. By no means should the reader infer that we want to imply there was anything solid about those forms of capital.

left-wing theoreticians of crisis, money is put into the financial market. To summarise in an exaggerated form: because normal capital does not function properly any longer, financial capital prospers. We will criticise this theory in a separate text, but for now we want to emphasise the difference of this theory to the theory presented so far: Not because productive capital fails to function properly, but because it grows so steadily – if we ignore the periodic economic slumps everyone takes for granted anyway – the financial superstructure grows. Because the workers in the industrial centres are so well disciplined, and hardly start strikes which harm capital, because there are hardly any places left which resist the grab of 'Western' capital, financial capital puts trust in interest. Those last two points are a result of 'Western' violence and economic blackmail; this spurred the financial markets.

8 An economic bottom line

The last section – on the financial industry's ability to turn debt into assets – contained a critique of the financial industry. For emphasis, we make this critique more explicit in this section.

We criticise the hostility of capitalist production and commerce towards human needs and wants. Not just the distribution of wealth, but the reasons why the production of commodities is commenced we resent. Furthermore, we criticise the consequences this has for the wage dependent, who have to produce abstract wealth, but remain empty handed because their proper reproduction is not needed for the accumulation of money. We do not criticise the financial industry for not fulfilling its proper role to provide enterprises with credit. Instead, we criticise the financial industry that it facilitates capital's harmful purpose and acts as principal for accumulation of money when it demands interest. We are also not concerned about the instability of higher spheres of the financial industry, where debt – legal claims on future payment – is treated as wealth. Instead we resent the anticipation of future production of wealth, which is traded in this sphere, and its harmful effect on those who are forced to produce this wealth. By this we do not mean companies, but those who depend on wages. Finance capital treats debt as assets, which is used to create new debt which can again be treated as assets. Interest payments by the debtor now are assigned the task of being on time to make this operation credible, i.e. to confirm the equality of debt and assets. The process of becoming independent of actually earned money is thus dependent on the accumulation of capital of capitalist enterprises. Capital's ability to free itself from money already earned by society therefore does not lead to a loose attitude when interest is collected, it's the other way around: precisely because it constantly creates new assets which depend on steady interest streams, the requirements for the basic commerce of companies tighten.

In crisis, everybody is even more worse off. The reason is simple: everything is subordinated under profit and only happens if profit permits. But because profit shrinks, all results of working capitalism show themselves even more: at the moment when the potential to produce useful things is developed furthest, all of a sudden factories are vacated, because it does not pay. Thus, masses of people are made redundant and exposed to exceptional poverty. Those who are still in demand are confronted with exceptional wage cuts, more stress and more overtime. We resent the demand that the state regulate the financial industry so it does not have a destabilising effect not because we do not believe it would work, but because we fail to see anything positive about flourishing financial markets and functioning capitalist production.

9 State's interest in the financial industry

Financial capital is one of the main engines of economic growth because through it productive and commercial capital become less dependent on their own previous gains when it comes to investments. Using credit, bonds and shares, companies can expand their investments, without being limited to profit made already. Furthermore, commodities can be sold even when the buyer is not yet liquid.

Those achievements of financial capital are desired by politicians and thus they are supported. All companies use credit; being in debt is normal for a business. Thus a financial crisis has repercussions on social capital. But even simple circulation of money from wages to personal savings is accomplished through banks which entangle it in higher spheres of the financial industries[11]. Thus problems in the banking sector affect elementary fundamentals of the circulation of money, such as the transfer of wages.

These days the public realises that the financial industry developed techniques which are purely self-referential, and if something goes wrong all of society is deeply affected. The stupid ideal by which financial capital is criticised is this: please work to make real money independent, but only for the 'real economy' and not among yourselves. In some countries – like the UK – the financial industry became so big it accounts for a fair share of the national economy. In these countries the perspective is different: here the financial crisis does not threaten the 'real economy', it is a national economic crisis.

10 State intervenes – as if the financial crisis was a problem of liquidity

States react to the crisis by granting banks more and easier money via the central bank. At the same time, they realise that these injected sums of money so far were not able to stop the crisis. The reason is that the banks hoard the money to be liquid, because they distrust the other players' capabilities of refinancing their debt. Money is not used as capital but as a means of payment. While the state generates new financial settings – by giving away more money – it does not control what effects that has on the economy. Note how the terms 'capital' and 'money' are confused in the public debate about bailouts and stimulus packages. Objectively, states do not hand out capital but only money. Whether money becomes capital (is used to grant a credit) or stays money (is only used to pay off old debt) depends on the banks, and their decisions are dependent on the circular movement discussed above.

11 Providing security – in competition and together

By now the support of the banks has been refined. In addition to funds which are granted by European and American central banks for low interest, states introduced aid programmes in which the state provides guarantees or new capital by buying into a bank. Also, some accounting rules were changed such that stuff that used to be illegal is now a legal practice[12]. The state uses the fact that it is the chief power over money to bolster trust in mutual crediting. Its position as the last entity in a society which is solvent is supposed to get the financial industry into motion again. This adds a new aspect to the speculation of the banking industry, which both fosters development and crisis. The stabilising effect of the state's activity also has a destabilising side.

First, the banks do not accept the state's offer enthusiastically. Accepting state aid, the banks' reason, can be taken by the rest of the financial world as a concession that the bank in question has problems which are worse than normal. A bank which accepts state aid is a restructuring case, and not a brilliant investment opportunity. On the other hand, those banks which do not accept any state support might have a disadvantage during the crisis and afterwards. Because of this last point, nation states are not necessarily happy about other nation states supporting their banks and thus the credit system in general (including that of the competing nations). If Germany guarantees 100% of all savings, while the UK only guarantees 20%, then a lot of capital moves from the UK to Germany and thus the UK and its banks are in even more trouble. Just like in times of economic growth, na-

[11] Another basis for the credit worthiness of banks: they command all money in society. All money- and credit-operations are done through banks. This allows them to rearrange money streams in such a way that their own money becomes relatively unimportant for paying interest and granting credit.

[12] For instance, it is now legal to assert the value of certain derivatives close to the cost price while they are not worth anything under current market conditions.

tional competition prevails and nations attempt to minimise their own harm at the expense of others.

This heats up the crisis and thus the most important states decided to meet in order to agree on coordinated programmes how to rescue the financial industry on which every capitalist nation is dependent. But every participant viewed this meeting – the G20 – also as a field to further their own interests at the expense of others.

12 State bankruptcy and the IMF

The measures to rescue the banks are financed by national debt, and the effects of the financial crisis on some states show that modern currencies themselves have credit characteristics and are dependent on financial capital. The principle to refinance old debt by new debt is mastered by states. This principle works for them as long as banks treat state bonds as secure investment opportunities. This is where a few states are struggling; they can only sell their state bonds for higher interest rates to the commercial world. This in turn makes the commercial world increasingly suspicious towards new debt by these countries. Insofar as this suspicion becomes universal the financial industry does not only retract from the business with these states' bonds but also leaves their currency altogether. Because these states (first only Iceland but by now quite a few nations) cannot support their currency using new debt, their currency drops and they are close to a state bankruptcy.

For these cases of emergency, the IMF was founded after World War 2. It is supposed to grant political credit such that no country in the world has to exit the world market because it is in financial trouble. These programmes usually come bundled with political programmes by the financiers of the IMF – which are the 'winners' of world economy – to open the national market to foreign capital, cut social welfare etc.

The IMF funds themselves are based on the state indebtedness of those 'winners' and are not just the result of taxes. In as much as other countries are 'supported', the backers expose themselves to the suspicion that they abuse their credit worthiness and can even come under scrunity as to how much their currency is worth.

13 A political conclusion

State activities in a financial crisis clearly show that the financial industry is a state-licensed matter, just like any other source of revenue in capitalism. Everything is made dependent on the credit system, and thus, governments leave nothing out in trying to repair it. This also explains why all of a sudden billions are available while for other projects the need to be frugal is emphasised. Everybody is made dependent on this political economical juggling act, which is aimed at competing nations.

For this, the wage-dependent will have to pay: they will be asked to not to demand any wage increases but to accept cuts. As 'beneficiaries' of the social welfare system, when those are cut back. As tax payers, because it's not 'we' who pay for taxes but mainly those who are under suspicion anyway that they just eat-up their money otherwise anyway (in recent years the budget is increasingly financed by the workers). Furthermore, those with a fixed wage contract are hit first by inflation. For all this the public is being prepared right now by all those doomsday projections in the media.

Of course even more people will starve to death in those areas which are totally dependent on aid from the industrial nations after those devastated them. Those have to keep a close eye on their credit thus will not supervise the misery in the third, fourth and fifth world as closely as to date.

Normality is insane, the crisis only expresses this more clearly!

Surface Tension

Historically, capitalism has been in crisis over and over again and the results of the most recent one are yet to fully unfold. A common theory on the Left and among Marxists about the current crisis and modern crises in general is as follows: the growth in financial capital has come about because productive (and commercial) capital has been in crisis since the 1970s and has proven itself incapable of capitalising sufficiently. Capital cannot be invested in productive capital and thus flees to the speculative sphere of finance to sustain itself. Eventually, the financial bubble grows so big that it becomes unsustainable and bursts: crisis.

Thus, according to this theory, fundamentally at their core all crises are production crises, because productive capital is no longer capable of sustaining financial capital.

Usually, the two main points to support this theory are:

1. In general, the rate of profit has the tendency to fall under capitalist accumulation[1].
2. Since the 1970s profit rates in the productive sphere have been in decline and financial capital has grown.

However, even if we accept these points to be true, they do not explain exactly how and when productive capital packs up and takes down financial capital with it. At best, we are offered the circular explanation that the most recent crisis demonstrates financial capital's unsustainability: crisis because of crisis.

This text presents a few arguments on the relation between productive and financial capital[2] and in particular argues that financial capital assesses the sustainability of productive capital and ultimately decides its fate. Furthermore it argues that the relationship between the 'tendency of the rate of profit to fall' and crisis of finance capital is not as linear as claimed and that the posited opposition between investments in productive and financial capital is unfounded.

1 Productive capital

Productive capital is any business which makes a profit by producing commodities and selling them on the market. Every such endeavour uses its size as a means of competition. Every manager or capitalist knows that bigger investments yield higher profits. This is true in the simple sense that if the profit rate is 10% and a capital invests £2,000 instead of £1,000 it will make £200 instead of £100. However, the relation between investment and profit also holds in a second sense: technical advances, better machines, improved factories, more efficient work flows and novel techniques are all available, for a price, in a market economy. Because money is the ultimate social power, because everything is available for purchase, because money is control over land, people and technology, higher productivity is only a question of price. This increased productivity can be and is used by competing enterprises to conquer new market share, to squeeze out the competition and to

[1] Karl Marx argued for this in volume 3 of *Capital*.

[2] The mechanisms of financial capital's growth are summarised in *Financial Crisis 2008ff*.

make an extra profit. This extra profit is due to the fact that increased productivity usually translates into reduced unit prices. Thus, the more productive capital can either undercut its competition and capture market share or make an extra profit by selling for the normal price. However, this advantage does not last forever, since productivity is available to anyone with sufficient cash – including the competition. It either catches up or perishes. Those who manage to catch up will undercut the leading capital in order to capture (back) market share; the extra profit is gone. On the other hand the average unit price will be likely to drop because the market will only absorb so many commodities of a certain kind. Also, this process often involves cutting workers loose and ruining other capitals; both of which limit purchasing power in general.

As a simple example, consider a car manufacturer who invests £10 billion in a new factory; this will involve big machines capable of producing, say, hundreds of cars per day. If this investment works and he captures a significant market share he might even be able to sell all of those cars. However, if the competition catches up quickly – and also invests billions in a new factory – this does not mean that the market will absorb twice as many cars as before. If these new factories also reduce the 'cost factor' labour by making it redundant, both manufacturers deprive some of their potential customers of their source of revenue. Big investments were made, production capacities accumulated but neither company can sell its cars for the anticipated price (if at all): over-production beyond what the market can absorb in combination with massive investments.

This kind of over-production is not the result of wrong management decisions; rather it is the systematic result of competition between private producers. Every company expects competing enterprises to catch up or even to take the lead. Thus, every enterprise is permanently chasing greater productivity, which usually comes at the price of a bigger investment in machinery or research and development[3].

The paradoxical result of this process is that in the chase for extra profit, capital creates a situation in which bigger investments are needed to survive in a market which has not significantly increased. Thereby it undermines its own profitability[4].

While this illustrates the insanity of the capitalist mode of production in which too much stuff is produced and goes to waste while the majority of people are deprived of the means of reproduction this does not yet imply the sphere of financial capital.

To avoid a potential source of misunderstanding: the insanity and brutality of the capitalist mode of production are reason enough to abolish it. Thus, when, in the following sections, the effects of financial capital on the productive sphere are discussed this does not imply any partisanship for the latter.

2 Loan capital

Another kind of business is banking[5]. Its most basic form is to lend money for a price, i.e. credit. First of all, credit is nothing but a legal claim on an augmentation of advanced money. That this augmentation will happen is assumed when credit is granted. Credit is blind to how this augmentation is accomplished, it just demands that it is successful and that once performed interest will be paid. Credit also presupposes that the possession of money is a sufficient condition for making more money; credit presupposes that all the things required to start a thriving business – land, technology, people – can be purchased on the market.

Credit appeals to productive business for quite a few reasons. Using credit, industrial capital is liberated from the boundaries of its own profit. In this context the most basic form of credit is the bill of exchange[6]. Say a productive capitalist produces goods worth £100. The next step is to sell those goods in order to re-invest (part of) the return. This sale costs time and money (e.g. for storage). One way around this is to accept a bill of exchange from a commercial capitalist who promises to pay £100 once he has sold off all the commodities. The first capitalist can now take this bill of exchange to a bank and receive £100 minus bank charges. She can thus commence production again without having to wait for the realisation of her profits. Overall, this makes the amount of money productive capital needs up front smaller, since the period between purchase and sale is shortened[7].

More advanced forms of credit do not involve bills of exchange; instead they are direct credit from banks, for instance in order to extend production with funds which are yet to be earned (through extended production). As described above, productivity, and thus the size of one's capital, is a means of competition. Just because the market is divided and saturated does not imply that the enterprises engaged in this market can relax, on the contrary: they have to undertake bigger investments in order to capture more market share. The availability of credit adds new momentum to this competition.

3 Effects of loan capital on the productive sector

The availability of credit heats up the competition because now money is available in new dimensions: expansion is not limited by the funds of the players in the field but by how much money the banks are willing to throw at it, based on how profitable they deem the sector to be[8].

Being credit-worthy becomes a major means of competition. The simple fact that this device is available to the competition implies that a company has to consider credit in order to succeed. Consequently, the service offered by the financial industry to the productive sphere has a long-lasting effect on this sphere. On the one hand, companies become independent of their own productivity by having access to funds which they have yet to earn. On the other hand, they *have* to make use of credit in order to succeed, even if business is in the black without it. Thus, the financial industry's role changes from that of a service provider to that of the executioner deciding a company's fate. Now, companies not only compete for a greater market share and higher productivity in order to make bigger profits, but they also do this to impress their bank so that it will grant further credit, allowing the next big investment to be made ahead of the competition.

This also implies that there are no hard criteria determining how well or badly a particular company or branch must be doing in order for it to survive and succeed. While the banks certainly base their assessment on current economic data, ultimately it is their decision, since, at the end of the day, they are trying to predict the future. If a company is struggling they can either grant more credit hoping this will push the company over into profitability or they can pull the plug. If money is the sufficient condition to make more money (the very basis of the loan business), then a bigger credit facility might be the sufficient condition to make a struggling company profitable again. Since every competing company has similar negotiations, the success of this venture is quite uncertain. On the other hand, it is definite that withdrawal would mean loss of all the investments made so far.

An example of this process is the dotcom boom and the crash of 2000. Venture capitalists invested massive amounts of money into the web industry, hoping that eventually these investments would be met by above-average returns. The fact that hardly any of the companies they invested in made any profit did not immediately concern them. Instead, there was hope that although this new technology was not yet profitable it would turn around eventually. In 2000, some internet companies did indeed start to earn money, however only with profit rates comparable to other medium sized business. This showed that the estimates of above-average gains were unfounded and investors

[3] Volume 1 of *Capital* goes to great lengths to explain this process. While some argue that Marx's assertion that the price paid for big machinery must grow relative to the price paid for labour is wrong, this debate does not concern us here. We simply accept the empirical fact that this process often implies bigger investments.

[4] On a quite superficial level, this describes the 'tendency of the rate of profit to fall' discussed in volume 3 of *Capital*.

[5] this section does not deal with the financial sector as a whole but only those departments which directly deal with productive capital in the form of loan capital.

[6] These days, bills of exchange do not seem to be that common anymore. However, their basic form allows to explain loan capital clearly.

[7] This is described in detail in volume 2 of *Capital*.

[8] The banks command a vast amount of money because they command all the money in society; hardly any commercial transaction happens without a bank being involved. This way, the banks turn all money in society into capital. Their role also allows them to lend out more money than they have in their vaults. For details, see our text *Financial Crisis 2008ff*.

fled the market in pursuit of better business opportunities and the dotcom market crashed.

As long as new credit is provided to maintain and extend production, and to pay off old credit, a company's debt is an investment and asset held by the bank which ensures participation in future profits. Loan maturity is not a problem as long as new credit is available to satisfy it. And vice-versa the other way around. In case of withdrawal, debt accumulated by a company becomes an unproductive liability, i.e. toxic. When in 2008/2009 the financial industry was unable to provide new credit to the auto industry, all its extended production facilities and finished products – maintained in pursuit of future purchasing power and market share – became worthless pieces of junk.

After all, it is obvious that just because there are many people who would happily drive those cars this does not change a thing about the fact that they are abundant, just like there is an abundance of everything in crisis: an abundance of factories, workers, products, an abundance of capital. So much for the efficient use of resources in the most humane of all societies.

4 Growth

This does not yet explain bigger growth rates of financial capital compared to its productive counterpart. As pointed out in the introduction, some authors claim that this is at least partly due to investors avoiding big investments in the productive sphere in favour of financial products, i.e. the empirical data would show that productive capital is not capable of attracting investments in competition with financial capital.

However this asserts the wrong opposition that a given amount of money is *either* invested in the 'real economy' *or* in the financial sector. If for example a company pays wages using the returns from commodity sales then this money came from and arrives in the productive sphere. However, the same money visited the financial sector at least twice already. First, every company does business via bank accounts when selling commodities. Second, most wages end up in a bank account for some time. Because a bank can usually estimate for how long a certain amount of money stays in an account – managing other people's money is its business – it can work with that money in the meantime. Even more so if it manages several business and private current accounts and is able to arrange those in a way to ensure the availability of funds for its endeavours.

An organised banking business attracts all money in society and thus there is hardly any money from the productive or commercial sphere which does not contribute to the financial sphere.

Still, once a bank or some other financial institution received a certain amount of money they are presented with the problem where to invest it; in the 'real economy' or in some financial products. Here, too, ultimately the opposition is unfounded. If a bank invests in a company producing commodities it invests in the 'real economy'. If this company buys machines using this newly available capital, another company, selling machines, receives payment which eventually arrives in some bank account. Maybe even with the same bank which credited the first company. The bank will now use these funds for further investments. If, on the other hand, this money is invested in a hedge fund then this investment is made directly in the financial sector. However, an investment in an equity fund might also end up in the productive sphere eventually.

Furthermore, growth – both in the 'real economy' and of financial capital – is not limited by available money quantities. As described above the purpose and effect of the loaning business is to make companies independent from the profits they already realised. Beyond that, the banking industry can use credit and the fact that it attracts all money in society to become relatively independent of their own and all money reserves.

However, it is correct that in the last couple of years assets in the financial sphere grew faster than in other sectors. This was not always the case and is not uniform across the globe. For instance, the service and finance sector only started its boom in Germany in the late '80s after a series of legal changes.

Substantially very different types of assets grow: A company producing commodities principally assesses its growth as follows: it estimates its fixed capital (machines, factories, etc. which are part of the production process for a longer time) and amortises it over time. Also the average price which regularly has to be paid for wages and raw materials is added. Then a company determines how much money was made through the sale of commodities.

If money was borrowed this has to be subtracted just like outstanding interest payments. This way the company arrives at a conclusion how much it is worth – did capital sustain itself – and by what rate it grew – did capital realise itself. Hard cash is always just a passing item, most of the capital is in the form of machines and commodities to be sold.

A financial institute grows differently: it borrows money and invests it. The money in its vaults is a relatively small item in its business. A bank is not interested in hoarding cash. From the point of view of the banking business, available funds are an imaginary deduction from profit since this money could be activated to earn an interest. Cash is only a necessary evil for a financial institute when it is used to pay back debt or to satisfy interest.

What grows in the financial sector are not primarily increased gains through earned interest but claims on future wealth; debt is treated like an asset, like value. For instance a bank B treats a bond from a company C to a bank A as a security and consequently the money invested in the company C is counted twice: once as proper money in the hands of the company and once in the form of a promise on future payment – the bond in the hand of the bank.

One bank on its own cannot do that. But a developed financial sector can principally turn a limited quantity of money into an unlimited number of debt relations. It can also provide the basis for treating them as assets through the permanent purchase and sale of these claims. This allows the financial sector to grow rapidly and sometimes even more in particular areas of the market such as during the dotcom and subprime mortgage booms.

Private Property, Exclusion and the State

Any reasonable analysis of capitalist societies must include a critique of private property in the means of production. Most Marxists would agree. But it takes two to tango. The capitalist mode of production cannot be completely self-sufficient. It's ridden with prerequisites, and it is the state that introduces and maintains these prerequisites. Contracts can serve as examples: Any contract that is executed depends on the assumption that the contractors will stick to its specific terms and conditions. The state imposes sanctions for breach of contract. If it wasn't for these sanctions, contracts would not be counted as the near-guarantee that they are taken for. This is a fundamental example of how any economic activity depends on the state, mostly in cases of non-compliance.

Below are a couple of arguments about why and how capital depends on an overarching power. First of all, a nation state's primary concern is providing for the necessities of the market instead of using the market to make profit. This power, the modern or democratic state, sets the rules and makes sure that they are complied with (and thereby guarantees these rules). Without these rules capital cannot function. Private property serves here as a prime example. This text is directed against two notions. Firstly, the idea that the often denounced capital can be cleanly separated from a somewhat neutral state. Secondly against the notion, that the state becomes a right-leaning instrument of the capitalists – but only due to bad influence of bad capitalists.

Let's start with the economy. The goal of the capitalist mode of production is the production of capital itself, as an end in itself. As capital is not a real subject, it needs an agent: that is the capitalists' job. They own money. What allows them to be capitalists is the fact that they own more than they need to cover personal consumption. They have enough money to invest in order to make more of it, i.e. a profit. Hence they use money as capital.

For the capitalist to be able to place her money wherever it seems profitable, she needs to be free to make choices, i.e. base her investment decisions on her expectation of the outcome. For that, she needs to have total control over her capital. That is the heart of power of disposal over one's own property. Power of disposal is one of the prerequisites for her to act as a capitalist and thereby to enhance the production of wealth – more specifically, the production of abstract wealth: value in the form of money.

This requirement for any capitalist activity is usually taken as a useful quality of goods themselves. But that's a delusion, since property doesn't pertain physically to the good itself. It is a social relation defined by society respectively by the rule.

What characterises this social relation? Anyone can dispose of all the things which belong to him. That also implies that he can keep everybody else from using his belongings. It's all up to him what to do with his belongings. And that decision can be made without consideration of what others might need. On the other hand and usually quite unseen, this means that he does not have access to everyone else's belongings. This time he is excluded by the arbitrary decisions others make concerning their "useful things".

The cynicism embedded in private property becomes more obvious on a societal level. The aim of capitalist societies is capital accumulation – everything else is subordinate to that goal. Private property is the first precondition. The worker produces the value of all commodities, but she can only do that if the capitalist lets her use the means of production. And the capitalist employs the worker only in order to use her labour power. The means of production are a sine qua non for any production. In capitalism they are owned by a few. They are at the same time the means of enrichment for a few at the expense of the rest. For most people that means a life, which is not about accumulation of capital, but about a mere self-reproduction. By paying wage, the capitalist pays for the usage of the worker's labour power – and thereby and thanks to private property for any products made by the worker. Anything that has been produced by the worker during surplus labour time is the source of the growth of capital. And from that basic production of wealth, the worker is excluded. That describes the fundamental dependency of the whole working class on the capitalist class. That also explains why private property is not so much about one's toothbrush or one's books at home, but about who owns the means of production[1].

Most of those on the left and quite a few Marxists have some knowledge about private property and do express some resentment of it when it comes to the means of production. What usually is not part of their critique is how the state established and maintains this legal and social relationship. Nevertheless they would agree that a much more reasonable option than private property seems to be common access – in one form or another. And common access would matter most for what people are most dependent on: the means of production. But since nowadays it is primarily exclusion that characterises everyone's[2] relationship with private property, this raises a question: Why is this principle of referring to things implemented so successfully, universally valid, and thoroughly accepted?

It's a two-part answer. On the one hand is ideology and why people stick to it. What makes so many people, especially the majority of the materially disadvantaged, support or at least accept property? Just a quick side note on this topic: most critics of capitalist society at least indirectly pose the question of workers' support as well. Ralph Miliband for instance acknowledged that in a democratic society people take part in the state's decision-making by voting. But he concentrates on the way he believes that the state helps people to make more obedient choices, to integrate, not to dissent. He does not examine though why some ideologies make so much sense to many people. At the end of the day, people do have their own minds, their own aims and interests. In the ideology they subscribe to, they must be able to find some explanation for questions or contradictions they come across.

To explore the other part of the answer: if there is a social relation like property, then as social relation it implies that implies that people act in accordance with it, i.e. generally accept it. This again presupposes its own existence: If there is the question of why people seem to have little to criticise about property, then it has to be in existence already. It is not just there by nature. It is rather the state, that sets the rules in the form of laws.

In order to find out more about the role the state plays in reference to private property, the impact of private property on society in general has to be looked at again[3].

Any satisfaction of material needs within capitalist societies presupposes exchange. For anything that is needed, there must be something that can be given in order to get what is wanted. Since most people, i.e. workers, in the modern world do not own enough, this something to swap is nothing but their labour power. For most people there is a lack of access to almost anything: thanks to private property and exclusion. And a lack of resources to trade with: thanks to the results of private property.

One more thing should be noted in terms of the impact of exchange. Anything that Debbie gives, she then cannot swap for anything else. The best deal for her would be to get as much as she wants for as little as possible – i.e. all she wants for nothing in return. That is to say, this ideal exchange for each person in a transaction is within the logic of exchange itself. At the

[1] Just looking at a world full of disparities in terms of material wealth, the satisfaction of individual needs and desires cannot possibly be the aim of this mode of production – and even if it were: it then has miserably failed.

[2] It surely makes a difference if someone owns nothing, or if someone owns a place to live and a factory. But even the wealthiest capitalist does not have access to everything, i.e. he too is subject to exclusion.

[3] The following does not refer to some playful exchange in an exchange ratio that is incidental. It rather implies exchange (and private property) as the one and only form of getting access to almost anything useful.

same time it is true that if both sides were to try to realise their ideal version, exchange would not work for very long. The winner takes it all and the losing side will soon have nothing left to exchange.

This is just one example to show that this way of organising reproduction on a societal level implies (at least the threat of) violence. It requires everyone to see everyone else as competitor. Exchange turns the other person into a means for someone to get to the commodities that she wants. It is a permanent conflict. And if there wasn't any authority to regulate this constant competition, there would indeed be a situation where "A man is a wolf to man". But not because humans are really wolf-like, but because this social order is more than just "an invitation" to behave that way. By being doomed to depend on exchanging everything, one needs to be acting permanently against others by using their neediness in order to get what one needs. And the other way around.

To maintain this society with all its prerequisites, quite a powerful instance is necessary. It is an instance that unlike all other subjects in that society is not a competing one. This third party, i.e. the state, not only implements the existing conditions and makes sure they are applied. And by introducing a means like private property, the state at the same time introduces antagonistic interests. And thereby, the state creates the need for a state itself. The state makes sure that the wolves it socially creates do not kill each other (at least not without state authorisation). By declaring everything property, the state organises exclusion on a societal level in order to maintain this society.

Similarly, by making everyone a free person, yet introducing the separation from the means of production, the state at the same time introduces freedom and economic constraint on everyone. Because one part of the content of freedom is essentially that of one's own body. Everybody belongs to himself, nobody can claim ownership over anybody else. So the first meaning of freedom in a capitalist society is private property in persons – each person in oneself. Marx underlined the ironic double-character of that freedom. People are also "free" of the means of production. In order to stay alive, workers therefore have to sell themselves – in form of their labour power. That is the economic constraint that is inherent in the freedom of a democratic state.

Freedom as it is usually understood implies that being part of the capitalist game would be just one possibility for people to enrich themselves if they desired to do so. But since the state makes everybody compete, it's not the freedom to choose between being a competitor and not being one. Everybody is a competitor by default. That is because private property is not just one form of access. Everything that is somehow saleable is declared property[4]. Anything that can be possessed has a price. And once ownership of everything is established, no one has a choice, but to own and to compete with everyone else for ownership.

The economic constraint that people are confronted with has quite useful consequences for the state: it does not have to use force to make the worker go to work. The state usually does not have to intervene by force into the mode of production, since the worker with all her freedom is free (and left) to die if no one can be found to exploit her labour power[5].

From a critique of the ownership of the means of production, a critique of the state and of its characteristics follows logically. And that includes an analysis of how the state creates the owners of the means of production, i.e. the capitalists – not as concrete persons, but as agents of capital that form the capitalist class.

Many on the left have formulated a critique of what they presume to be an unfair distribution of goods. They might mean well, but miss the point: the demand for a more just management of poverty does not mean the abolition of poverty. It just means it is administered differently, with slightly better material outcome for the poor[6]. If the aim was to get rid of poverty, there is no way around a critique of poverty as a whole – and of its objective reasons: those bearers and structures who set up the conditions for it. The basis for its accumulation is competition and competition not only creates a few winners, but also many losers. And capitalism is very successful in that category: it manages to even mass-produce poverty.

It is indeed the state that creates the ones on the winning and the ones on the losing side: again, not specific people (the state is generally not interested in individuals as such), but classes. And it is the state that creates the legal means by which the organisation of production can develop a life of its own and becomes a constraint instead of an aid to an easier life. The very principles the state has established and continues to uphold create the ground for a capitalist society, create the capitalist character of the mode of production and create the capitalist character of the state. And the state implements that with all its power – in the end it has the monopoly on force. Equipped with the monopoly on force, the state has it as the last resort to implement its laws. And in having to obey the law, everybody is subject to the state and needs to practice her own subjugation. The state, by setting these and some other rules, installs itself as the one to provide the best conditions for capital accumulation. That is where its character as an entity in support of the capitalist class originates from.

Debate and Analysis of ‘Make a foreshortened critique of capitalism history!’

In the very first issue of SHIFT magazine the Berlin-based group TOP delivers fragments of their critique[1] of the anti-G8 mobilisation in order to ‘make a foreshortened critique of capitalism history’ (TOP). A sympathetic cause indeed to challenge antisemitic currents and nationalist floods (not only) in that movement. Unfortunately TOP fails to deliver a striking critique of those positions. In some cases they provide a wrong explanation and in other cases critique is replaced by moral appeals and warnings. In this reply we aim to provide arguments against these shortcomings hoping to aid TOP's cause which we subscribe to[2]. TOP rightfully ‘refuses’ ‘economistic and personalized (state-conceptions)’ within the anti-globalisation movement and writes: ‘one of the inherent dangers of this logic is to fall into anti-Semitic stereotypes’ and goes on giving a brief overview of reason and substance of the antisemitic world-view. However, TOP does not detail their position enough what capitalism is, why and how so many protesters come to a wrong differing conclusion about it and how this involves antisemitism. The brief remarks about their understanding of capitalism are: Capitalism is described as a ‘process, which arises following its own structural logic without a particular leadership’. As TOP writes that ‘domination has neither name nor address’

[4]One less obvious example is intellectual property: it was a discovery that something immaterial could be turned into property – and was converted by the state by simply introducing a legal status to it.

[5]In the democratic state, there sure is a social system, so that no one dies right away after loosing a job. It would yet be another argument, that the purpose of this activity of the state is again to maintain a class society. It's the state's task to maintain the labour power of the working class by organising payment for the reproduction of the worker during times of unemployment, sickness etc.

[6]To avoid any misunderstandings: more money means less constraint. Though the cynicism is obvious: The fight for a better wage is the demand for a better payment for your exploitation from your exploiter.

[1]The article is available online at `http://shiftmag.co.uk/?p=73`.

[2]This article first appeared in SHIFT Magazine #2 (cf. `http://www.shiftmag.co.uk`).

when considering the meeting of the most powerful states in the world, we think that this position is a consequence of TOP's failure to understand the democratic state, its elected agents and its objects of government: the people. But lets start with the stuff we probably agree on: capitalism is a society where for example one's hunger is not a sufficient condition for food because that food is private property of e.g. a grocery store owner (who bought it from a grocery factory owner and so forth). Those owners don't stock food to feed the hungry but to make a living. The first principle of capitalist interaction is free and equal trade or in less palliating terms: without giving there is no receiving. So only if a store owner sells enough stuff this month he might be able make a living with it next month. This is complicated by the fact that there are many grocery stores around competing to attract buyers. That is because even though many people want to eat they don't necessarily have the means – money – to make that happen which reduces the amount of potential customers. This competition exists on all levels – it is universal – and also involves global corporations, they too compete for customers. If they fail to do so, they go bankrupt. To survive in universal competition they improve their production, increase the absolute exploitation of their workers (prolong the work day, more intense work, lower wages). They do so not because they are evil but because this is their means to stay in business and make a profit. Capitalism is a labour divided society which means that the producers are dependent on each other. On the other hand the guarantee of private property and free and equal trade implies that they are dependent on the free will or arbitrariness of other producers rather than a conscious common plan. Being subject to other's free will in such a way means that always aiming for the best result is indeed best practice and therefore universal competition is logical in capitalism. This is probably what TOP would call 'structural logic'. Note that for most people the situation is even worse: They don't even have a grocery store, a factory or even the means to produce the products they need to make a living themselves. All they have to sell is their own labour power to work for other's wealth which makes them dependent on other's calculations while being severely limited to improve on their competitiveness.

A position which wants to preserve free market and private property of the means of production but singles out capitalists or corporations for their 'greedy' and immoral behaviour is therefore indeed a wrong personalised conception: 'the notion misconceives that in capitalism the economic actors are following a rationality that is forced upon them by the economic relationships themselves.' (TOP) To this point we assume that we are actually pretty close to what TOP would have written if they had expatiated their position. But Heiligendamm was not a meeting of grocery store owners, farmers or factory workers but a meeting of heads of state. A store owner (or any capitalist) and Gordon Brown fulfil some very different roles for capitalist reproduction. Gordon Brown's government's decisions reach to (and beyond) the borders of this country, the control of a grocery store owner reaches as far as his own store/factory at most. The capitalist – regardless if he produces, sells, etc. – has to act within the rules of private property, while the government dictates these rules. Even more: The state creates all the messy business, by guaranteeing private property and enforcing it when necessary. To guarantee private property the state needs force. A society based on private property provides a lot of misery for the people living in it and there are many reasons (e.g. hunger, universal competition) not to obey private property. A state that wants private property cannot tolerate this and enforces each owner's freedom that his property cannot be touched without consent: the state guarantees a private sphere where only one self's will applies. This act of state makes a human being a person: a state grants the right to property and thus acknowledges this personal freedom. Or in other words: being a person implies a regimen which grants this right. Without government there is no person and in particular no 'juristic person' (TOP). Thus nation states cannot be juristic persons – as TOP writes – because there is no instance which would grant this status. Consequently, TOP's explanation why G8 was a legitimate meeting fails. G8 – besides assembling mostly democratic states – does not need to worry about legitimacy, those states aggregate a fair amount of the world's force. To fulfil the crucial duty of granting personal freedom and private property the state has to be sovereign with respect to his subjects. How sovereign a state is depends on how much it pushes its monopoly of force through internally and its interests externally. The G8 is a meeting of states which generally don't have a problem with that. This does not imply on the other hand that there are no other states with a significant military force. However, in many other states most of the capital is in the hands of foreign capitalists and every government – whatever the intention – which touches this property risks being confronted with the military force of the US and EU. Thus even though state actions are somewhat limited by the international community of states (read: mainly G8) the limits of a capitalist and a state (including its personnel) are very different. State is not subject to the 'structural logic' of capitalism. The EU for example limited the free exchange of crop and subsidises its farmers to make sure it is independent of foreign food suppliers. Other examples are road works, public education and public health. Those sectors are not subject to the invisible hand of the market because the state decided so. Or consider any embargo or war where a state practically negates the possible business interests of its national capital. Exactly because state is independent of the 'structural logic' of capital it can provide the 'particular leadership' necessary to perform 'domination and exploitation . . . within and through these forms [democracy and law]' (TOP). Note that using this result to demand different politics from the government would be foolish. First, those people believe in freedom, democracy, and capitalism and so do the parliaments which sent them. Also those parliaments are reaffirmed routinely by the people of their respective countries via elections. Also, most governments have agendas which are documented in their respective constitutions. Abolishing capitalism altogether is not part of those constitutions and even if Gordon Brown was convinced to stop the madness of capital and nation he could not do it. Modern states have safety measures to make sure a government does not go rogue – in either direction – like ballots and (if necessary) the state of emergency where democracy and freedom are suspended in order to preserve the state. Capitalism is neither a conspiracy of a few nor a 'process . . . without a particular leadership'. The anti-globalisation movement generally approaches this problem from a totally different angle. Instead of asking how and why the world is set up as it is, the movement compares state and capital with some ideal. Consequently, this movement either demands 'better politics' or loses interest in the political class and aims to replace it. As there is no interest in understanding how democracy, freedom and equality preserve exploitation and domination the anti-globalisation mainstream keeps searching for violations of those high principles. If the system itself is not flawed there must be some external source for all the trouble: corrupt politicians, greedy bosses, loss of culture and this search for external jamming sources is where antisemitism has some 'answers' to offer[3].

[3] A critique of antisemitism will be the subject of a future article.

How the Nurse Fits in the Piggy Bank . . . or: About Donations

Recently passengers using the German public transport system have been advised about something quite astonishing: Big posters of the Kindernothilfe ('Help for children in need') point out that the reader has got a well hanging on his/her ear and that one rubs school books on one´s skin[1]! The following attempts to show that this does not only appear to be strange, but that it is quite strange indeed.

1 The context

The poster explains its apparent absurdity in its subheading: 'Buying beauty products or giving a future!' This suggests that the decision to spend money on beauty products automatically implies to not spend money on the well-being of a child (for example in Africa). The reason being that the latter does not cost much more.

2 . . . Wait a minute!

This implies that, by spending money, one makes a decision of great importance. A decision that is politically relevant: It is not only the decision not to spend money on children in Africa, but also not to spend it on homeless people, protecting the rain forest, the preservation of species and cancer research. Something seems to be up: There is misery everywhere and all this could supposedly be fixed by the money of the average person? In contrast to high-end fund-raisers, which are attended by wealthy people who do not have to choose between buying jewellery and donations, the poster directly addresses those who have to make a choice. These kind of people are by far the great majority for whom it is an 'either . . . or' question whether to save money or to buy lotions and accessories. Every such passenger of the public transport network is supposed to posit the question: How much can I allow myself to afford?

3 'Compared to the poor in Africa, we are rich!'

The campaign organisers can count on their reader's consent to take this question quite seriously, as the knowledge of people having more of what others are lacking is common. The opposition of either 'buying beauty products or giving a future' appeals to the bad conscience of those who feel that their 'consumerism' has caused the poverty of people in African countries. Feeling guilty like this, people do not acknowledge the restrictions imposed upon themselves. On the contrary, those needs and desires, that can be satisfied in western countries but not in Africa, are being considered decadent or at least their satisfaction is seen as luxury. This way, the appeal to give up on consumption to some extent matches with a guilt-stricken, compliant public.

4 On the causes of poverty

Overcoming modern poverty is not a question of everybody giving something up. This idea implies a kind of scarcity that does not exist. People in Africa are not suffering from hunger and illness because the workers in the West are having such a jolly good time. Similarly, it does not make sense to argue that the world economy is not capable of producing sufficient food and medication; considering the state of technology today, plenty of food and medication could be produced, hospitals built and wells dug even for people living in the Sahel. But nothing like that is going to happen as long as hungry people are expected to pay for these services. This is a consequence of the way production here and in Africa is organised; the capitalist mode of production. The purpose of this kind of production is not to satisfy needs and desires at all. Instead, its purpose is to make more money out of money. Needs and desires are merely a means for that purpose. Private property ensures that neither the products of labour nor the means of production are available to those who need them but rather to those who do what capitalism is all about: Producing goods which once sold generate more money for their owner than what he advanced. This way, everyone, who does not have a sufficient amount of money, is being excluded from the wealth of society; be it a loaf of bread, a body lotion or a trip to space. This is something that Germany, the U.K. and Africa have in common. Certainly, the results look quite different in Europe from most parts of Africa. The principle, however, which causes the misery there and poverty in western countries is the same; the capitalist mode of production.

5 And the lesson learned here?

As well-intended as donating may be, these appeals are just as ignorant. They hold those accountable for misery in Africa, who spend the little money they have on the little needs and desires they can afford. The appeal asks to draw practical conclusions from the moral which is used by workers to embellish (but not to explain!) their miserable lives: relinquishment, something every regular user of public transport knows pretty well, is to be increased. However, living in accordance with this moral does not change social relations, and consequently does not abolish the causes of poverty.

P.S.: This is not about being in favour of or against donations

In order to avoid a misunderstanding: It is not our intention to argue whether donations are good or bad. However, some people try to show that it is wrong by pointing out the negative results of donations; local markets have been ruined and new dependencies have been produced. These kinds of critics are saying that people, who earn their living on local markets, lose their source of revenue when their (potential) consumers are being supported by donations. This is a rather cynical way to look at things as it presupposes the market as the natural source of revenue for people, when it is in fact their dependency on the market that makes them poor! If one resents the fact that people are starving, it only makes sense to find out the reasons for that in order to be able to abolish those reasons! We criticise a false consciousness about the causes of poverty in capitalist societies and false consciousness about what donations do to change that.

[1] Oxfam's appeal to donate two pounds a month to provide clean water for an African village is a British version of the same principle.

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About this Journal

Critique’s failure does not usually derive from peoples’ inability to see the misery around them; work, unemployment, war, hunger, genocide, toxic waste, sexism, drowning refugees, homophobia, stress, to name but a few. Everybody knows and almost everybody resents these facts. However, as quickly as most people offer pity, they offer wrong explanations why these facts keep surfacing in the ‘most human of all societies’.

We claim that modern misery is the ultimate result of capitalism and the nation state. The purpose of this journal is to prove this claim by explaining manifestations such as those listed above. We therefore criticise many other theories about the conditions we are forced to live under, as wrong. The purpose of this journal is to criticise those conditions which ensure that wine and cheese are not available to everyone and to criticise everyone who justifies this. Luxury for everyone!

The Wine and Cheese Appreciation Society of Greater London is the rather small group behind this journal. We are not in the business of being the vanguard of the working class nor are we self-sufficient intellectuals writing about Marx behind closed doors. We want to criticise, discuss, engage, argue. We do not believe that insight follows from one’s social position in a positive (Autonomia) or negative (Marxism-Leninism) way. Arguments do not have a standpoint, they are either correct or wrong, insufficient, incomplete.

Since we refer to Marx quite a bit, a few clarifications. Capitalism does not vanish by itself. Its crises are nothing but crises of its valorisation. On the other hand, the fact that it breaks people and causes them harm is an inevitable part of its package in crisis and in boom. Modern democracies, where politicians care about nothing except the well-being of the country, are the adequate form of government for the capitalist mode of production. The emancipation of politics from capitalist enterprises is a necessary condition for the existence of capitalist relations. Nation states are not players on the market, they make markets possible. We have nothing positive to say about sociological Marxism with all its classes, strata and social groups, with its ‘power relations’ and ‘objectively progressive interests’, which allegedly give rise to the right strategy. We do not follow the wide-spread ‘realism’ which consists of doing stuff one does not want and to not talk about the stuff one actually does want. The lesser of two evils is still an evil. We do not want to be successful with something, but with a rather particular critique. We do not understand the Soviet union as ’state capitalism’ nor do we think the ‘experiment’ started out alright but went wrong on the way. We do not follow the cult of the working class nor any other Leninist-Stalinist-Maoist nonsense. Declarations of love towards the workers, ‘the people’ and ‘the little man’ are absent from our texts since this prevents a proper critique of their wrong consciousness. This critique is necessary because it is them who will have to move in order for anything to change. The kind of anti-capitalism, which suspects evil parasites behind everything and conspiracies everywhere, will not be found in our texts; however, arguments against this rubbish will be.

Though our published results and conclusions might be misinterpreted as dogmatic we do not claim at all to have monopolized the truth. On the contrary: This journal is an invitation to critique. Every verdict based on scientific criticism we welcome.

Our group is part of the network ‘Junge Linke gegen Kapital und Nation’. This journal contains both articles produced by us and translations of texts by other groups in this network. If you want to discuss articles published in this journal, just get in touch at
`wineandcheese@hush.com` or
`http://antinational.org/en`.
In case you are wondering, we are indeed based in London, U.K.