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# How do we deal with the **WORLD ECONOMIC CRISIS?**



Today is probably the time to revisit the concepts of World Revolution and formulate an International exit strategy from the crisis

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*Today is probably the time to revisit the concepts of World Revolution and formulate an International exit strategy from the crisis. Today, much more than in 1917, it is impossible to talk about a national socialist transformation, isolated from the rest of the world. Any radical break with capitalist policies will send revolutionary ripples across Europe and across the World with unprecedented speed. The rapid spread of the Arab Spring is the sort of model that we will be facing in the coming years.*

## Introduction

We live in an unprecedented economic crisis that seems to question economic theory at its core. In the post second-world-war years Keynesianism at first and neo-liberalism later gave humankind a period of unprecedented economic growth.

Neo-liberalism hit the rocks in 2008 dealing a near-mortal blow to Capitalism. We should however resist the temptation to attribute the crisis to neo-liberal greed which implies that had there been a better management of Capitalism all would be well. The real question is why neo-liberalism had such an unquestioned sway for more than a quarter of a century?

## Collapse of Profitability

According to Marx the Rate of Profit has a tendency to fall, leading the economy to a process of destroying what it has built all the previous period. Marx would say that

*This is in every respect the most important law in political economy, and the most essential for understanding the most difficult relations. It is the most important law from the historical standpoint. It is a law which, despite its simplicity, has never before been grasped and, even less, consciously articulated.*

*Grundrisse, p.748*

The main argument of this document is that this Tendency, in its long-term secular guise, is underlying the present crisis making economic recovery all that more difficult and doubtful. For the first time in more than half a century Capitalism is presenting its true face to the workers, including the workers of the advanced capitalist countries.

The events of the 1970s are crucial in understanding the present crisis. By 1974 profitability in advanced capitalist countries, had fallen at an average by more than 40% from its peak in 1965. The belief of the strategists of capital that after the Second World War they were done with the unsolvable contradictions of capitalist expansion, was not borne out by reality. Marx was on the scene again. His theory of the *Tendency of the Rate of Profit to Fall* resurfaced in heated discussions among Marxist economists.

## The ghost of the 1930s and the capitalist attack.

The ghost of 1930s was present again. The response of the world capitalist class was decisive. By attacking the salaries and the general benefits of the working class, they tried to restore profitability. Since then the growth of salaries in the advanced capitalist countries has been much slower than economic expansion and in the USA they have practically remained stagnant for all this period.

By doing that though on a world scale, they simply decreased the purchasing power of the world market in relation to the potential total production, exacerbating the problem of falling profitability.

By the end of the 1970s and the beginning of the 1980s, the situation was desperate. Unemployment figures of that time in the US and other advanced capitalists countries still stand higher than today.

Accidental events of the 1970s though, paved the way for solutions that the strategists of capital believed could be permanent:

1. Abolition of the gold standard.
2. Abolition of all restrictions in the movement of capital.

In this new environment, they were able to move

*...capital out of the high cost, low profitability lines of material production (production of real goods), especially towards the financial services.<sup>1</sup>*

and transfer production to countries like China with wages tens of times lower than in the USA, transforming the USA into an economy of services.

And through

*The development of securitized financial markets and the internationalization of the American finance...<sup>2</sup>*

the USA begun borrowing from the periphery, by selling Securities which represented artificially high values. By borrowing, the American economic machine reinforced demand in the USA but also in the whole world. They gave

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<sup>1</sup> Robert Brenner, *The Economics of Global Turbulence*, first published in 1998. This edition in 2006, page xxii

<sup>2</sup> *From Global Finance to the Nationalization of the Banks: Eight Thesis on the Economic Crisis*, by Prof Leo Panitch and Prof Sam Gindin, Global Research.

income to countries like China, Germany etc. enabling them in their turn to buy these American titles (Mortgaged Backed Securities – securities related in great part to the American building industry), and the circle would continue. Yanis Varoufakis would say that the whole system was a

*...very unstable system to be able to survive forever, but was a system which for decades contributed to the maintenance of a world tranquility (though unstable) which depended on the continued voluntary flow of capital, something that someone could interpret as 'gifts of servitude' (instead of taxes), from the world periphery towards the American metropolis – gifts which the metropolis, in its turn, uses (consumes) in order to keep the periphery flourishing.<sup>3</sup>*

The world would give money to the Americans to build their houses and keep the economy moving, and the Americans would buy the exports of these countries, sustaining the world economic activity. Larry McDonald, one of the Vice Presidents of Lehman Brothers, characterized the building industry of the US as the new ATM machines of the American population. He would state

*...money which was not real money, prices of houses which were not real prices, mortgages which were not based on any definition of reality.<sup>4</sup>*

*...in the year 2006, probably 50% of the growth of the United States was bogus – CDO, CMBS, CLO and MBS.<sup>5</sup>*

This was the way through which the World System developed after the 1970s; that was the way companies were depicting profit again:

*...the US borrowing strategy has become an important element in keeping up demand around the world. If the US strategy were forced to change, it would have serious implications for the future stability and growth of the global economy.<sup>6</sup>*

And it did change. Not because the economic strategists decided not to borrow anymore, but because the poor holders of mortgage loans in the USA could not pay their instalments for the money they had borrowed to build their houses. That was the prelude to the 2008 crash. Tens and hundreds of thousands would leave the keys of their houses in the mail box and disappear.

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<sup>3</sup> Yanis Varoufakis, *The world Minotaur*, first published in English in 2011. This is from the Greek edition published in 2012, page 63.

<sup>4</sup> *Colossal Failure of Common Sense*, Larry McDonalds, first published in 2009, page 133

<sup>5</sup> *Colossal Failure of Common Sense*, Larry McDonald, first published in 2009, page 256

<sup>6</sup> John Eatwell and Lurence Taylor, *Global Finance at Risk*, first published in 2000, page 122

This is how fragile was the model that kept the world economy going. 2008 marked a decisive end in this model.

*2008, to say it in a more simple way, has been proved to be the 1929 of our generation... With an economic ending that may be even worse than the one of 1929.<sup>7</sup>*

The collapsed ability of capitalism to create profit is a crucial aspect. It should not be faced as a theoretical abstraction. It is the reality of today. It underlies the inability of capitalism to turn into growth gain. It is the source of the unprecedented debt that has piled up in sums that could never be returned. A debt that was necessary to support demand. A debt that assigned to future generations the responsibility to pay for today's consumption. A debt that *colonized the future* as academic Photis Lyssandrou formulated it.

The debt problem is a central one. And it should be in the center of the socialists' international campaign. Its existence was necessary for World Capitalism to survive as we tried to explain before. It was not the problem of any single state. It should be abolished in an agreed way. Its existence is a formidable barrier to further development not only of the indebted countries but of the world system.

This makes sense even within a capitalist logic. It was the logic behind the Greek 'haircut' albeit implemented in a pathetically miserable way that created problems Europe-wide without solving the basic problems of Greece.

For the first time for more than half a century discussion on the death agony of capitalism is based firmly in the economic sphere and is directly mirrored in militant grassroots political action that threatens the system itself. This action is still divorced from the theoretical discussion that is taking place with renewed vigour among Marxist intellectuals and for the moment produces mixed results. It will not be long before the two come together to form a formidable force that will challenge capitalism again in a serious fashion.

## Exiting the Eurozone

The inability of the capitalist market to sustain itself and the beginning of a process in which capitalism will be destroying what it has built in the previous period (Marx) underscores the world, as well as the European, economic developments of

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<sup>7</sup> Yanis Varoufakis, *The world Minotaur*, first published in English in 2011. This is the Greek edition published in 2012, page 24.

today. That's why the suggestion of abandoning the Eurozone cannot in any way give an answer to the problems of our era.

The proponents of this strategy point towards the surplus of Germany and the deficits and huge accumulation of debt of the European south. But the USA is highly indebted. It just happened that at the beginning of the world crisis some countries found themselves as the beneficiaries of the unsustainable neoliberal model. In the same way the economic growth of the USA, as of the whole capitalist world, depended on the US borrowing from the rest of the world, in the same way the growth of Germany depended on the US borrowing, as well as on the borrowing of the European South. The end of this game will very soon bring Germany's growth to an end.

The proponents of the exit strategy provide the argument that by doing that someone gains two advantages. Independence in monetary policy and the ability to take trade measures against other nations. Even if we don't take into consideration the central problem of world capitalism, as we tried to explain above, one will have the ability to print money but the more you print the more its value will vanish, especially considering the world economic crisis. We must have in mind that there is no friendly way of exiting the euro; if it happened it would be under the same, if not worse, memorandum obligations.

Concerning the ability to implement trade restrictions, it will be the way to hell. In a period of a general world economic expansion, there might be a chance of not facing severe retaliations. But under the current crisis, trade wars will be unavoidable and will be the prelude to real wars.

Exiting the Eurozone is a capitalist recipe which leads to an impasse as big as the austerity measures.

The proposal of exiting the Eurozone creates also the illusion that there can be isolated, national solutions to the crisis. There is no such possibility. It also reinforces the picture that the nationalists create that the source of the European misfortune are other nations, Germany, the descendants of Hitler etc. It distracts from the real target which must be world capitalism.

## World Revolution

Exiting the Eurozone is not an option for socialists. It will be an ‘option’ for the national strategists of capital when they realize that agreed solutions to handle the European crisis are not any more feasible. It will be an option that will introduce Europe to a stage of barbarism, each against all others for survival. A repetition of World Wars will then be on the agenda.

Even if a country proceeds with socialist measures, it cannot hope for long term survival if it gets isolated. It is highly probable that a leftist government in Cyprus, or a government of SYRIZA in Greece, will be expelled from the Eurozone if it proceeds with measures like the nationalization of the banking system. If this is the case it will have to depend on the assistance of the European movement.

That is why it is crucial for the Cypriot movement, as well as for any other European movement, to have a European orientation of their struggle as well as build European alliances.

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