Kaput

capitalism for anti-capitalists

volume 1: workshops 1-4

This text is based on a series of participatory workshops run over the last few years, and on materials gathered online at network23.org/kaput. It is work in progress.

Please get in touch (kaput@riseup.net) if you have any comments, suggestions, or questions. Or if you'd like someone to come and run a workshop. Or if you'd like to help illustrate, edit, or publish this in a more finished version. Or if you want to get involved in working on anti-capitalist economics education with us.

For updated versions, more info, further reading, workshop dates, go to: network23.org/kaput

Warning: we should note that much of the way the authors understand capitalism and resistance is still pretty ***European focused***. This reflects where we come from. It would be great if future versions of these workshops could have a more global understanding. We could also do with collaborators to help work on that.

Produced by *kaput* – anarchist economics education project.

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Workshop 1. Capitalism: an economic system.

What does “*capitalism*” mean?

People use the word “capitalism” in many different ways. There is not just one “correct” definition. But we have to start somewhere. We will start by looking at capitalism as an *economic system*.

In schools and universities, economics is taught as if capitalism is “natural”, or the only system possible. But in fact there have been, throughout history, many different ways of organising economies. Capitalism itself is quite a recent invention: it is sometimes traced back to 15th century Italy, or maybe 16th century Holland. In the last century or two it’s taken over the whole world.

Klallam potlatch feast: a non-capitalist economic institution.

Some examples of other economic “systems” and institutions:

- Hunter-Gatherer economies
- Gift economies (e.g., pacific cultures)
- Slave-based economies (e.g., Roman empire, US Southern States in the 19th century)
- Feudal economies (e.g., Medieval Europe)
- Command economies (e.g., Soviet Union, Maoist China)
- “Market Socialism” (Yugoslavia under Tito)
- Syndicalism (“short summer of anarchy” in Barcelona 1936)
- Co-operative economies (e.g., co-operative movements in Europe 19th and 20th centuries)
- And history isn't over. There will be other economic systems in the future … maybe ones we can’t even imagine yet.

Organising production and distribution

We can think of an economic system as a way of organising what a society or group ***produces***, and how these products are ***distributed*** amongst different people in the group. Economic systems address questions like:

- Should we put our energy into making toys, or guns?
- How much time should we spend working, or playing?
- How should we use land, forests, oil, and other natural resources?
- Who makes these decisions?
- Who gets all the pies?

Example: Tahrir Square

When hundreds of thousands of people occupied Tahrir Square in Cairo in early 2011, they needed to create their own mini "economic system" to bring in and distribute food and other materials to everyone in the occupation. There were sleeping areas, collective kitchens and food distribution points, markets, toilets and waste disposal, assemblies to co-ordinate some of this, and lots more.

Example: Robinson Crusoe's Island

Economists often like to use the example of Robinson Crusoe, from the novel by Daniel Defoe, as a very simple economic system. Even all alone on his island, Crusoe had economic decisions to make, like how much fruit to eat now or how much to save to *"lay up a store, as well as of Grapes, as Limes and Lemons, to furnish myself for the wet Season, which I knew was approaching"*. Later, Crusoe met "Friday", and started a basic two-person class system.

What is "economics"?

So capitalism is an economic system. But how can you separate "the economy" from "everything else"? Economics is involved in everything from the food we eat to global politics to our most intimate relationships.

Actually, the question of how to define the economy is deeply political. The term economics comes from the Greek word **oikos***, a "household". Economics, in ancient Greece, meant household management. Only with the beginnings of capitalism, in late medieval Europe, did economics move from the "domestic" to the "public" sphere, and so get taken seriously by kings and philosophers.*

Adam Smith (1723-1790).

In 18th century England, as trade and industrial revolution took off, writers like Adam Smith and David Ricardo called their new science "Political Economy". I.e., the household management of the wealth of nations. These ***classical economists*** *defined the economy as a special area which politics should keep out of. In recent years, "neoliberal" economists have pushed things further. Theorists like Milton Friedman and Gary Becker argued that* **all** *aspects of human life should be seen in terms of markets. Neoliberal governments, from Pinochet in Chile to Blair in the UK, helped turn theory into reality.*

Tahrir Square 2011.

Example: Soviet Planning

In the Soviet Union, many economic decisions were made through a system of state planning. The central planning commission Gosplan, in Moscow, collected statistics about what resources were available in the economy, and then issued detailed plans for what was to be produced by different regions and sectors (mining, agriculture, manufacturing, etc.) One important decision was: how much work and resources should go into producing goods for consumption by Soviet citizens, and how much into producing machines and materials to build up industry?

Example: corporations.

Corporations compete with each other in markets. But internally a large corporation — and some are bigger, in terms of wealth and numbers of people, than small countries — are run much like socialist planned economies. Executives try to control the whole organisation from above.

Example: the financial system

As we'll see in more detail soon, *financial markets* (stock markets, bond markets, bank lending, and more) are central to the process of making production and distribution decisions in global capitalism. Companies buy raw materials and produce goods which they plan to sell at a profit. To buy those raw materials they often need to borrow money. Financial markets are where they meet investors, who lend them money in the hope of receiving interest (and share dividends) as those profits roll in. Investors decide who to lend to on the basis of ***returns*** (which investment offers the highest interest?) and ***risks*** (will the company go bust?) In today's highly complex financial markets, risk analysis is a dark mystery largely built on hype and confidence (what the economist J.M. Keynes called "animal spirits"). Then, sometimes, panic strikes, and investors pull out of everything but the "safest" assets. This hits production: companies don't get their raw materials, factories close, jobs are lost, recession – or depression – sets in.

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Systems aren't monoliths.

Even at its height, the Soviet planning system was never complete: the "commanding heights" of the economy were controlled tightly by the state; but workers were still largely paid in money wages. There were also "black" and "grey" markets. And people doing unpaid housework, working as domestic slaves … or sharing food, giving gifts to each other, or writing poems or volunteering on committees. Similarly, in capitalism not everything is controlled by markets. In any system, as the anarchist Kropotkin often pointed out, there are pockets of alternative ways of doing things – and seeds of resistance. (We will look at this point more in Workshop 7.)

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Modern Times.

In and out: production processes.

Imagine … a car factory. We can think of the factory's work as a *production process*. In at one end come *inputs*. Raw materials include steel, glass, plastics, etc., shipped in from steel mills, glass plants, etc. There are also some parts, electronic components, etc., which have already been assembled in other factories. These inputs are put together by workers — human beings — using machines, which need energy to run. Finally out comes a finished *output*, cars.

How many cars will the factory produce? It depends on how much of the inputs are put in. Though, if production gets really big, they might have to expand or build a whole new factory.

For example, here are some (completely made-up) figures for a factory producing at full capacity:

inputs	*outputs*
Raw Materials: 1000 tons steel, 100 tons glass, 10,000 mW electricity, ...	1000 cars
Machines	
Labour: 50,000 person/hours	

Complex economic systems generally involve *division of labour:* different workers specialise in different jobs, producing different parts of the process. They also involve *division of decision-making*. E.g., the factory has a manager whose job is to try and get as much output as possible. The hands-on job of squeezing the most hours labour out of workers is delegated to foremen. Workers get to decide things too: which way to turn the bolts … or whether to throw a spanner into the works when no one is looking.

But the decisions about inputs go beyond the factory. The same steel, or workers, could go to other car factories, or to make toys or guns instead, or more car-making machines. Or the iron ore could stay in the ground, and people could spend their time living life creatively instead of working in a factory. How are these decisions made?

Markets

In the Soviet system, decisions about allocating steel to factories were made by planning commissions. In a "free market" capitalist system, many of these decisions involve ***markets***.

- The owner of the car factory tries to sell its products to consumers – in the *car market*.
- The car company, the toy business and the arms manufacturer all need to buy steel – in the *steel market*.
- They also need to hire workers – in the *labour market*.

Particular markets can work in very different ways – e.g., labour markets can involve internet job sites, government jobcentres and training schemes, regulations such as a minimum wage and employment tribunals, or cash-in-hand work and gangmasters, etc. But all markets have some basic points in common: sellers (***supply***); buyers (***demand***); and ***prices***.

Unlike a planning commission, "decisions" in markets are often **decentralised** (though not always – see below). Overall outcomes – what is produced, how products are distributed – are not made centrally, but are the result of many actions by many different individuals and groups, often acting independently. For example, there are lots of different car factory managers, and lots more car buyers. Each one can make an individual decision about what to produce, sell, or buy. The "total production" of cars in the economy is a result of all these separate decisions. And of many more decisions made in other interlocking markets.

This does not mean that some people and groups are not more powerful than others in markets. They certainly are. It just means that power relations are more complex, and can be hard to identify.

Santiago, Chile September 1973.

Markets and Power

A **monopoly** *is where there is only one seller in a market. (A monopsony is where there is only one buyer). For example, a company called De Beers has (or did until very recently) an almost total monopoly on the world's diamonds. Monopolists do not have to compete with other sellers who might* **undercut** *them, so they have considerable power to set the price on their products; and so to make high "monopoly profits".*

An **oligopoly** *is where there are a small number of sellers. These sellers may join to form a* **cartel** *which* **fixes prices** *by agreement. The OPEC cartel of oil producing states is an important example.*
According to orthodox economic theory, the more sellers there are, the more the price should be bid down by competition. In a "perfectly competitive market", with many sellers, the price would be forced down until it just covered costs, and there would be no profit at all. Orthodox economics often works with the theory that markets are perfectly competitive. But in reality, such markets don't exist outside textbooks. By controlling prices and

production, big companies and cartels have power over distribution of commodities in markets. We can call this **market power**. *In general, an individual or company has more power in a market the more resources – capital, money, or other commodities – it has to trade.*

So, ultimately, market power comes down to owning stuff. But what does that mean? In many markets, ownership of resources is guaranteed by **property law**: *the state recognises what resources belong to you, and can send in the police to back up your claim. So market power does not exist unless it is guaranteed by other forms of power: the political and* **military power** *of the State, which enforces property laws with violence* (see workshop 4)*; and the* **cultural power** *of the* **norms** *and values that keep us believing in private property, and desiring more and more consumer goods* (see workshop 6).

Profit.

The car company needs to think about a number of markets. On the one hand, it aims to make as much money as possible in the car market. On the other hand, it wants to buy the inputs it needs as cheaply as possible.

Suppose its market researchers predict that they can sell 1000 new cars at £10,000 each. That will be a total **revenue** of £10 million. The table below also gives some (again, imaginary) costs for inputs. The money spent on machinery here includes maintenance of wear and tear, replacement parts, etc. – what economists call *depreciation*.

inputs	*outputs*
raw materials = £2.8m	1000 cars = £10m
machines (depreciation) = £500,000	
labour = £700,000	
Material Costs = £4m	Revenue = £10m

The thing is that, usually, the car company will only get the revenue from its car sales *after* the cars are produced. But it will need to pay for inputs in advance. So it will have to *borrow* money to fund its production.

This brings in another kind of market – *financial markets*. As we will see in workshop 2, there are various kinds of financial markets, including bank lending, stock markets, and bond markets. They work in different ways, but again we have the same basics. This time the commodity being bought and sold is finance

– money being lent. The "buyers" are the people and corporations trying to borrow money; the "sellers" are the lenders; the price the borrowers have to pay is the ***interest rate***.

For example, the car manufacturer needs to borrow £4m to pay for inputs. It agrees to pay back the money with 25% interest a year later, after the cars are sold. In the longer term, the car manufacturer probably also had to borrow to buy the machines and building for its factory. It will have to keep paying interest on these fixed costs, probably for many years.

costs	*revenues*
Material Costs = £4m	Sales = £10m
Total Finance Costs (long and short term) = £2m	
Total Costs = £6m	Total Revenue = £10m

Suppose the car manufacturer got it right and it can sell all its cars for £10,000 each. Then it makes a profit of £4 million (Profit = Revenues – Costs). Governments may take some of that in tax. Out of what is left, the car company owners now have a new decision: how much should they invest in expanding the business, buying more up-to-date machines, etc.? And how much should they keep for themselves to spend?

Things don't always go so smoothly. If the factory can only sell 500 cars, or has to sell them all at half price, then it makes a £1 million loss. The input costs and interest payments still have to be paid. If the company can't borrow more money to keep afloat, it will go bust.

From cattle to capital.

Historians usually trace capitalism back to the 15th or 16th centuries; but the word "capitalism" itself only goes back to the mid 19th century. The word "capital" is older. It comes from the Latin capita, *for "head". In the middle ages, "chattels" meant a wealthy person's movable wealth, especially animals or livestock – including, where slavery was legal, slaves. The term still survives in our modern English word "cattle". So, perhaps capital originally meant "heads" in the sense of the number of animals ("heads of cattle") belonging to an owner.*

18th century economists identified three "factors of production": land, labour, and capital. Capital now meant all other materials and machines involved in production. By the 19th century land was no longer a separate "factor", but considered just another form of capital. In the 20th century, with neoliberal theories of "human capital" ("intellectual capital", "social capital", etc.), some started to see human energy and skill as just another kind of capital too.

We can also distinguish between physical *and* financial *capital. Finance is not actual tangible stuff, but promises, agreements, IOUs, and contracts for using physical capital. (See Workshop 2.)*

Capitalism – or capitalisms.

Maybe it's better to say that there is no one "capitalist system", but many systems and institutions which are more or less capitalist. Capitalist systems differ across space and time, and have been evolving for hundreds of years. Any capitalist system, though, will have some basic characteristics, for example:

Markets. Decisions are made through many complex interactions of buyers and sellers in markets.

Commodification. Can anything be bought and sold in a market? Fresh air, promises, love, ideas, principles? Things that are bought and sold in markets are called ***commodities***. Over the history of capitalism new kinds of resources have become ***commodified***. In 16th and 17th century England, and in the colonies, land held in common, and wild land, was "enclosed" and parcelled up amongst landlords. More recently "intellectual commons", or even the genetic codes of wild plants, are being trademarked and patented, and so "enclosed".

Property. The only people who can buy and sell in markets are those who have ownership rights over commodities. Thus behind every market is a background of property rules – laws, conventions, regulations about who owns what, and what they can do with their property.

The State. And behind property laws is the state – standing guard to enforce them with violence.

Profits. Capitalism is a system of production. Companies chase after ***profits*** wherever they can, and largely this means producing and selling new commodities. Investors finance companies for a share of the profits.

Capital. To make profits, whether by producing or investing, you need to own capital, whether "physical" or financial.

Labour. Human time and energy is also commodified, bought and

sold on “labour markets”. In particular, **wage labour** is important in capitalist systems – but we shouldn't forget that slave labour, and unpaid domestic labour, are also still prevalent today.

Workshop 2. The high seas of finance.

If the world economy were an ocean, finance would be the currents and swells shifting resources from one shore to another. Sometimes the flows are steady, the surface looks millpond smooth … but then, out of the blue, things start to get rough …

Recap of workshop 1: Capitalism is a complex system of many interdependent markets. For example, the car producer sells its products in the car market, and needs to buy inputs – raw materials, energy, labour – in lots of other markets. As a producer needs to buy inputs before making and selling its product, it often needs to get **finance** (also called: **finance capital**) from ***investors***. Later, it will pay them back out of its profit … if it makes one.

Equity and debt.

Basically, companies can raise finance capital in two ways: by selling shares; or by borrowing. Markets trading shares are called ***equity markets***. Markets trading loans and bonds, forms of borrowing, are called ***debt markets***. Nowadays things have got rather complex, and the distinction is not always so clear – but it is somewhere to start.

VOC trading ship.

Equity markets.

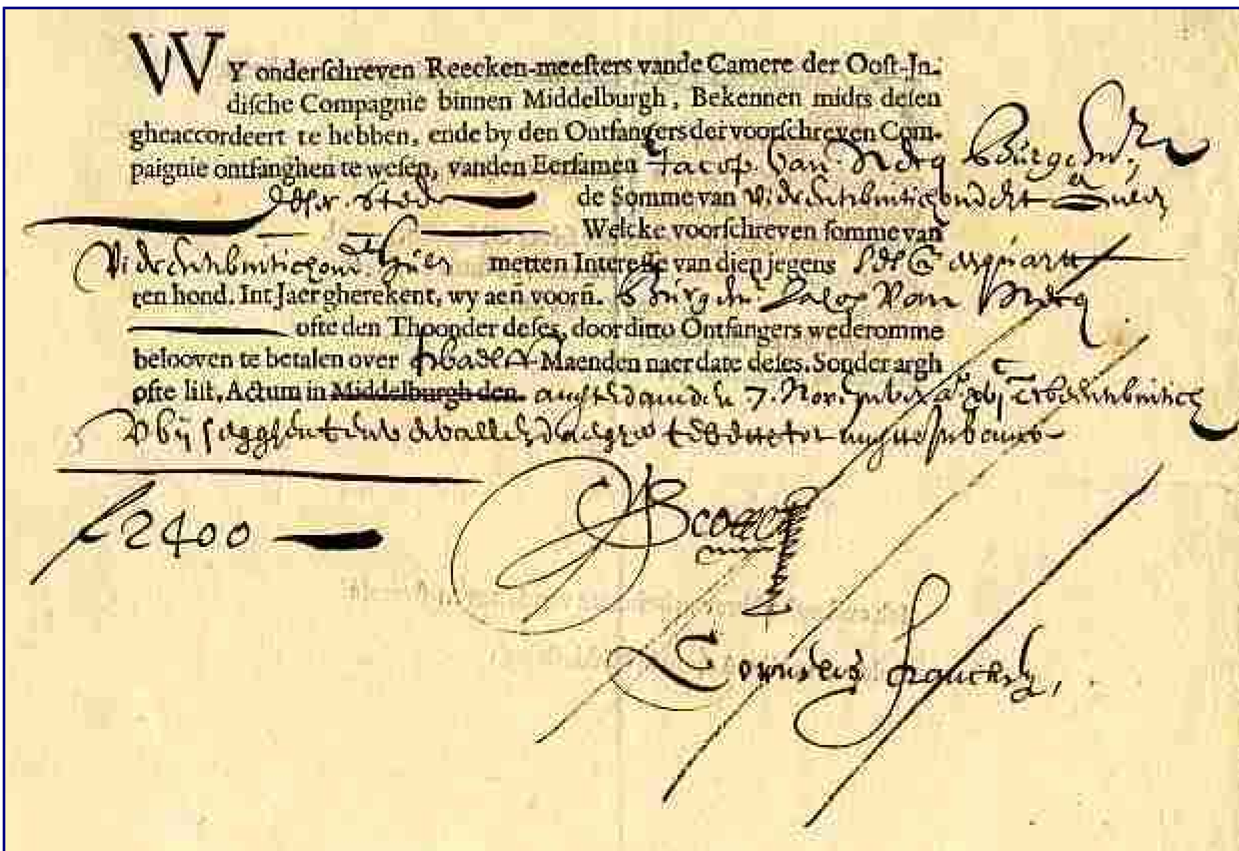
Equity markets trade ***shares*** in the ownership of companies. Company Law sets out different ownership structures for companies:

– Most UK law or accountancy firms are ***partnerships.*** All the partners share responsibility for the company's decisions. They share the profits; and also any losses and debts.

– A ***limited company*** is a special legal structure to ***limit the liabilities*** of the company's owners. ***Shareholders*** have a share in any profits; but if the company goes bust, they are only liable for its debts and losses up to the value of their shares.

– A ***public limited company*** (**PLC**) or ***listed company*** is a limited company whose shares are traded on an established stock market – e.g., the London or New York stock exchanges, the Paris Bourse. Anyone can buy and sell these companies' shares through a stock ***broker***. Only companies over a certain size can be listed, and they have to publish regular accounts. The first ever PLC was the Dutch East India Company (or: **Vereenigde Oost-Indische Compagnie**, **VOC)**. Its shares were traded on the Amsterdam exchange from 1602.

Stock exchanges, where the shares of big PLCs are traded, are just the most visible face of the equity market. Many shares are traded in private deals between individuals and companies. ***Private Equity*** funds are investors who specialise in doing equity deals away from the listed markets.


WY onderschreven Reecken-meesters vande Camere der Oost-Indische Compagnie binnen Middelburgh, Bekennen midts desen gheaccordeert te hebben, ende by den Ontfangers der voorschreven Compagnie ontfanghen te wesen, vanden Eersamen ... de Somme van ... Welcke voorschreven somme van ... metten Interesse van dien jegens ... ten hond. Int Jaer gherekent, wy aen voorn. ... ofte den Thoonder deses, door ditto Ontfangers wederomme belooven te betalen over ... Maenden naer date deses. Sonder argh ofte list, Actum in Middelburgh den ...

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VOC share certificate 1623.

The shareholders of a limited company are its legal owners. But a big corporation has millions of shares, and many thousands of “owners”. Only shareholders who own a sizeable percentage of the shares have any real control over the company’s actions. Often, the managers or ***executives*** of the company, who are technically employees, have much of the real power.

Shareholders are entitled to a share in the profits of the company. But if the company is going to keep on growing and competing with rivals, it will need to re-invest some of its profits back in the business. Managers and owners decide how much to invest in future production. What is left is then distributed amongst shareholders: this payment is called a ***dividend***. Big companies do not always pay out dividends, but shareholders can still make a profit by selling their shares – if the share price goes up.

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Corporations.

The word **corporation** *comes from the Latin* **corpus***, a body. In Roman and medieval law, States recognised certain institutions or associations as* **legal persons** *– "bodies" with legal rights and responsibilities of their own. For example, the* **Corporation of London***, the governing body of the City of London, was granted its first royal* **charter** *in 1067. Many Lord Mayors and other individuals have been born and died since, but the corporation goes on with its own legal life and history.*

Some say that the oldest business corporation was Sweden's Stora Kopparberg mining corporation, chartered in 1347 and finally closed in 1992. Two important corporations in early capitalist history were the British and Dutch East India Companies (1600 and 1602), licensed by the British and Dutch states as monopolies to exploit the trade and colonisation of India.

Corporate law differs around the world, but everywhere it creates some form of legal separation between the corporation and the individuals who own and manage it. Corporations are usually **Limited Liability Companies***, which protects individual owners from responsibility for the company's debts. But corporate law often goes further still, e.g., to protect individuals from legal responsibility for the company's criminal actions.*

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5¼% REPAYABLE 15TH NOVEMBER, 1987

COMMONWEALTH OF AUSTRALIA
Treasury Bond

TRANSFERABLE BY DELIVERY

ISSUED UNDER THE COMMONWEALTH INSCRIBED STOCK ACT 1911-1963.

$20 5¼% DEF 001067 $20

This Bond entitles the Bearer to the payment at the Reserve Bank of Australia at Canberra, Sydney, Melbourne, Brisbane, Adelaide, Perth, Hobart or Launceston of — TWENTY DOLLARS — together with interest thereon at the rate of FIVE AND ONE QUARTER per centum per annum in accordance with attached coupons, and such sums are secured on the Consolidated Revenue of the Commonwealth of Australia. Principal is repayable on the FIFTEENTH DAY OF NOVEMBER, ONE THOUSAND NINE HUNDRED AND EIGHTY SEVEN.

Dated this 14th day of February, 1966.

SECRETARY TO THE TREASURY.

1987

PRINTED BY THE AUTHORITY OF THE GOVERNMENT OF THE COMMONWEALTH OF AUSTRALIA

COMMONWEALTH OF AUSTRALIA TREASURY BOND INTEREST COUPON 41 5¼% DEF 001067 INTEREST FOR SIX MONTHS ON $20 REPAYABLE 1987 15TH MAY, 1986 $0.52

COMMONWEALTH OF AUSTRALIA TREASURY BOND INTEREST COUPON 42 5¼% DEF 001067 INTEREST FOR SIX MONTHS ON $20 REPAYABLE 1987 15TH NOV., 1986 $0.53

COMMONWEALTH OF AUSTRALIA TREASURY BOND INTEREST COUPON 43 5¼% DEF 001067 INTEREST FOR SIX MONTHS ON $20 REPAYABLE 1987 15TH MAY, 1987 $0.52

COMMONWEALTH OF AUSTRALIA TREASURY BOND INTEREST COUPON 44 5¼% DEF 001067 INTEREST FOR SIX MONTHS ON $20 REPAYABLE 1987 15TH NOV., 1987 $0.53

Australian treasury bond. Face value $20. Fixed interest rate 5.25%. Maturity 21 years.

Debt markets.

There are two main ways in which companies can borrow money: getting ***loans*** from banks; or issuing ***bonds***.

A corporate bank loan is basically the same as if an ordinary person gets a loan, only bigger. Any loan involves a ***contract***. The borrower and the lender agree: the ***term*** of the loan, or when it must be paid back (e.g., 3 months, or 3 years); the ***interest rate*** (e.g., 5%, paid each year); any ***collateral*** which the borrower forfeits if doesn't pay back the loan (e.g., in a *mortgage loan*, the collateral is a house). If the borrower doesn't pay back the loan, this is called a ***default***. Banks make loans to companies, individuals, and governments. They also make loans to each other. One important financial market is the ***interbank loan market***, where banks lend each other cash to balance their books in the short run. If banks stop trusting each other, this may be one of the

first markets to collapse: no one wants to lend (supply).

A ***bond*** is to a loan what a publicly listed share is to private equity. Basically, a bond is a tradeable ***IOU***, a loan contract that can be bought and sold by anybody in the bond markets. Originally, a bond was a piece of paper with something written on it like "I promise to pay you £100 on 1 January 2020". When the date comes round, whoever owns the piece of paper can demand the money. Bonds also have a term, or ***maturity*** date. Bonds are usually longer term than loans, often 10 or 20 years. And they have an interest rate, or ***coupon.*** Fixed rate bonds have a standard set coupon, e.g., 5% per year; variable rate bonds (like mortgages), have a coupon which moves with a reference interest rate (e.g., Libor – the London inter-bank lending rate – plus 2%).

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A very brief history of banking and debt markets.

There are 4000 year old records of loans from Babylonian temples to merchants. Not only were money lenders based in temples, but the temple authorities often ran the business.

Modern banking is usually traced back to medieval Italy – the word **banca** *refers to the bench on which moneylenders would conduct business. The house of Medici opened in 1397. Italy's Banca Monte Paschei dei Siena, founded 1472, is still going.*

Medieval, like contemporary, banks could make money both from lending – to states, merchants, and the rich – and from taking deposits. Banks offered safe storage of gold, silver, and other valuables.

The basic idea is called **deposit banking***: savers deposit money in the bank; the bank can lend out the same money to borrowers, and charge interest. So long as too many savers don't come to withdraw their money at once (a "***bank run***"), the bank can "cover" loans with deposits.*

Early bank notes were simply receipts ("letters of credit") for the metal coins a saver deposited in the bank. As banking networks spread across Europe, a merchant could use the same receipt to withdraw coins from different branches of a banking house, in Antwerp or Venice.

From the beginning, European debt markets were associated with the financing of ***war****. Fortunes were made by the Venetian bankers who funded the crusades. The invention of bonds, or tradeable debt securities, goes back to the Dutch war of independence (from Spain) in the 16th century. The rebel Dutch state issued perhaps the first sovereign (i.e., government) bonds. The Netherlands was the leading capitalist economy of the time. Other Dutch*

innovations included the foundation of the Bank of Amsterdam in 1609, possibly the world's first ***central bank****, guaranteed by the City government. The Bank of Amsterdam began to expand on the old deposit banking model by (secretly) issuing overdrafts: letting depositors take out bank notes (receipts) for more than they had deposited. The Dutch East India Company was the world's first issuer of both listed shares and corporate bonds.*

By the 18th century England had taken over the role of leading capitalist state. The Bank of England was established in 1694, copying the Amsterdam model. It was set up by Scottish merchant William Patterson in a deal with the government, which used it for military financing. The first loan, for £1.2 million at 8% per annum, funded the re-building of the Royal Navy.

England also led the way in advancing bond "technology", issuing large standard issue "Treasury Bonds" that were widely traded in the coffee shops of London. From 1694 on the British state has been continually in debt, largely from war financing – its debt first rose over 100% of GDP in the 1750s, and stayed there for more than a 100 years.

The use of paper money took off in the 18th century. In 1844 the Bank of England was given an effective state monopoly (in London) on printing bank notes. Before then, any bank could issue as much "money" as it wanted – it was up to customers to decide if they trusted its reliability or not.

New Bank of England notes had to be backed 100% by reserves either of gold or of government bonds. I.e., the Bank had to keep the same value of either gold or Treasury bonds in its vaults to match the paper money it issued. The Bank became the "lender of last resort" to commercial banks: if they got into trouble, the central bank would lend them the money to cover any "bank run".

Similar "gold standard" models were adopted around the world

in the late 19th century. States either held their own gold and silver reserves, or pegged their currencies (fixed their exchange rate, and so limited the printing of new money) to Sterling or the US dollar. This system remained generally intact until the 1929 crash.

By the end of World War II the United States had clearly taken over from the UK as biggest capitalist power. The UK government was crippled by its war debts: 250% of GDP in 1945. In the Bretton Woods agreement of 1944, a new world monetary order was agreed which fixed most world currencies to the US Dollar. US Treasury Bonds became the ultimate "safe" asset against which risks and interest rates on all other debt was measured. And the World Bank and IMF, based in New York, were set up as "lenders of last resort" – and financial policemen – for the world economy.

In 1971, the US left the Bretton Woods agreement, unable any longer to support the world financial system, as its own debts — again, largely war debts, from Vietnam — massed up.

In the 1970s and 1980s, the US and other "advanced" capitalist countries followed neoliberal policies and "deregulated" their financial markets, allowing banks and brokers to develop whole new types of banking and financial markets involving **derivatives** *and* **securitisation**. *As manufacturing industry increasingly switched to the "developing world" (see Workshop 3), the finance "industry" became the leading edge of capitalism in the US and UK.*

For much more, see: **David Graeber – *Debt, the first 5000 years.***

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“Fotia stis trapezes” = Fire to the banks.

A snapshot of world financial markets.

The table below shows global assets: the amounts of the different kinds of securities in existence at that point. All figures are in trillions of US dollars (a trillion = a million million). Debt securities include bonds and short term *notes* – like bonds, but with maturities of a year or less. Private debt securities are bonds and notes from financial issuers (banks) and corporates.

	1990	2000	2007	2008
Total assets	**$48 tr**	**$112 tr**	**$194 tr**	**$178 tr**
equities	10	37	62	34
private debt secs.	10	24	48	51
govt. debt secs.	9	17	29	32
bank deposits	19	34	56	61
World GDP	21.2	37	56.8	60.7

The table shows how world financial markets grew massively in the 1990s and 2000s, up until the crash. This was the neoliberal boom period of "*financialisation*".

Both equity and debt markets shared in the boom. Government and private debt both boomed, but especially non-government debt. In earlier times, debt markets were mainly made up of government bonds, and only the very biggest companies issued bonds. Now it is common for corporates, and especially banks and other financial institutions, to borrow lots of money on the bond markets.

The next table breaks down the figures geographically:

Total financial assets ($ trillion)	2007	2008
US	60.4	54.9
Eurozone	43.6	42
Japan	28.7	26.3
China	14.4	12
UK	8	8.6
Latin America	4.1	3.9
"Emerging" Asia	4.2	3.8
Russia	1.9	1.1
India	2.6	2
Eastern Europe	4.3	1.5

Source: McKinsey Global Institute report.

Note how the most "developed" countries are far more "financialised". China in fact produces around 22% of the world's GDP – but less than 8% of financial assets are Chinese.

Meet the investors.

Who are these capitalists? Shareholders are, technically, the owners of companies and their capital. Bond investors and lenders (including bank depositors, who "lend" to banks) are the owners of "financial capital", and get their share of the profits in the form of interest.

It is not so easy to get figures on capital ownership. The sums below are estimates by lobbying group "TheCityUK" of the size of global investment funds.

	$ Trillion
Private wealth	42.7
Pension Funds	29.9
Mutual Funds	24.7
Insurance Companies	24.6
Sovereign Wealth Funds	4.2
Private Equity	2.6
Hedge Funds	1.8

It's hard to know if those numbers are at all accurate. Note that they don’t match up with the capital markets figures before – but then they miss out other major investors, which include banks and corporations. “Private wealth” means rich individuals and families, who do control a lot of the world’s capital. But “institutional investors”, put together, control more.

Institutional Investors manage the pensions, savings, and insurance premia of the world’s middle classes and better off workers. As with share ownership, we should distinguish legal ownership from actual control. Technically, these assets may be owned by individual savers; in practice, they are controlled by executives, ***fund managers***. These companies decide where to invest the funds they manage, and take a percentage of the profits.

Some of these funds are bigger than large countries. Here are the top ten in the “Pensions & Investment” 500 (as of 2009). The amounts are their “assets under management” (AuM).

	$ trillion
BlackRock	3.35
State Street Global	1.91
Allianz Group	1.86
Fidlity Investments	1.7
Vanguard Group	1.51
AXA Group	1.45
BNP Paribas	1.33
Deutsche Bank	1.26
JP Morgan Chase	1.25
Capital Group	1.18

Buy, sell … and in the middle.

In between borrowers and investors come a host of middlemen, including:

- *Stockbrokers* – middlemen who buy and sell shares for their investor clients
- *Traders* – who buy and sell bonds and other securities for clients
- *Underwriters* – bankers who buy bonds off a borrower when they are first issued, then sell them on to the market
- *Insurers* – e.g., offer insurance in case investments default
- *Structurers* – arrange complex securitisation bonds (see below)
- *Derivatives dealers* – see below
- *Lawyers* – lots of them
- *Analysts* – analyse securities to decide how risky they are, and what they should be worth
- … and more.

Arranging tricky financial deals is one of the best paid parts of banking. The fees are usually a tight secret. Traditionally, these roles were filled by brokers and specialist ***investment banks***. In 1933, following the financial crash, the US State passed the "Glass-Steagal" act to regulate and keep investment banking divisions separated from traditional deposit-based "commercial" banking. This law was repealed in 1999, and the same multinational banks now control both "commercial" and "investment" banking.

Risk and return.

The basic principle of pricing a security: the riskier it is, the more profit or *return* (i.e., interest) it should pay. Traditionally, US Treasury Bonds have been considered the ultimate "safe haven",

and so paid the lowest interest rates. The assumption is that the US government will never go bust, and will always honour its debts. The coupon (interest rate) on US Treasuries is used as a “benchmark” for pricing other debt.

The ***spread*** of a bond is the difference between its interest rate and the rate on another bond. For example, after the failure of the G20 meeting in November 2011, the spread on Italian over German 10 year bonds went to 459 basis points (4.59%, one basis point = 0.01%). I.e., markets demanded an extra 4.59% return to buy Italian instead of German bonds.

(***Note – slightly more technical***: When bonds are first issued they is usually sold, in large multiples, with a “face value” of 100 cents each. Suppose the coupon rate is 4%. Then each bond pays an annual interest of 4% of 100c = 4c. But if traders feel that the bond has become more risky, it will now be sold on at a discount – e.g., its ***price*** goes down to just 80c. It still pays 4c interest every year, so a new buyer is getting the same return for a lower investment. Bond traders say that the ***yield***, or return relative to price, has gone up to 4c/80c = 5%. Higher risk, higher return. Italy’s yield in that example above was 6.66%. Of course, if the bond actually defaults, the investor gets nothing at all.)

Rating agencies.

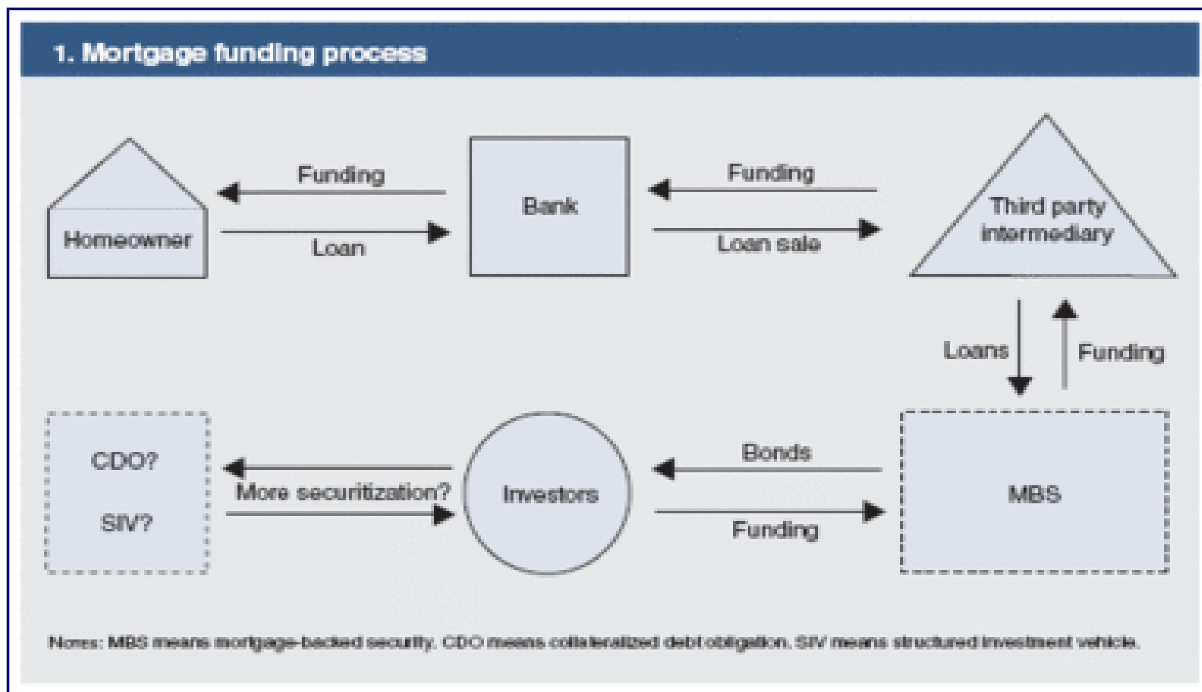
The infamous ***rating agencies*** – the bug three are Moody’s, Standard & Poors, and Fitch – are companies that specialise in assessing the risk of debt securities. They publish a rating from AAA (the highest) down to D (default) depending on how likely they believe a bond is to default. For many kinds of bond, they are paid on commission by the borrower issuing the bond. So, obviously, they are completely impartial.

Many funds base their investment decisions on rating agency reports. Market prices are often guided by ratings. Also, pension and some other big funds are restricted by regulation to only buy ***investment grade*** bonds, bonds with ratings of BBB and over.

The new finance 1: securitisation.

The great housing boom of the last 30 years was fuelled by a new kind of bond market. In the US, until the 1970s mortgage lending was largely done by small local lenders called the “Savings and Loans” or “Thrifts”, the equivalent of UK building societies. This sector was deregulated in 1980 and 1981, and later many of the “S&L”s were hit by crisis and went bankrupt. Investment banks made this crisis into an opportunity. They bought up mortgages from the crashing S&Ls for cheap and moved into the mortgage industry. To help things along, the loans were guaranteed by US federal government agencies with cute names (Freddie Mac, Fannie Mae, etc.).

Unlike traditional mortgage lenders, investment banks didn't have deposits which they could use to make mortgage loans. Instead they invented a new technique called ***mortgage backed securitisation*** (MBS). They borrowed money by issuing bonds secured against the expected repayments on the mortgages.



This relied on a legal structure called a "special purpose vehicle" (SPV). The mortgage borrowers pay their repayments into the SPV over, say, the next 20 years. A bond is issued in the name of the SPV, and the SPV pays out bond interest to investors. The interest paid out to the bond investors is lower than the interest paid in by the mortgage borrowers. The investment bank sits in the middle and pockets the difference. At first the new idea was strange to analysts and investors. But the federal government guarantees meant the bonds got a AAA rating anyway. Then the markets got used to the idea. Car loans and credit card loans were the next targets for securitisation.

"***Shadow Banking***". Securitisation slashed away the old deposit banking model. Banks could lend out large sums to new hordes of

customers, but without needing to get in any deposits. In the 90s and 2000s a new wave of "specialist finance companies" got in on the act, selling credit cards and mortgages from call centres, paper companies funded entirely by securitisation. This consumer credit boom spread from the US through UK and Europe. By 2000 the gobal investment banks were arranging securitisation deals from Mexico to Kazakhstan. In the US, the new frontier was "sub-prime": including mortgages to people with dubious credit ratings; funded by bonds sold to investors hungry for higher returns.

The new finance 2: derivatives.

The idea behind derivatives is not really new. The Greek philosopher Thales is said to have made a fortune on ***futures*** contracts. Predicting a great harvest, he placed orders with olive farmers for their whole autumn crop, agreeing a fixed price in advance. When the harvest came he got masses of olives cheap, and sold them on at a profit.

In general, a futures contract is an advance agreement to pay a set price for a good at a future date. When the future date comes around, if the market price for the good is higher, then the *buyer* of the futures contract makes a profit; if it is lower, then she loses the difference. The first standardised futures exchange began in Chicago in 1865, where farmers and traders could agree futures contracts for wheat harvests.

But the derivatives market really took off after the collapse of the Bretton Woods fixed currency exchange system in 1971. Fluctuations in international interest and exchange rates became crucial in financial deals. For example, a business looking to invest in a different country could use derivatives to fix the exchange rate it would pay in the future.

On the one hand, derivatives offer a form of insurance. If I buy a futures contract to change money next year at today's rate, then effectively I insure against the risk that the rate goes up and I have to pay more than the current price. However, I give up the chance to save money if the rate actually goes down. This use of derivatives is called ***hedging***.

On the other hand, derivatives can be seen as a form of gambling, or ***speculation***. The other party in the currency futures contract may gamble that the rate will go down, and so make them a profit. Derivatives markets look even more like gambling when neither of the parties has any involvement in the actual good (wheat, currency) except the hope of a speculative gain. Two parties could make a contract just because they are betting different ways about what will happen to a ***reference asset*** – whether it's an interest rate, a currency, the weather, or the chance of someone else paying their mortgage.

An ***option*** is a contract that gives a party the choice to buy an asset at a set price in the future – or not to buy. Other types of derivatives include ***swaps***, *swaptions*, and more. The biggest class of derivatives contracts today are interest rate derivatives. These are used to hedge against the risk of losing out on investments which pay a return linked to a major interest rate.

As the securitisation market took off, investment bankers invented *credit derivatives*. ***Credit default swaps*** (***CDS***) and ***Credit Default Obligations (CDOs)*** are insurance contracts – or, seen another way, gambles – about whether debts will default or not. There is now a major market in CDS contracts on sovereign bonds. CDS agreements also became routinely written in to mortgage securitisation deals, helping investors reduce their risk by hedging against defaults. A scandal broke, though, when it emerged that

investment bank Goldman Sachs had used CDS deals to gamble that sub-prime bonds it had issued itself were going to explode – the financial markets equivalent of match fixing.

Complex CDO contracts involving bets on packages of mortgage and other debt became another way to expand the securitisation industry. They spread the "exposure" to risk on sub-prime mortgages and other debts to wider ranges of investors. CDO investors never actually had to buy any mortgages or bonds, just bet about what would happen to debts other people were buying. Investments in these deals are usually confidential, and the sums complex. Whole new levels of complexity were reached with "***CDOs-squared***", and even "***CDOs-cubed***" – bets about bets about bets on debt defaults.

Just who else will be in trouble if a mortgage in Wisconsin defaults? Has anyone kept track?

The hand of the market?

Workshop 3. The global division of labour.

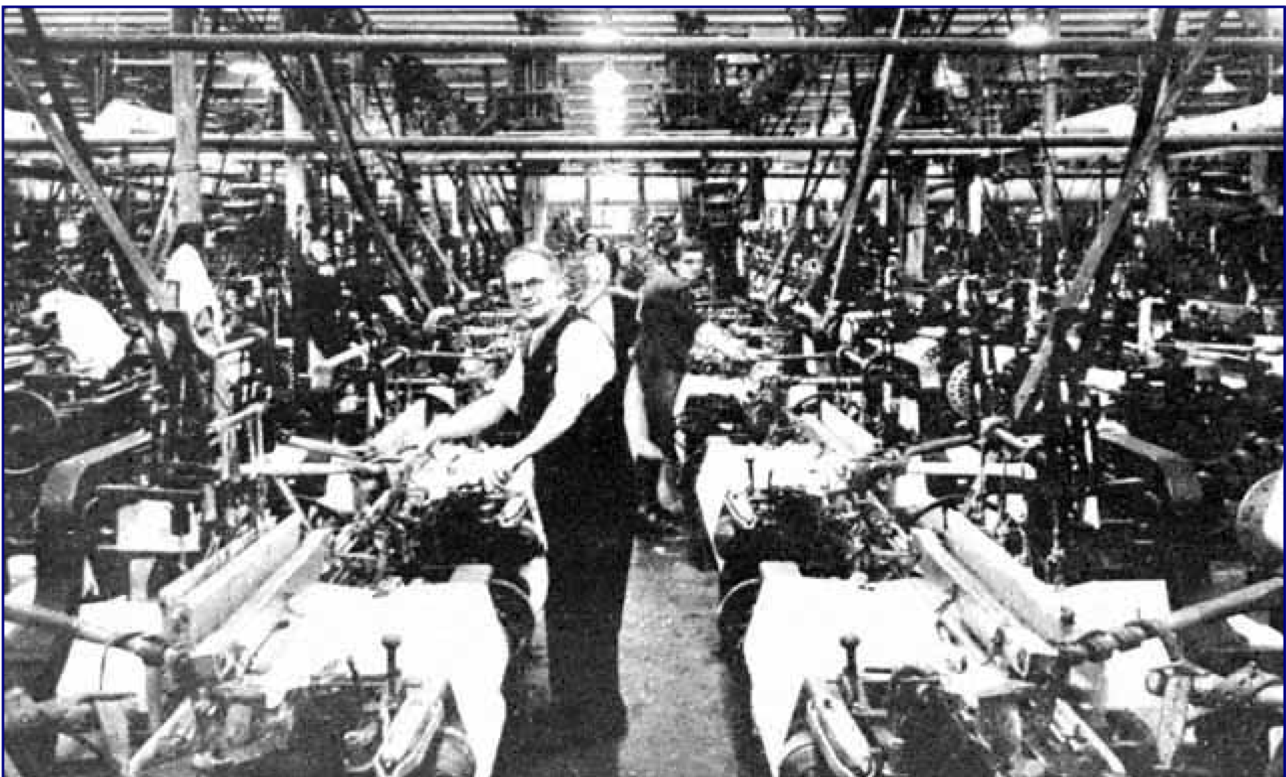
Textile mill in Xiaoxing, Zhejiang Province, China. 2004.

In 2011 China became the world's largest producer of manufactured goods, overtaking the United States, top producer for the last 110 years. China, India, and other Asian countries are now the "factories of the world", the main centres of production for most of the tangible things we buy and use, from cars to computers to crockery. Just as they were 200 years ago, before European capitalist expansion.

Other "developing countries" in Latin America, Africa, the Middle East, as well as Russia, provide most of the basic raw materials – fuel, metals, minerals, etc. – to run those factories. The "developing world" – or should we now call it "the productive world"? – also produces most of the world's food. But all this

wealth is still largely ***consumed*** in Europe and North America. How does that work? And how long can it carry on?

A recap. Capitalists chase profit. They can make profit “directly” by producing and selling commodities. Or “indirectly” by getting interest from investing finance capital; or by acting as middlemen, for a fee. Profit = revenues – costs. So to boost profits producers need to increase revenues, or reduce costs. To increase revenue they need to find higher demand for their products: more buyers; or buyers who will pay more. There are two main routes to reducing costs: more efficient production technologies; or cheaper inputs. New inventions and technological advances boost profits and production. So do finding new sources of cheap materials – or cheap labour. So the hunt for profits drives the ***expansion*** of capitalism in a number of ways, as capitalists try to find or create new markets. New consumer markets to buy their goods; new sources of raw materials; and new sources of cheap labour.



Textile mill in Blackburn, Lancashire, UK.

Global incomes.

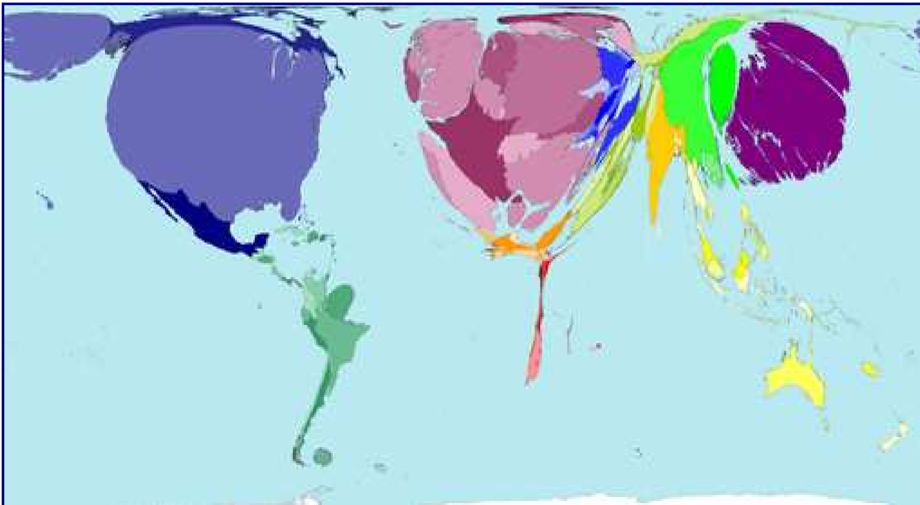
The table below shows some of the global income statistics estimated (or “guesstimated”) by the economic historian Angus Maddison. They calculate income as GDP per person (annual income measured in 1990 dollars).

	1000	1500	1820	1900	1970	2008
W. Europe	427	771	1194	2885	10,169	21,672
US	400	400	1257	4,091	15,030	31,178
Ex USSR	400	499	688	1237	5,575	7,904
L. America	400	416	691	1,113	3,996	6,973
China	466	600	600	545	778	6,725
India	450	550	533	599	868	2,975
Africa	425	414	420	601	1,335	1,780
World Average	453	566	666	1,261	3,729	7,614

Of course, these figures are mostly just wild guesses, and ignore massive differences in economic systems. Including differences in what cultures consider as tradeable *commodities* at all. But they at least bring out some basic points. If we do measure prosperity in terms of the sheer quantity of tradeable stuff around, then the world has got much richer under capitalism. Average incomes around the world stayed pretty much the same in the centuries before the industrial revolution and capitalist take-off. China had more stuff that Europe in the millenium or so after the fall of Rome, but not dramatically more.

Then it all took off. In the early nineteenth century European and North American income was double the levels in the rest of the world. But this was just the beginning. By 1900 the US produced

seven times more (per person) than China. By 1970 it produced 20 times more. World income has doubled again since 1970. This includes the “developed world”. But the most growth is in Asia: China has grown nine times richer, India four. Only Africa has been left out.



Map resizing countries by proportion of world GDP — from http://www.worldmapper.org/

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GDP?

GDP stands for “gross domestic product”. Roughly, it means the value of all the marketable goods and services produced in a country. Economic **growth** *is the increase in a country’s GDP over time.* **GDP per capita** *is the country’s GDP divided by the number of people in the population: i.e., the average GDP.*

Economists use GDP as the standard measure of economic wealth and prosperity. And, often, as the measure of all goodness and “progress” in the world. But focusing on GDP hides many issues. Average GDP figures ignore the inequality of income distribution within a country. GDP statistics only reflect production that is known to the state, usually recorded in tax returns, and so ignore unpaid and unseen work: including domestic work, largely done

by women; or “black” work, like the work of illegal migrants. And, of course, GDP only measures commodities, things that can be bought and sold in markets. Using GDP as a measure of goodness or “quality of life” supposes, as economists do, that our well-being just involves accumulating and consuming commodities.

Why is economic growth the one great goal of democratic politics? Policies that chase growth certainly help capitalist profits. And they avoid questioning the **distribution** *of wealth: if everyone gets richer as the economy grows, we can all have more stuff without having to take it away from the rich. Questioning the distribution of wealth is labelled the “politics of envy”. Questioning the very idea of commodification, of economic growth, or of what never-ending increased production means for our planet, is just crazy talk. (We will look at this issue again in Workshop 6).*

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What explains global income inequalities?

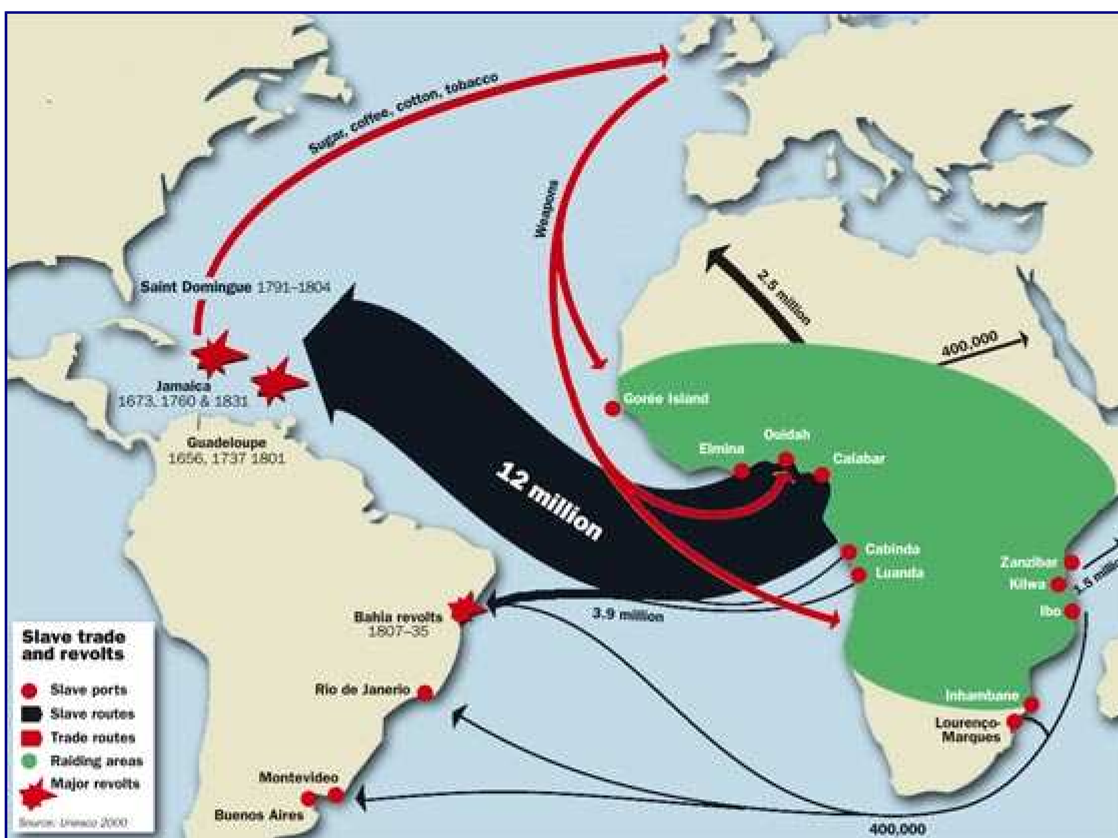
Neoliberal economists argue that it is all about the internal systems of countries. “Poor” countries (Latin America, India, Africa, etc.) have failed to keep up with world growth because of weak institutions: corruption, weak democracy, and above all a lack of strong property law. (The Peruvian economist Hernando de Soto is the master of this line – see his “*The Mystery of Capital*”.) So is it just a coincidence that these “poor” economies used to be colonies of the successful capitalist nations?

Core and periphery.

According to the “***world systems theory***” of capitalist development, political-economic systems typically have a ***core***

and a ***periphery***. The core is where high-technology, high-skilled, capital-intensive, production happens. These are usually the later stages in the production process. The periphery produces the raw materials which are shipped to the core. Some of the finished goods may then be shipped back to consumers in the periphery. The core is also where trading and organisation functions, such as financial markets, are based.

This division of labour makes the periphery dependent on the core: it cannot produce the finished goods on its own. Strictly speaking, core and periphery are dependent on each other. But the core has the advantage as its goods are more specialised, harder to produce, and more prestigious.



Imperial history.

In pre-capitalist civilisations, and in early capitalist Europe, commercial ***cities*** were cores, producing and trading the advanced

goods; the local countryside was their periphery. Colonialism mader core/periphery systems go global. In the 19th century, Britain was the biggest “core” of the global trade system. Its products involved skilled labour, for (relatively) high wages, and advanced technology. It was also the site of the financial markets.

The “periphery” of the empire produced the raw materials. The early economic role of the United States was largely as a mass grain producer for the Imperial market. India’s own cotton maunfacturing industry was destroyed, and India became an intensive producer for raw cotton shipped to the mills of Lancashire. The ***Atlantic Slave Trade*** and ***Indentured Labour*** provided cheap (or free) labour for agriculture and raw materials production.

How did Britian become dominant? Britain’s initial advantage came from new technologies: not only cotton mills and steam engines, and new weapons; but also new financial, legal, and cultural “technologies”. Technology gave British industrialists a ***competitive advantage*** – they could produce better goods, more cheaply – and their manufactured products took over world markets.

Where capitalists in other countries could not compete with British manufacturing, their profit opportunities came from exploiting cheap labour and natural resources to produce raw materials. So the local capitalists – plantation and mine-owners, etc. – of periphery countries also gained in the core/periphery division.

Imperialism involved both ***market power*** and ***military power*** working together. Technological advantage gave the British capitalists their initial market power. As they accumulated wealth

and capital, market power was further increased by the sheer size of their resources.

The British state used its share of this accumulated wealth to create the world’s most powerful military machine. Business and government worked together to “open” new markets and property systems with a mixture of trade and force. This did not always require direct colonisation: e.g., in the Opium Wars, and the smashing of the Boxer Rebellion, Britain and other capitalist states forced the Chinese government to allow the trade in opium and other goods.

Nor should we ignore ***cultural power***: missionaries, doctors, teachers, and other settlers, helped spread the new values, norms, and desires of the capitalist property system.

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Hegemony?

The greek word **hegemon** *(ruler, leader) is sometimes used for a state like Britain in the 19th century, or the US and USSR in the 20th, which dominates world politics and economics.*

But this concept shouldn’t be over-used. In the 19th century, there were large areas of the world still uncolonised. For much of the 20th century there were two main rival powers. Even on its own home turf, a state or elite’s power is never total: there are competing factions and interests within the elite; and free spaces and pockets of resistance where domination is much weaker.

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Ford assembly line in 1927.

“Development”.

How can a country move from periphery to core? The problem is that advanced manufacturing production needs serious capital investment: factories, complex machines, energy plants, transport infrastructure, etc. These advanced goods are very profitable – but you need massive investment to get started. And that is assuming core producers allow access to advanced technologies and markets.

In the early 19th century the US was still a periphery country, producing grain and cotton for the British empire. But this was profitable business, and US capitalists were able to build up a surplus of finance capital for investment. They started to invest it in building up local manufacturing industry which could eventually compete with Britain. Some of the reasons they

succeeded were:

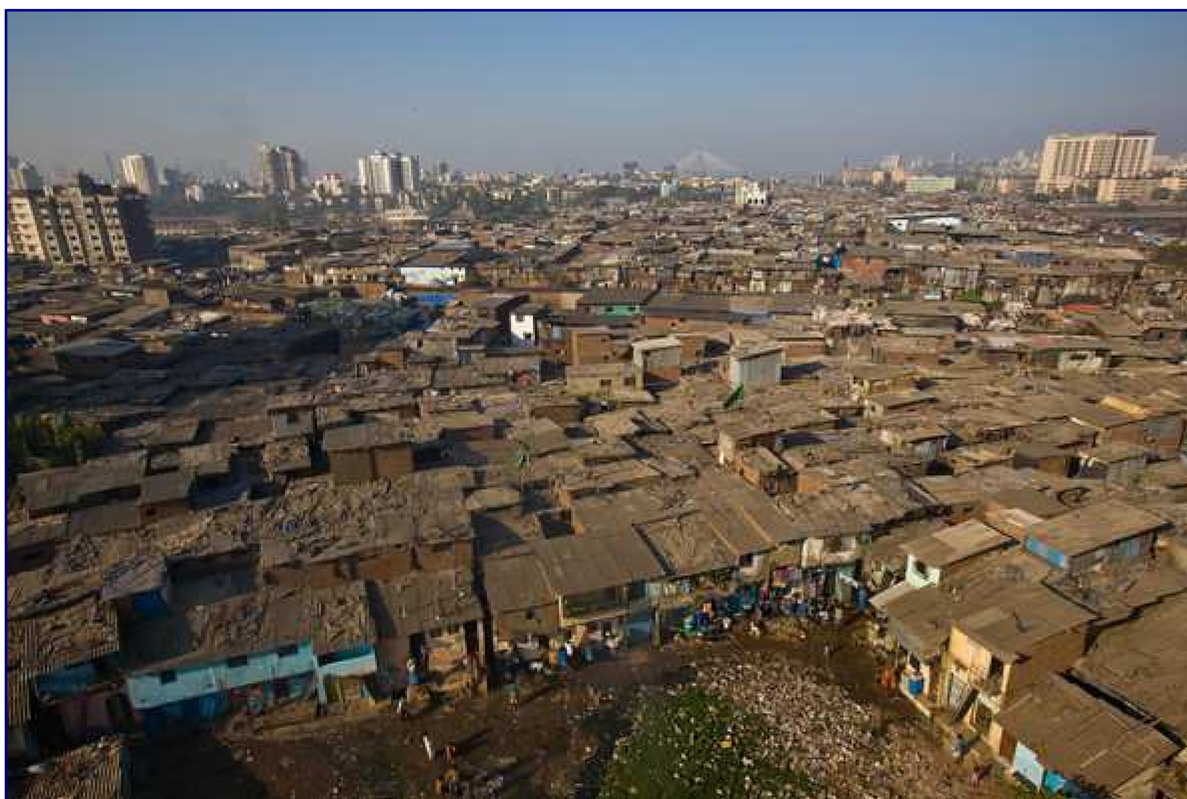
- they had big enough capital reserves for the initial *investment*;
- new *technologies* – including "*Fordism*", the production line methods pioneered by Ford Motors — gave them an advantage;
- whereas Britain was stuck in old technologies – and with all their existing infrastructure in place, it was expensive for British capitalists to switch to copy the new American models;
- they had *cheap labour* from mass immigration, whilst British labour was getting more expensive, due to workers organising and fighting;
- alongside the development of manufacturing, the US state and capitalists built up *local financial markets*, so that industrialists didn't have to go to London to raise money;
- *protectionism* – the US government offered support to domestic industry by imposing high taxes (trade tariffs) on imported goods;
- but protectionism is only possible if existing core states allow it – the decline of British *military power* meant the empire was too weak to use force to defend "free" markets for its goods.

"Kicking away the ladder."

In the 1950s and 60s, "third world" states in Latin America and Asia tried to follow the US example and use protectionist policies to develop national manufacturing industries. This policy was known as "Import Substitution Industrialisation (*ISI*)" – building industry to substitute local products for imports of advanced

goods. They used import tariffs and *state subsidies* to "nurture" "infant industries".

ISI largely failed. These countries were not strong enough, economically or militarily, to take on the US. If they introduced import tariffs, core countries could retaliate with tariffs attacking their exports. Most of their income still came from exports, and local consumer markets could not fill the gap. The rich elites could afford to buy better quality imported luxuries. Most locals were just too poor to buy anything.



Dharavi slum, Mumbai. Rapid industrialisation means rapid urbanisation.

If these *trade wars* weren't enough to keep third world states in their place, the US could resort to other means. Across Latin America in the 1970s, the US launched coups to impose governments that dropped ISI and kept to their place as raw material exporters. (See William Blum's "*Killing Hope*" for a bloody history of US military interventions since 1945).

The price of our blood, sweat and tears.

GDP averages hide the vast inequalities within countries. And inequality in "third world" countries is typically more extreme than in "developed countries", where worker organisation has gained some concessions like higher wages and welfare services. Here are some figures on average hourly wages in manufacturing industry, as estimated by the US Bureau of Labor Statistics.

Germany	$26.90
US	$23.03
UK	$21.14
Greece	$10.38
Brazil	$4.45
Mexico	$3.93
Philippines	$1.13
China	$0.81

Note: data from 2010, except China from 2006.

Investment vs. consumption.

The table above shows that manufacturing wages in the US and Western Europe are more than 20 times higher than in China. The first table in this workshop showed that US GDP per head is 4 to 5 times higher than in China. So, most of China's high growth is not paid out as factory wages. Some of it goes into the pockets of China's "new rich". Most of it, though, is not consumed but *invested* back in production. I.e., spent on new capital: new factories, new machines, more raw materials and energy, to produce even more stuff.

GDP is, effectively, the total *revenue* from all the production of a national economy. As we saw in workshop 1, some of the revenue of a capitalist production process goes to cover the costs: wages (labour costs); raw material costs; and finance costs (interest payments). The rest is the producer's profit. Out of the profit, the capitalist has to decide how much to re-invest in future production; and how much to "consume" herself.

We can do the same kind of breakdown on a bigger (national) scale. GDP is the (money) value of all stuff produced in a national economy. Some of that stuff will go to workers, as wages. Some will go to investors, as interest and dividends. Some will go abroad (exports). Some will go to the government, in taxes from workers and investors and on exports.

There are two things that workers, investors, and governments can do with their share of the national product. They can consume it, or save it.

What is consumption? Roughly: if a commodity is consumed, it is taken out of economic circulation. If I eat (consume) a chocolate bar, it leaves the economic system and enters my digestive system. It can no longer be traded, or used as raw material for a cake.

Alternatively, I can hide the chocolate bar under my bed for a rainy day. This is a form of *saving*. But, on the whole, most people with money don't save it by hiding it under the bed. They either deposit it in banks, who then lend it on; or invest it in shares, bonds, and other markets. These forms of saving thus involve re-investing capital, through financial markets, back into production. Thus a basic assumption of macroeconomic theory: *Savings = Investment*.

The share or percentage of income that is saved and invested is called the *savings rate*. There is a lot of discussion amongst economists about how people make “savings decisions”. Generally speaking, the more income people have, the more they are likely to save. If your wages are near starvation level, you will spend everything you earn on food.

Here are some figures on national savings rates (as a percentage of GDP):

	1990	2000	2008
China	39.2	36.8	54.3
India	23	23.8	33.6
Mexico	23.6	23.8	25.5*
UK	16.4	15	15.6
US	15.3	17.7	12.1
Germany	25.3	20.2	26

(Source: Bank for International Settlements; *data for 2006.)

How does that add up? People in China and India are, on average, much poorer than people in the UK and Europe. And poor people usually consume a higher proportion. But, luckily for their rapid economic growth, Chinese and Indian “national incomes” are far from distributed equally amongst the population. Besides the “new rich”, who do their best to spend at least some of it on luxury living, a lot of China’s income is still controlled by the State and state-linked corporations, who pursue a planned policy of investment and growth. Not all strongly hierarchical and authoritarian economies are booming; but inequality and centralised control certainly can be key factors in rapid growth.

Global shift.

We made a list above of some of the reasons why the US was able to successfully escape its "periphery" status and overpower British and hegemony. Now we can see how China, and also India and other former "third world" economies, fit the picture.

- *investment* capital – accumulated through high national savings, largely centralised and controlled by the State and mega-corps;
- *cheap labour*: millions of impoverished rural labourers flocking to the cities in search of work, in scenes reminiscent of the birth of Industry in Europe, only on a much bigger scale;
- *new technologies*: production line industry taken to a new scale.

There are also differences. China and India do not follow the import substitution model. Their manufacturing is mainly for export. Local consumer markets are developing, but not fast enough to keep up with production. (Which is why Chinese

capitalists are still at risk from the global depression – they need us to keep consuming their products.) Their products directly out-compete manufacturing in the old core, mainly due to much lower wage costs. So they do not need to rely on protectionist import tarriffs.

What does benefit them is to keep their own currencies low, making exports even cheaper. The *trade wars* rumbling between China and the US have been about currency “manipulation” not protectionism.

China has been winning these trade wars. The US now has neither the market power nor the *military power* to take on China. Like Britain 100 years eago, it has burnt out its economic and military resources maintaining a dying empire, getting caught in costly and pointless wars. All the old hegemon can do is grumble.

Once more, financialisation.

US economic independence from Britain also involved the development of financial markets in New York and Chicago to rival London. New financial centres – particulary Hong Kong, but also local markets elsewhere in Asia, and in Latin America – are developing.

But what’s interesting is that the markets in London and New York have been growing even faster. “First world” GDP has been growing much slower than in the “emerging markets”; “first world” manufacturing is in decline; the only part of the first world economy that races ahead is finance.

A couple of things really show the shift towards finance in countries like the US and UK. One is where profits come from

- 1960s: financial profits were 15-20% of all profits in the US;
- 2000s: they were 35-40% (source: Foster & Magdoff).

The other thing is the work people do. Here are some recent employment figures from the UK (sources: Graham Turner; Office for National Statistics):

	Manufacturing	Financial, business service, and insurance	Retail, hotels and restaurants
1997	4.2 million jobs	4.9m	4.9m
2007	2.9m	7.15m	7.1m

The famous "destruction of British manufacturing" which started under Thatcher continued apace under Labour. By 2007, over 7 million people were working in finance. Another 7 million people were making them cappuccinos.

Vendor financing.

The question: if US and UK industry has died or, at best, stagnated, what are these bloated financial markets actually financing?

The answer: **a massive consumer debt bubble**.

How does the first world pay for all those imported goods? By borrowing from the productive world. We will look more at these points in Workshop 5.

Workshop 4: the capitalist state

"*The military and the monetary get together whenever they think it's necessary*". Gil Scott Heron "Work for Peace" (http://www.youtube.com/watch?v=hPqpV9olIlw)

What role(s) does the state play in the market economy? One way to start thinking about that is to look at some moments in recent history:

August 1842: The governments of China and Britain sign the *Treaty of Nanking*, after China loses the first *Opium War*. China agrees to allow opium imports, to declare free trade in five port cities, and to give Hong Kong to Britain.

January 1933: Adolf Hitler is elected Chancellor of Germany, supported by the country's main industrialists and investors as

their saviour from the communist threat. Massive state spending on arms and infrastructure gets Germany back to growth and full employment. Similar policies also work economic wonders in Japan, the US, the UK, and elsewhere, ending the *Great Depression*.

July 1945: The Labour Party comes to power in the UK, introducing the post-war *welfare state*: the National Health Service, national insurance and child benefit, and nationalisations of the Bank of England, railways, coal mines and more.

August 1953: The British government, working together with the CIA, organises a coup to topple the Iranian government headed by Mohammed Mossadegh, which had nationalised the *Anglo-Iranian Oil Company*. This company was then majority owned by the British government, and was a major contributor to the cost of the British Welfare State – but paid little back to Iran. It has since been privatised, and renamed BP.

September 1973: General Pinochet seizes power in Chile from the left-wing Allende government, which had nationalised US corporate property in the country. The "Chicago Boys", Chilean economists trained at Chicago University, are given control of economic policy. Their "*neoliberal*" programme of privatisation and deregulation will inspire Reagan and Thatcher.

November 2011: the leaders of two European democracies – Greek prime minister Papandreou, and the Italian Berlusconi – resign. Without elections, they are replaced by bureaucrat economists heading "technical governments". With one mission: to push through the "*austerity packages*" of cuts, privatisations and job losses demanded by Europe's bankers.

What is a state?

Max Weber, one of the founding fathers of sociology, gave the classic definition. A state is an institution with a "***monopoly on the legitimate use of violence***" in a territory. The state uses violence through its armies, police, gaolers, and other armed functionaries. A *monopoly of violence* means that no one else in the territory is allowed to use force without the state's permission: citizens should not "take the law into their own hands".

What does "*legitimacy*" mean here? Perhaps that the state's citizens or "subjects" agree that the state has the right to use force against them. Liberal political philosophy since the 17th century has endlessly discussed the "legitimate" limits of the state's monopoly. The main point, maybe, is that no state really governs by force alone – as its troops are always outnumbered, it needs at least some level of "consent" from citizens.

In reality, Weber's definition is an ideal that states aspire to: probably no state has ever been accepted as legitimate by everyone it tries to rule; or really held a complete monopoly of violence. (E.g., in the US, one of the world's strongest states, citizens still have the legal right to own weapons.) Just as no economic system is monolithic, state power is never total.

Role 1: Defender of property and markets

In capitalist economic theory, a market is where people can come and make deals "freely" with each other. A market could be an actual physical place: like a town market, or an old-fashioned trading floor. Or it could be a virtual network of buyers and sellers spread around the world.

Any market needs a set of ***rules***. These could include: rules about *what* can be traded on the market; about *who* is allowed to trade on the market; about *how* deals are made, prices are decided, etc.
In most capitalist markets, one very basic rule is: you can only trade a commodity if you have a legal ***property right*** to it. For example, if you ***own*** it as your own property; or you have borrowed it, with permission from the owner to trade it. If you don't have any property, you can't trade on a market.

Property Law is a system of rules which defines who has what

rights to use and trade goods. It is part of the ***Legal System***: a system of rules which are defined and enforced by the State.

However, we should remember that as well as legal rules, there are also ***norms*** and ***conventions***, often unwritten, behind markets and property. For example, a market like the New York Stock Exchange has its own set of regulations which traders have to obey if they want to do business; these are not government laws, but the Exchange may exclude people who don't follow them. "Black" and "grey" or "informal" markets also have rules and conventions, though it will not usually be the State police who enforce them.

Theories of modern government often distinguish between three "branches" of state power. The ***legislature*** is where laws are made – e.g., parliaments, or presidential decrees. The ***judiciary*** means the court system (judges, lawyers, juries, inquiries, etc.) which rules on particular cases. Finally, the ***executive*** enforces the law.

The executive commands state forces like the ***police***, the ***army***, the ***prison service***, ***tax collectors***, ***border guards*** and ***customs officers***. These officers of the state do the hands-on work of ***enforcing*** the law. Alongside private sub-contractors: mercenaries, private prison companies, security guards, etc.

Law enforcement.

Enforcement means the threat, or actual use, of ***force*** against people who do not obey the legal rules. Perhaps this should be obvious. But liberal theorists and other state supporters do a lot of work to help us forget about the violence of the state, using euphemisms, selective reporting, etc. So, to be clear, some of the means used by the state to make sure that people do not take others' lawful property include:

- beatings with fists, shields, truncheons, batons, etc.
- tear gas, pepper spray and other chemical weapons
- horse charges, water cannons, tasers, plastic bullets, and other "less than lethal" weapons
- guns, tanks, bombs ("air strikes"), land mines, nerve gas, computer-controlled drones, etc.
- prison cells, hard labour, isolation cells, the death penalty (in some countries)
- tortures and "extraordinary rendition", cattle prods, sleep deprivation, water boarding, etc.

Changing property rights.

One role of the State is to ***define*** and then ***enforce*** who has rights over what. Property definitions, as well as enforcement techniques, are constantly changing. Here are just a few examples of how property rights can differ and change:

Slavery. Most ancient "civilisations" recognised *chattel slavery*: human beings could be owned as property, and traded on markets like other commodities. Property rights over slaves were formally abolished across the British Empire in 1833, and similar laws were enacted across the world over the 19th and 20th centuries. Some legal systems, however, still recognise forms of ***debt slavery***: you sign an enforceable contract to pay back debts with labour. Many democratic countries widely practice enforced ***prison labour***. In the US, and now also UK, selling rights to the use of prison workers to private contractors is a growing market.

Inheritance rights. Most property systems recognise inheritance: family members and others can pass on their property to others when they die. Inheritance helps maintain and build up concentrations of wealth. ***Inheritance law*** concerns who can

inherit: e.g., in “primogeniture” systems, the first son is entitled to most of a father’s property. Many states have introduced ***inheritance taxes*** to take a share of passed-on property.

Land rights: planning regulations. In many countries, the State has some control over the use of land: even if you are the owner of the land, you will have to apply for permission to use it for particular purposes, such as building houses or business property.
Crimes and Torts. The English legal system (and systems which descend from it, including the US) makes a distinction between *civil* and *criminal* law. For example, if you trespass on someone else’s land, this is not initially a criminal offence, but a disagreement between two “civil parties” – you and the owner – which has to be resolved in a civil court. The police are only supposed to get involved if the court rules against you. The UK government has recently (September 2012) changed occupying residential property into a criminal offence.

Intellectual Property. Intellectual property law governs rights in “intangible assets”: music or books, inventions, or designs and symbols such as corporate names and “trademarks”. The 1709 “Statute of Anne” in England is one of the world’s first laws for copyrighting written texts. The 1624 English Monopolies Act was an early *patent* law, granting rights to exclusively use a new invention. In 1980 the US Supreme Court upheld a patent on a genetically modified biological organism (case of Diamond v. Chakrabarty).

Regulating markets.
As well as guaranteeing property rights, States may actively ***regulate*** market transactions. States throughout history have policed markets by, for example, imposing laws on the quality of goods; on licensing for traders; or standardising the use of weights

and measures.

One important form of regulation is control over what can be used as money. For example, many states throughout the 19th century (re-)introduced monopolies on coining or printing money. The regulation of financial markets in particular is a particularly hot topic – we will look at it in the next workshop.

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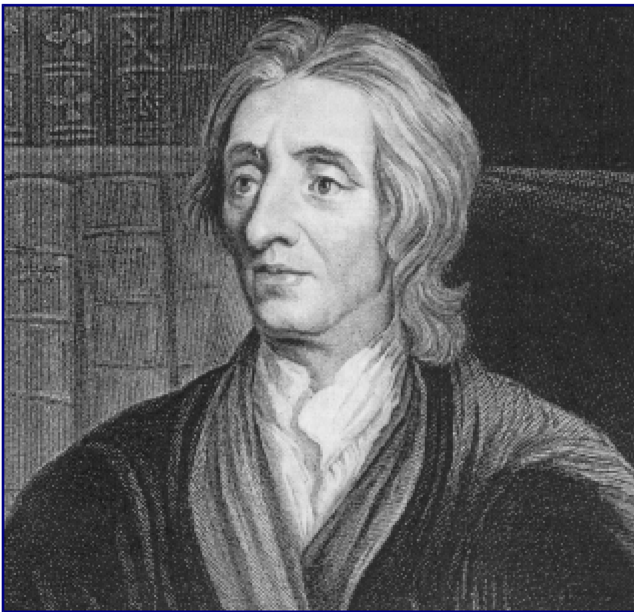

John Locke.

Liberalism.

Liberalism is a political philosophy that grew up together with capitalism. Of course, not all capitalism is "liberal". China is still officially Marxist. In Europe in the 1930s, many bankers and industrialists who had supported liberal democracy switched easily enough to fascism and nazism.

The arguments of early liberal thinkers such as Thomas Hobbes, John Locke, David Hume, or Jean-Jacques Rousseau still form

the basis of mainstream "political philosophy" today. These writers developed theories to undermine the old medieval institutions of feudalism and supreme monarchy. At the same time, they also attacked the ideas of revolutionaries who wanted much more radical change: revolting peasants like the Dutch and German Anabaptists; the English Levellers, Diggers and Ranters; early urban rebels like the French Sans-Culottes.

*Important tasks for liberal theory were: to develop new systems of **private property**; to establish the power of the **market**; and to fix the role of the **state**.*

Liberals supported strong and standardised property rights which benefited the rising merchant and capitalist classes. Property needed to be protected from kings and lords on the one hand; and from the "mob" (ordinary people) on the other. Liberals attacked old rules and institutions that limited the market: on the one hand, aristocratic corruption, feudal taxes and levies, and royal monopolies. On the other, traditional communal land rights, or the guilds of craftsmen and workers.

The English philosopher John Locke, who was also involved in the colonial administration in New England, developed a new theory of property. Land, and manufactured goods, belong initially to those who work or "mix their labour" with them. Only labour creates "value" – an idea later developed in the "labour theories of value" of David Ricardo and Karl Marx. As the "American Indians" left pastures and forests "wild", colonists had the right to take them and make them "productive". Labour and industry, together with enclosure ("commodification") and private ownership, bring wealth and prosperity.

Hobbes, Locke, and later Rousseau, argued that government was

justified by a "social contract" between rulers and ruled. The government's role is to defend private property, and so prosperity; in return, the people obey its laws. But Locke and Rousseau argued that "the people" have a right to disobey and overthrow a "tyrannical" government that abuses its power.

*David Hume and Adam Smith, friends and leading thinkers of the "Scottish Enlightenment", argued that if individuals follow their economic "**self-interest**", this brings peace and prosperity for all. Earlier philosophy had praised aristocratic virtues of honour, courage, or noble self-sacrifice, and seen "self-interest" as "low" and undignified. Now, in liberal theory, it became the foundation of a good society.*

Many of the political struggles of 18th and 19th century Europe involved the rise of the new capitalist class – the "bourgeoisie". In the "Glorious Revolution" of 1688, English capitalists supported the replacement of Catholic King James II by the pro-market Dutch protestant William III. The new government was dominated by the "Whigs", identified with a new property regime against the old "Tory" "landed gentry".

In the French Revolution of 1789, and in the English reform struggles through the 19th century, the new class went further, overthrowing Aristocratic government altogether. In the new "Parliamentary Democracies", all property-owners could claim some share of state power.

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A witch riding a goat lets loose a rain of fire.

The bloody birth of capitalism – a hidden history.

"*The development of capitalism was not the only possible response to the crisis of feudal power. Throughout Europe, vast communalistic social movements and rebellions against feudalism had offered the promise of a new egalitarian society built on social equality and cooperation. However, by 1525 their most powerful expression, the "Peasant War" in Germany … was crushed. A hundred thousand rebels were massacred in retaliation. … With these defeats, compounded by the spreads of witch-hunts and the effects of colonial expansion, the revolutionary process in Europe came to an end. Military might was not sufficient, however, to avert the [economic] crisis of feudalism.*

… It was in response to this crisis that the European ruling class launched the global offensive that in the course of at least three centuries was to change the history of the planet, laying the foundations of a capitalist world-system, in the relentless attempt to appropriate new sources of wealth, expand its economic basis, and bring new workers under its command."

From: Silvia Federici, ***Caliban and the Witch.***

English countryside after enclosure. These fields, west of Sheffield in Yorkshire, were surveyed, fenced, and turned into sheep grazing land in 1789.
http://sytimescapes.org.uk/zones/sheffield/S06

Role 2: Original Appropriation

Property rules are constantly changing. In the history of capitalism, the State hasn't just enforced existing property systems; it has also been involved in actively pushing the boundaries of property, helping create new markets and "commodities". Again, whenever necessary, force is used.

In the early stages of European capitalism, national armies were built up and used to enforce a number of important shifts in power relations which allowed capitalism to flourish:

Enclosure. Turning communal land into private property. In England this took two main forms: abolishing the "open-field" system in which peasants farmed strips of land in a non-hedged

village field; and privatising and fencing the "commons", lands where villagers had collective rights to hunt, graze animals, gather fruits, etc. Enclosures were often the work of local landlords; but they were backed by the State with a series of "Enclosure Acts", new laws phased in from the 15th up until the 19th century. The peasants frequently rebelled, in local riots or major "peasant wars", and the State sent in the troops.

Colonisation. The biggest enclosure of all was the land grab in the colonies. The colonisation of Latin America led the way, directly enforced by armies sent by the kings of Spain and Portugal. In later colonisations, corporate and state power worked together. The British East India Company started out as a trading company, before gradually taking over state power from local rulers. In 1858 India became a direct colony of the British State, after it crushed the "Great Uprising" of 1857.

Enclosing our bodies. Enclosure threw hundreds of thousands off the land – they became fodder for the new factories and mills of the industrial revolution, or the mines and plantations of the colonies. Indigenous peoples of the colonies were enslaved *en masse*. Europeans became wage-workers, tied to the clock and subsistence wages. "This process required the transformation of the body into a work machine, and the subjugation of women to the reproduction of the work force" (Federici p63).

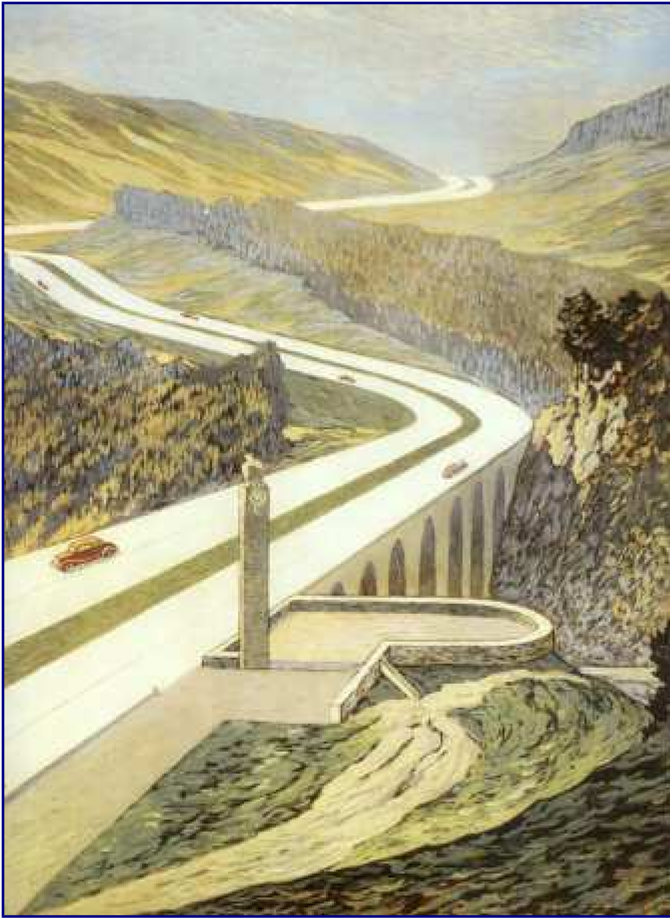
Again, resistance was met with force, as states sent armies to smash slaves' and workers' revolts. Federici argues that the Witch-Hunts of the 16th and 17th centuries were an attack on women and on their pre-capitalist roles in rural communities "to eradicate an entire mode of existence" which threatened economic and political power.

The struggle continues.

Enclosure, colonisation, and other forms of commodification have continued apace through capitalist history. Very often the same pattern holds: local capitalists or landowners start asserting increased property rights; the dispossessed rebel; if property-owners aren't strong enough to smash resistance alone, or with hired thugs, they call in the State.

Shock Therapy. According to Naomi Klein in her book "*Shock Doctrine*", modern states use "shocks" to "re-engineer societies" whilst people are too confused to resist. It doesn't matter where the shock comes from. Some, like wars, are caused by States directly: after the invasion of Iraq, corporations like Halliburton and Blackwater, close to the Bush regime, moved in quickly to grab contracts for running new infrastructure, security apparatus, and privatised oil supply. But terrorist attacks like 9:11, or natural disasters like Hurricane Katrina will do just as well. Massive profits have been made from the security industry after 9:11, and from the "rebuilding" and gentrification of New Orleans.

The **economic crisis** is another example. Governments across Europe have been rushing through bank bail-outs, "austerity packages" and privatisations, claiming they are necessary to save us from economic collapse. These changes benefit the same corporations and banks who caused the crisis in the first place. In the "moment of vertigo" during a crisis, argues Klein, people often seem to accept any emergency "solution" offered by a government.



Poster for German autobahn building programme.

Role 3: producer and consumer of last resort.

In classical liberal theory, the State is supposed to stay in the background, defining and protecting the rules and institutions on which capitalism relies. Private companies and individuals do the actual production and trading. In reality, it doesn't work like this: states are themselves major producers, consumers, and traders.

The military-industrial complex. In 1961 US President Eisenhower used the term "military industrial complex" (MIC), a combination of an "immense military establishment and a large arms industry". In 2009 the US Government spent $712 billion on "defence", about 5% of US GDP. World states altogether spent $1.531 trillion. (source: SIPRI).

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Luddite uprising.

England, 1549. Kett's Rebellion. *A peasant army of up to 16,000 rebels uprooted enclosure hedges, defeated a government army, and captured Norwich. Their first demand was that "no man shall enclose any more". They were defeated, and 3500 massacred.*

Chiapas, Mexico, 1994. The Zapatista Uprising. *Around 3000 indigenous rebels launched an insurrection on 1 January, taking control of major towns in Chiapas and turning villages into self-governed "caracoles". Their programme included communal village land rights, as well as rejection of NAFTA, (North American Free Trade Agreement) which dramatically extended the reach of global capitalist markets in Mexico.*

There have been many rebellions against enclosure and commodification. What can we learn from them today?

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As we saw in workshop 2, though, major government military spending is nothing new. From the beginning of capitalism, leading powers have built up military might to defend their economic interests. At the same time, military spending "stimulates" the economy, encourages industrialisation, and has also been key in financial innovations such as early bond and share markets.

The new deal and war capitalism. Economist John Meynard Keynes argued that governments should attack unemployment directly by hiring unemployed workers on schemes such as road-building. "Keynesian" policies such as the New Deal in the US, or the massive industrialisation and infrastructure projects in Nazi Germany, were widely credited with ending the Great Depression. When financial markets collapsed and companies could no longer get finance to produce, the Government could step in. The wages paid out from government schemes would have a snowball effect, stimulating new demand for private industry also. Governments would have to borrow or raise taxes to run these schemes, but the long-run gain to the economy would outweigh the cost.

But was it roads and railways that saved the 1930s economy, or tanks and guns? According to the theory of "military Keynesianism", what really ended the Great Depression was government spending on arms. Whilst unemployment was killed off (all too literally) by mass recruitment.

The welfare state. After the Second World War, most developed capitalist countries developed "welfare states". Governments committed to providing a basic "social safety net" of minimum healthcare, housing, education, pensions, and benefits for unemployed people, etc. There had been some "social insurance" measures earlier on: the right-wing German government under

Bismarck introduced the early pension and health insurance schemes in the 1880s. But these systems were massively expanded in the 1940s. Currently, most European countries spend at least a quarter of national income on state-organised welfare systems.

The welfare state can be seen as part of a “historic compromise” that ended open class war in rich countries. At the end World War One, millions of troops returned home to ruins and unemployment, but with modern military training. Revolutions broke out not just in Russia (1917) but in Germany and elsewhere. Western governments wouldn’t let this happen again at the end of World War Two. Across mainland Europe, new welfare systems were largely funded by the US Marshall Plan. This massive US aid programme was designed explicitly to stop the spread of Communism.

Spending on welfare and warfare in developed countries – all figures as % GDP:

	Welfare spending 2001	Welfare spending 2009	Military Spending 2001	Military spending 2009
UK	19.4	24.3	2.4	2.7
US	15.3	19.5	3.1	4.7
France	27.7	30.7	2.5	2.5
Germany	26.7	27.6	1.4	1.4
Sweden	28.7	29.6	1.8	1.2
Greece	20.6	24.6	3.4	3.2

Breakdown of welfare spending in the UK, figures are % of GDP:

	2001	2009
state supported pensions	5.5%	5.4%
income support for working age people	4.6%	5.5%
healthcare	5.7%	6.9%
other services	3.5%	6.5%

Source for welfare spending: OECD SOCX database
http://www.oecd.org/document/9/0,3746,en_2649_34637_38141385_1_1_1_1,00.html
Source for military spending: SIPRI http://milexdata.sipri.org/

Outsourcing. Since the 1970s, “neoliberal” western governments have been trying to “shrink” the welfare state. The new “austerity measures” of the economic crisis are the latest move in this direction.

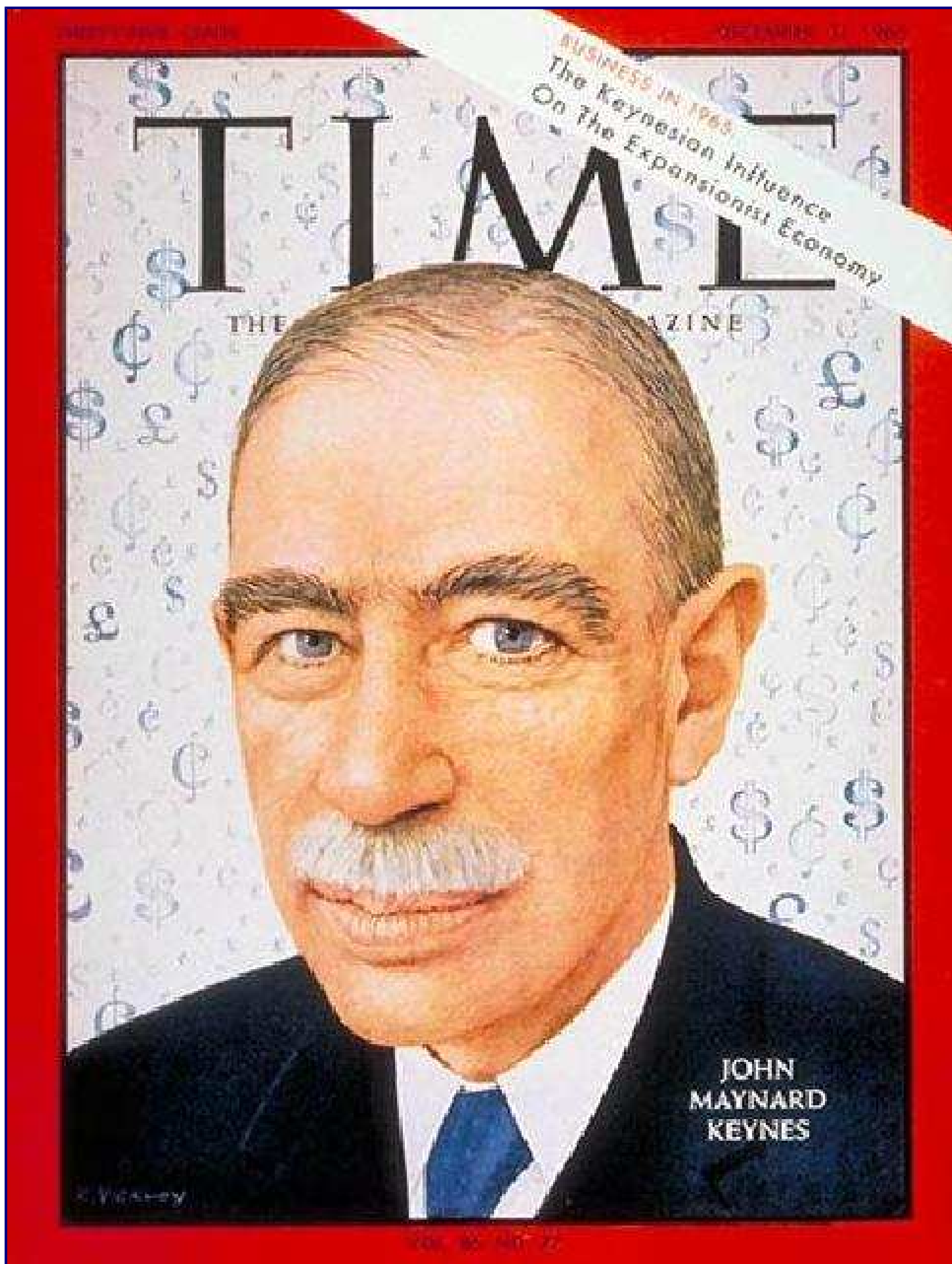
But in fact government welfare spending is not really shrinking. Just, more of that money is being redirected to private companies. With *outsourcing*, the State doesn’t directly manage welfare services; instead it pays private *contractors* to run everything from prisons to pensions. Politicans and bureaucrats often have close links with the successful companies, such as holding well paid “advisory” or board positions.

Some examples: private prisons (G4S); private (“PFI”) hospitals; private pension managers; corporations who run benefits systems, etc. Business is booming in the “security” and “anti-terrorist” industry. Some companies specialise in doing government outsourcing: like the UK’s *Serco*, which runs everything from prisoner transport to school kitchens to the Docklands Light Railway.

Bail-outs. The important role of the State in supporting capital when times get rough becomes very clear when we look at the recent crisis "bailouts". So far, since 2008, the US Government has spent about $3 trillion on "bailouts" to banks and companies hit by the economic crisis. That is about 20% of US GDP.

US Bailouts so far (money spent or loaned):

bailout	amount
AIG bailout	$127 bn
Economic Stimulus Act 2008	$168 bn
Recovery Act 2009 (2nd stimulus package)	$358 bn
Buying up mortgage securitisation bonds	$776 bn
Buying up government bonds	$295 bn
Support to car manufacturers	$78 bn
Bear Sterns bailout	$26.3 bn
Freddie Mac and Fannie Mae bailouts	$110.6 bn
Small bank takeovers	$45.4 bn



From keynesianism to neoliberalism.

After WW2 most capitalist economies were run along the lines of what became known as the "Keynesian consensus", named after British liberal economist John Maynard Keynes. Governments regulated markets closely to keep them running smoothly. They used fiscal (i.e., tax and spending) policy to boost consumer demand. International capital flows were stabilised with a global financial architecture: the Bretton Woods system fixed currency

exchange rates until 1971; institutions like the World Bank and IMF acted as global economic police.

Twenty years after Keynes' death the system seemed solid. In 1965 Time magazine ran a famous cover story with the headline "We are all Keynesians now", celebrating unparalleled economic growth and confidence. The title was a (mis)quote from Milton Friedman, professor of economics at the University of Chicago. Two editions later Time published Friedman's letter complaining that he'd been quoted out of context. Within a decade, Keynesianism was dead and Friedman was the reigning prophet of the new, rightwing, "neoliberal" economics.

What happened was the end of the post-war "long boom", two decades of continued post-war growth. In 1971 the US, crippled by its debts from Vietnam, pulled the dollar out of Bretton Woods, breaking the worldwide currency system. In October 1973 the Organisation of Petroleum Exporting Countries (OPEC) quadrupled the price of oil – the first of the 70s "oil shocks". Stock markets collapsed, triggering recession. Through the late 70s Keynesian policies failed to pull developed economies out of "stagflation" – a combination of stagnant production and inflation. This failure opened the way for a new doctrine which fitted nicely with the interests of big business.

The handiest term is "neoliberalism". Basically, it meant turning the clock back to the 1920s. The state should defend property, but not regulate or intervene too much. Markets will run smoothly if they're left alone. But to get back to the ideal of "natural" competition, governments first have to get busy hacking away the "distortions" that hurt the economy. State-run services should be privatised; financial regulations scrapped; trade unions smashed; "protectionism" for third world industry scrapped and replaced

with “free trade agreements”.

The military government of Augusto Pinochet in Chile was the first big “neoliberal experiment”. Friedman flew out to give advice, and the economy ministry was run by his students – the “Chicago Boys”. In 1979 Margaret Thatcher introduced a neoliberal programme in the UK. In 1981 “Reagonomics” took power in the US. Over the next two decades neoliberal policy became the new orthodoxy – they are all neoliberals now.

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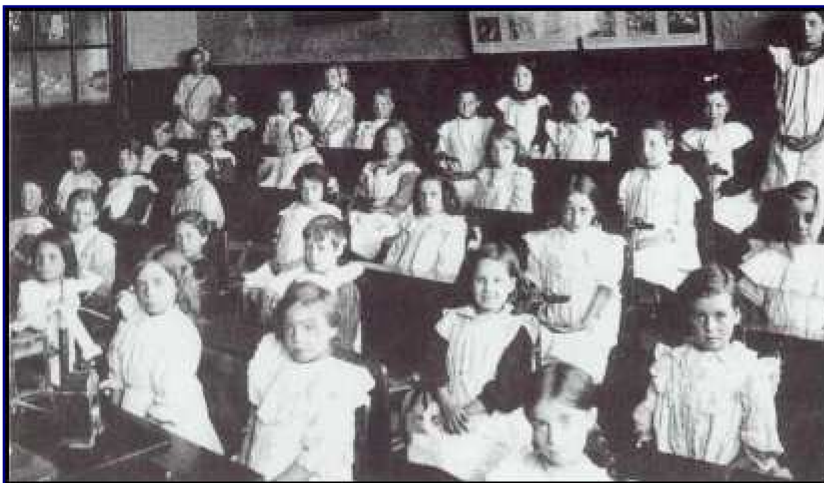


Role 4: manufacturing consent.

A bit like fairies (only not so nice), capitalism and the state can only survive so long as people believe in them. Private property, markets and the rest are systems of rules and conventions which we have to learn and accept. Even the power of the state doesn’t just come “out of the barrel of a gun”: even the strongest and most brutal tyrannies can topple if people stop believing in their power.
If we grow up in capitalist societies, we learn most of the rules – how money works, how to buy and sell things, and so on – as children. We learn that the State protects and defends us. We learn

to love our country. We learn the histories of good and great rulers (as well as of a few “bad apples”). We learn that consumer goods make us happy, and work makes us free. (We will look more at these points in Workshop 6).

The figures on welfare spending above didn’t include one thing: spending on public education. Modern industrial states spend between 5-10% of GDP on education systems. Neoliberal policiticians often propose outsourcing education to private businesses. Or transferring education back to religious institutions, which often ran schools in the past. But no one would propose scrapping public education altogether. Modern workers, and modern citizens, need to be educated.

Workshop 5. Crisis.

How credit crunched.

It started with the US housing bubble, and those infamous “sub-prime” mortgages. Between 1996 and 2006 US house prices went up 60% more than inflation. These were the days of the great real estate fantasy: if you could get on the ladder, you could just sit and watch the price of your property soar away. Money for nothing. And it wasn’t hard to join in: mortgage brokers were jumping over each other to offer loans to anyone, nevermind your income or credit history. Between 2000 and 2005 total US mortgage debt rose 75%. By 2007, the housing boom had created up to $8 trillion in supposed new “wealth” for US households.

The housing bubble was the biggest part of a more general phenomenon: the debt bubble. The debt bubble went hand in hand

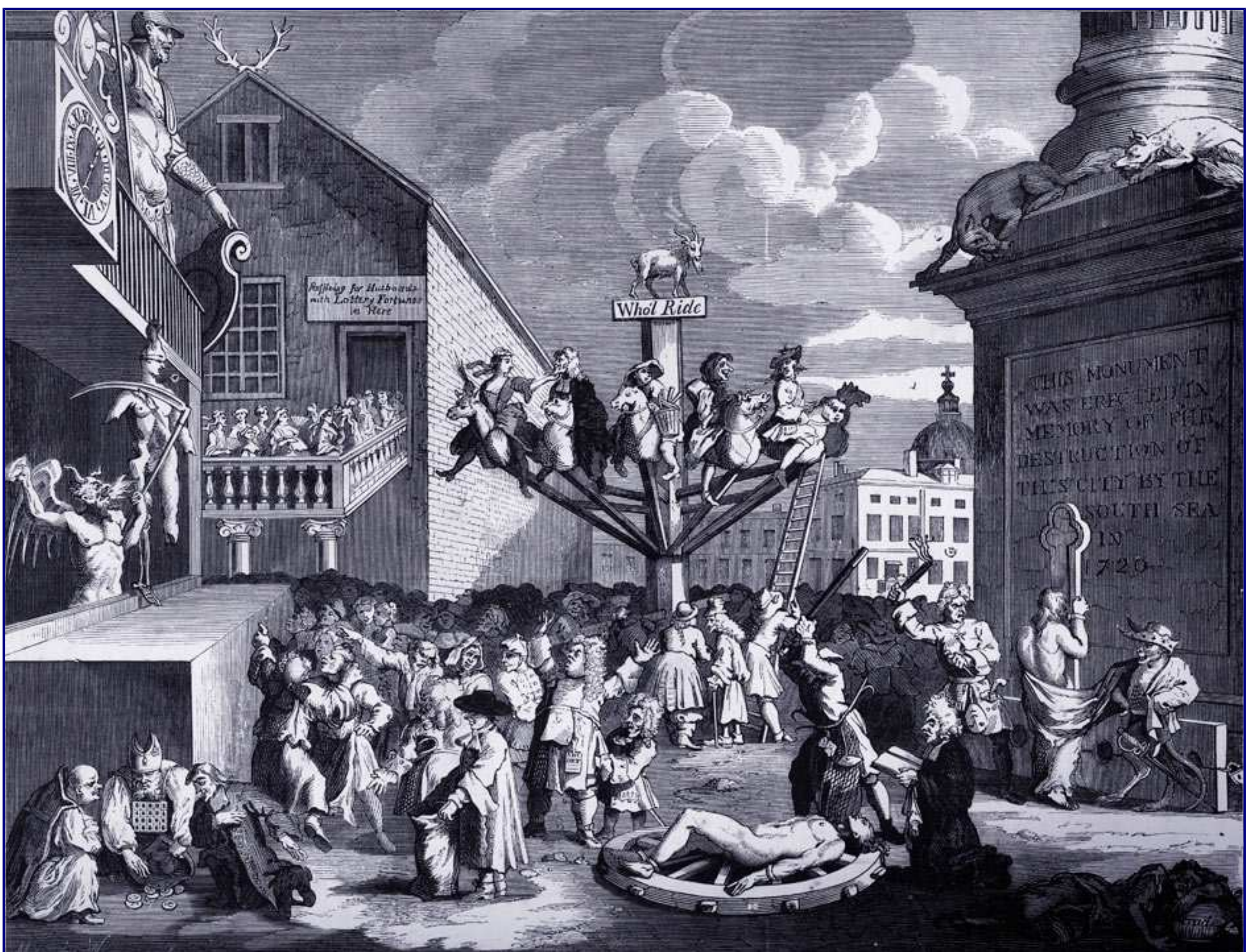
with a massive growth in financial markets, and especially the new frontiers called “securitisation” and “derivatives” (see Workshop 2). There were low interest rates for borrowers, and big profits for the bankers who invented new kinds of derivatives and securitisation bonds every week, and sold them to investors all over the world. US Financial assets grew from $48bn in 1990 to $194bn in 2007.

One of the factors behind the debt and finance bubble was low interest rates. In 2003 the main US interest rate, set by the Federal Reserve (US Central Bank) was just 1% – cheap borrowing for all. Then it started to rise again. By 2007 it was up at 6.25%. Suddenly mortgage repayments were a lot less affordable. Mortgage borrowers, especially those classed as “sub-prime” or high risk, started to default. The housing bubble burst.

Then the finance bubble burst. Northern Rock was a one of the UK’s five biggest mortgage lenders. Its story is typical: it was once a traditional “building society”, a “mutual society” theoretically owned (though not really controlled) by all its customers. Then it “demutualised” in 1997 and became a PLC. It used securitisation to expand in a hurry, selling bonds backed by its incoming mortgage payments. Then it got involved in sub-prime, in a partnership with US investment bank Lehman Brothers in 2006. In August 2007 it needed to issue a new run of securitisation bonds to refinance existing debts. But now no one wanted to buy mortgage-backed bonds. The Bank of England had to step in with a £3bn loan. It wasn’t enough to stop the UK’s first bank run in 150 years, and the government eventually took on all the bank’s debts, totalling around £100bn.

Northern Rock crashed because no one would lend more money to a firm embroiled in the collapsing mortgage market. But who

wasn’t involved? Even if some banks and insurers didn’t themselves issue mortgages they bought, traded, or insured mortgage backed securities (MBS). Investment bank Bear Stearns collapsed in March 2008. Then in September 2008 they started to fall like dominoes. Investment banks Lehman Brothers, Wachovia and Merrill Lynch. AIG, the world’s largest insurance company. No one could tell who was “exposed” to how much bad mortgage debt. So no one would lend to any one: the credit market had “crunched”.



The South Sea Bubble by William Hogarth.

400 years of bubbles

The same pattern of bubbles and busts has been repeated many times in capitalist history. Here are just a few examples.

- **Tulipmania (1637)**. One of the first recorded bubbles involved the Dutch tulip market, where collectors and speculators bought and sold rare tulip bulbs, even using futures contracts (early derivatives) to gamble on the rising price. Single bulbs could trade for the price of a whole farm — before the market crashed in 1637.

- **South Sea Bubble 1720**. One of the first *stock market* bubbles. The South Sea Company was a British corporation headed by leading politicians, originally set up to trade with South America. In 1719 it made a deal to buy up half the government's debt, which it funded by issuing new shares. South Sea shares became an investment craze, and the share price rose from £128 in January 1720 to £1000 in August. Many shares were sold on an instalment plan, so that people could invest and profit from rising prices before actually having to pay for their shares. Then instalment payments came due and a wave of selling started. By September the price had crashed to £150.

- **Bengal Bubble 1769**. Bubble and crash in the stock of the East India Company and London stock market.

- **Panic of 1796-7.** Trans-atlantic financial crash following collapse of a land speculation bubble in US.

- There were further financial "panics" in the US in 1818, 1837, 1857, 1869 ("Black Friday"), 1884, 1896. Banks went bankrupt, stock markets collapsed, and recessions followed. A number of these crashed were caused by fears about gold and silver shortages in the days when the money supply was tied to gold.

- **Railway Bubble 1847.** Railway frenzy in the UK led to a bubble as the middle classes invested in hundreds of new railway projects, many of which never got built. The crash spread to banking and financial markets.

- **The original "great depression" 1873-1896**. An investment bubble grew in Germany and Austria after German victory in the Franco-Prussian War (1871). The Vienna stock exchange crashed in May 1873 and many banks failed. The crisis spread through Europe and to the US, leading to a 20 year world economic depression.

- **Paris Bourse crash 1882**. Crash following a bubble in the stock of bank *L'Union Generale*.

- **New York Stock Exchange crashes 1901 and 1907.**

- **The Wall Street Crash of 1929.** It was the "roaring twenties". The US economy was booming. The new middle classes came in their droves to invest in shares and high yield bonds, encouraged by investment banks like National City Bank (today's Citibank). The Dow Jones index of share prices grew by five times between 1923 and 1929, reaching 381.87 on 3 September 1929. Irving Fischer, one of the world's leading economists, predicted a "permanently high plateau" for the market. Without warning, the market dropped 11% on 24 October ("Black Thursday"). On 28 October, ("Black Monday") it fell another 13%. Despite some periods of recovery, the market continued falling for the next four years, reaching a 20th century low of 41.22 in July 1933.

Bubbles: investing or speculating?

It's quite common to hear bubbles and crashes being blamed on "speculators" — today's "hedge funds", and "currency speculators" are attacked by politicians of all kinds. They are not "real" or "serious" investors, just in it for short term gain. But what is speculation, exactly?

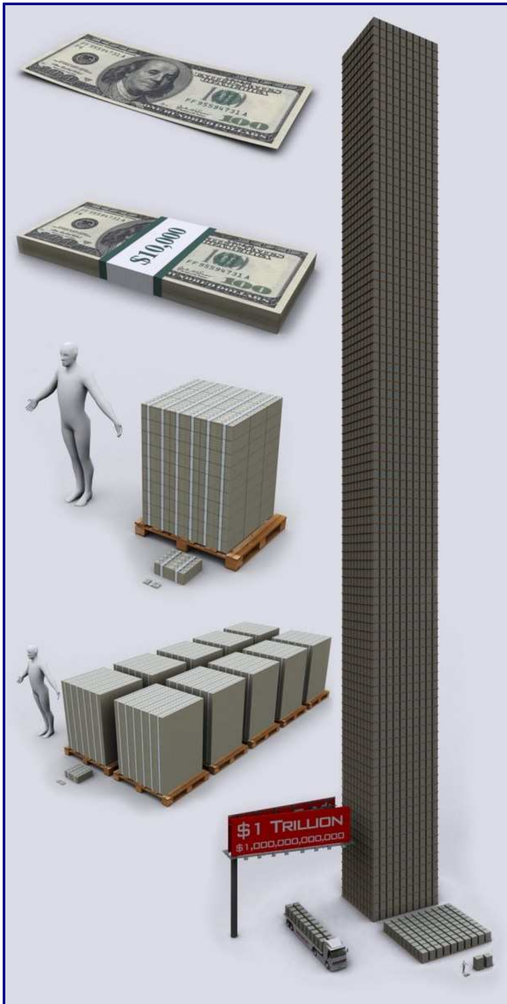
Take tulipmania as an example. Tulips were first imported from Turkey in the 16th century, and became a prized luxury good for wealthy aristocrats and early bourgeois. The first tulip investors were in the business of growing and trading new strains of the flower to sell to these rich buyers. Economists would say, they were investing in the "*fundamentals*" of the tulip business.

But when others saw the price keep rising, then new investors came in as *speculators*. They weren't interested in the tulip business. They might as well have been buying daffodils, or turnips. So long as the price kept going up, and new investors came in to buy on their investments at a profit.

A speculative bubble is based on **confidence**. So long as you believe that new investors will keep entering the market, then you can expect to make a profit. In this way a bubble is like a pyramid selling scheme: it needs more and more buyers. But if speculators start to think that the price will fall, then they turn from buyers into sellers, trying to get out while the market is at a "high". Doubt can spread quickly, and the pyramid collapses.

How can you tell when a market is a bubble? In 2006 almost everyone thought the US housing market was solid. Economists developed theories to explain why the amazing housing boom was not just about speculation, but based on real "fundamentals":

people were living longer, becoming "middle class" and demanding more space, etc. The few who doubted were considered crazy. Now the investors and bankers who developed the new mortgage finance industry are called "speculators". But at the time, they were "pioneers" and "innovators".



From crash to slump: how financial collapses effect the real world.

In Workshop 2 we saw how financial markets move financial capital from investors to producers. The financial markets are where key decisions are made about *what gets produced*. It's not just "speculation", but all investment, that relies on confidence. In a financial crisis, investors typically *flee to safety*. They move to

what they see as *low risk* assets. For example, a scared investor might sell their shares and put their money in a bank deposit account. Or in a really serious crisis, even banks don't look safe, and depositors withdraw their savings – causing a *bank run*.

Traditionally "safe" assets include treasury bonds of major governments, gold, and other "commodities" like basic foods which there will be demand for even in the toughest times. Investors will be less ready to finance companies, or only at high interest rates. Companies that cannot raise finance will reduce production, or even go bust. They try to cut costs by, e.g., sacking workers or lowering wages. Unemployment means less people can afford to buy consumer goods, which hits the economy even more.

In the 2008 credit crunch, the crisis really hit when the **interbank lending markets** dried up. This is where banks lend to each other to cover their short term needs. The banks didn't know what bad debts from sub-prime and securitisation the others were hiding; so they just stopped lending to each other. Terrified of a run of bank crashes, governments stepped in to play the role of these markets. A similar crisis hit the **commercial paper market**, where companies do short term borrowing.

The last great depression.

The Wall Street bubble had pumped money into US capitalism. After it crashed, investor confidence was shattered. Industrial production fell by 45% from 1929 to 1932. By 1933, 11,000 banks had gone bust, and unemployment went from 3% to 25%. As many as two million people were made homeless.

Economists argue about what could have stopped the situation getting so extreme. Monetarist economists (e.g. Milton Friedman)

argue that the Federal Reserve should have created more money and slashed interest rates to keep bank lending going. (The Fed kept interest rates high to maintain the Gold Standard.) Keynesians argue that the government should have stepped in directly to create jobs and production. Keynesian policies were adopted in the New Deal from 1933. (See Workshop 4).

The depression spread from the US to the world. The US was a major investor in Germany, Latin America, and elsewhere. It was also the world's biggest producer and trader. In June 1930 the US passed the Smoot-Hawley Tariff Act, which set high taxes on foreign imports in order to protect American industry. This was a big blow to countries which traded with the US. Many of them retaliated with their own tariffs, hitting back at US exporters, especially farmers. World trade dropped in a new era of "protectionism".

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Collective action problems.

Financial crises often involve "collective action problems". A collective action problem is a situation where a number of people or groups (e.g., states or companies) all share an interest in a particular plan or solution; but, if they all act independently and pursuing their individual self-interest, they are unable to achieve that solution. That general definition is pretty abstract; but we can see how these "problems" keep cropping up in many concrete cases.

For example, in the great depression, the **best plan** *for many national economies would have been to keep global free trade going, so they could export their goods. But what is even better is if all the other countries keep on buying your exports, but you can*

stop their goods coming in to compete with your domestic products. And that’s what the first protectionist countries tried to do: they put up import tariffs to protect domestic industry, while still hoping to export abroad. The problem was that everyone else then retaliated and did the same. The overall result was the **worst outcome***: trade death for all.*

This particular type of collective action problem is also called a “free rider problem”. *Every individual (or, here, state) hopes that everyone else will follow the best plan and trade freely; but they also hope that they can get away with being the exception (get a “free ride” off the others). The problem is that everyone thinks the same. And if you can’t trust anyone else to stick to the best plan, then why should you do so yourself? The same logic recurs in many economic situations. Capitalists* (or workers*) often do better if they can get together in a cartel* (or union*) and, for example, fix a higher price* (wage): *but they have to be able to trust each other not to break the agreement.*

Indeed, an economic crisis and recession could be seen as one big collective action problem: the capitalist “best plan” is for everyone to keep on producing -- if everyone else also produces then there will be income to pay for your company’s goods. But can you rely on all the other companies to keep on going? What can give you this “confidence”?

*Outside of economics, people do manage to co-operate and make plans together in many difficult situations. Note that in these collective action problems, the parties involved only pursue their “***self-interest***“. These kinds of problems seem to be particularly rife in markets, and in general in capitalist environments where people (and organisations) have learned to act on self-interest alone. (See Workshop 6 for more on this point).*

Causes of crisis: the liberal story.

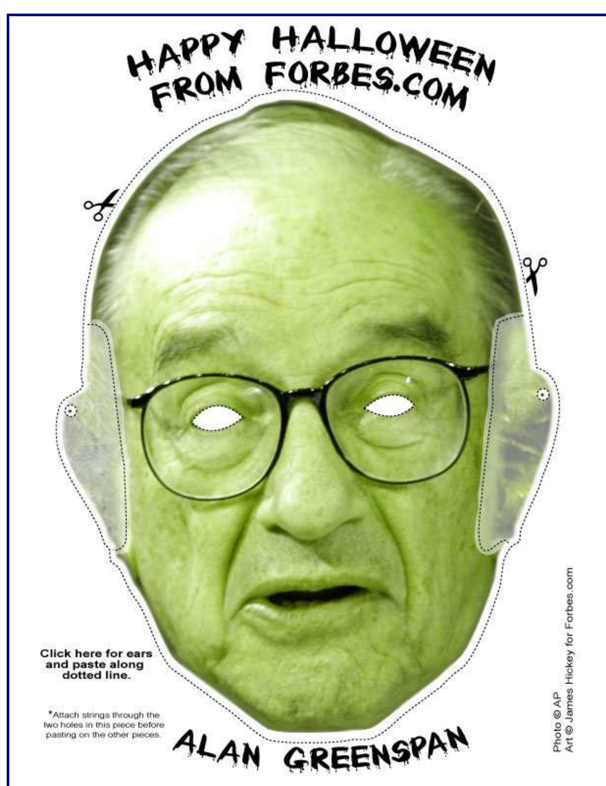
In January 2009 Joseph Stiglitz, the leading left-of-centre economist, and a Nobel prize winner, listed three big mistakes behind the crisis. In March 2009 Rolling Stone Magazine published an article naming and shaming the “dirty dozen”, 12 “bankers and brokers responsible for the financial crisis – and the regulators who let them get away from it.”

Alan Greenspan, former head of the US Federal Reserve (“Fed”, or central bank) was top of both lists. Greenspan was given the job by Reagan in 1987. He then followed two main policy ideas: cut away regulation from the financial markets; and use interest rates and the money supply to keep the economy booming.

Financial deregulation can’t really all be blamed on Greenspan. The Garn–St. Germain act of 1982 started deregulation of the mortgage business, and led to the collapse of the tradititional “Savings and Loan” lenders. In 1999 President Clinton signed the Gramm-Leach Act, repealing the 1933 laws against banking

practices which had helped cause the Great Depression.

In 1998, after the spectacular collapse of derivative-trading hedge fund Long Term Capital Management (LTCM), there were proposals for regulation of the new derivatives markets. These proposals were just dropped. Proposals to regulate the Ratings Agencies were also dropped. In 2002, after the Enron and WorldCom accounting scandals, the response was the weak Sarbanes-Oxley act. In 2004 regulation was changed to let US banks get into debt worth 30 times, instead of 12 times, what they held in capital.



Deregulation was not just a US idea. Governments all over the world now agreed that the old rules were “out-dated” and banks could be trusted to “self-regulate”. The UK was at the forefront, as the Labour government promoted the City of London as a “financial hub” for Europe, where investment banks could operate free of “red tape”.

Liberals like Stiglitz accuse Greenspan of deliberately inflating the housing bubble. In 1997 the Asian Crisis, a panic in financial markets in "developing countries" hit trade in the US and caused a recession. Luckily the US economy was saved by the "dot com bubble": investment surged instead into a new craze, technology companies. Then that bubble burst in 2000. Would the US finally hit crisis? To stop a downturn the Fed cut interest rates. And kept cutting down to a low of 1% by 2003. This helped create a new bubble, consumer debt, as consumers borrowed more and more at cheap rates.

The two ingredients (deregulation and low interest rates) worked together. Abolishing the controls on banks allowed the development of a whole new "shadow banking" industry (See Workshop 2). Securitisation and derivatives allowed financiers to massively expand consumer lending in a hurry, without worrying about deposits or other safeguards. Whilst low interest rates meant millions of new customers could get in on the mortgage party. They also encouraged investors to chase more and more risky financial "products": as the rates on "safe" assets were now also low, they needed to take higher risks to get their profits.

According to the mainstream story, the crisis was the fault of greedy politicians and bankers, who forgot the lessons of the past and embraced neo-liberal faith in the market. In particular, a few powerful men made bad decisions, like abolishing regulations or cutting interest rates, which ruined the whole system. Alan Greenspan is the arch super-villain. Longer lists would include top politicians like Reagan, Clinton, Blair and Brown, and a range of other evil bankers.

Causes of crisis: looking deeper.

Financial deregulation certainly played a big part in creating the crisis. But there is lots more to the story.

There are many theories about deeper causes of the crisis (see *further reading* for a few). Here is one story, which we find convincing: “financialisation” and the debt bubble in rich countries is part of something much bigger, a global shift of power and production to parts of the old “third world”. This crisis is part of the death pangs of the old US/Europe hegemony.

1) A global shift. We saw in Workshop 3 how manufacturing industry has been moving from rich countries like Europe and the US to the “Third World”, especially Asia. That means: more and more of the stuff, from food to cars and gadgets, people consume in the “West” are produced far away in poor countries. Wages are much cheaper in the Third World: it is more profitable for capitalists to open, or invest in, factories in low-wage countries.

2) Financial hubs. As manufacturing has left rich countries, what has kept economies afloat in Europe and North America? The wealth in London or New York now does not come from manufacturing, but from profits on financial transactions. The US and UK are prime examples, but most “First World” countries have been following the same pattern. This is called “financialisation”: the shift of capital into financial services. Or: bankers using the financial markets to cream profits off global movements of capital.

3) Service work. Obviously, not everyone in London and New York is making money off finance. But, until 2007, these rich economies seemed to be getting ever richer. Some of the money

from finance spilled over into “service industries”: every investment banker needs an estate agent to upsize her property, a “barista” to make her cappucinos, a dogwalker, a pedicurist, an *au pair*, a lapdancer, and a migrant office cleaner.

4) Wages cut, debt explodes. But while profits and bonuses in finance grew, wages in the “First World” have stayed fixed for most people, or even gone down. In many European countries, unemployment, particularly amongst the young, is chronic. So how have people survived, and even kept on feeling “affluent”, part of a non-stop consumer culture? By borrowing.

5) Consumer debt boom. So a number of factors contributed to the growth of a massive debt bubble in the “rich” countries. Stagnant wages meant people *needed* to borrow to maintain their lifestyles. A shift into financial capital meant banks pushed debt as a new growth industry. Meanwhile, all this cheap credit was made possible by *vendor financing* from Asia. Capitalists in China invested their profits in financial markets in the West, funding sub-prime mortgages and consumer loans in the US and Europe.

6) End of the party? So far, globalisation means that workers in the Third World make everything, and a global middle class in the rich countries borrows the money to keep on consuming. How long can this go on? There are two big questions. First: how long will industrialists around the world keep on letting bankers in the West cream off big profits from their products? Will new financial markets develop that that bypass London and New York?

And, the even bigger question: how long will Asian investors keep on lending to support consumer lifestyles in the West? At the moment, they do this because Asian manufacturers still need customers in the west. With massive poverty and inequality, and

not much of a middle class to buy the factory-produced goods, local consumer demand is not big enough to keep their profits rolling. But this credit boom is ending.

On this picture, the economic crisis in the west is not just about a few bad bankers. It is about a fundamental shift in power and production. And it is only just beginning.

Part Two: the European sovereign crisis.

In late 2009 a new wave of financial crisis began. This time it started with the market for European “sovereign” or government bonds.

The first target was Greece. On 14th January 14 2009 the rating agency Standard & Poors cuts Greece’s credit rating from A to A-. The company said it was worried about Greece’s ability to repay its rising national debt in the recession. The day after S&P’s announcement, the yield on Greek ten year bonds went up to 5.43%. (See Workshop 2 on how bonds work.)

This was just the beginning. On 16th December S&P downgraded

Greece again, to "BBB+". On 21 January 2010 Greece's 10 year bond yield was 6.248%, its highest since entering the Euro in 1999. On 2 February 2010 the Greek government announced a new "austerity package" to cut government spending and the debt. But the markets weren't listening. Investors kept selling Greek bonds.

Bonds and deficits. Most governments, like most companies, are continually in debt. Each year they take out new debts to pay back the old ones. This is called "refinancing" the debt. The main way governments borrow is on the sovereign bond market. Bond yields are the return investors get on *existing* bonds if they buy them off other investors. So why does a borrower worry about what happens to yields on its old debts?

The main reason is that the interest rate it has to pay on *new* bonds is usually set by the yield on existing bonds. So if yields go up, the borrower will have to pay more to refinance. The government may try to put off refinancing and hope the markets calm down – but sooner or later it will run out of money and have to come back to the markets to borrow more.

There are some other reasons that might also be important. One is if bond yields go up a lot, this may trigger "credit events" in Credit Default Swap (CDS) derivatives which insure its bonds. The banks who write the CDS contracts may have to pay out a lot of money. Also, banks and funds who hold existing sovereign bonds will see the value of these going down, and worry about the safety of their investments. Strictly speaking, these last two reasons are problems for the investors, not the borrower. But big investors may have a lot of influence over what happens next.

More pain, no gain. In May 2010 the European Union agreed the

first "rescue package" for Greece, after two months of negotiations. The "**Troika**" of the EU, European Central Bank and IMF agreed to lend Greece Eu110bn. The Greek government promised to implement Eu30bn more in austerity measures: cuts and privatisations. The loan would be handed over in instalments, so long as the Greek state played ball.

But now Greece wasn't the only problem. The crisis spread to other countries on the "periphery" of Europe, sometimes called the "PIIGS" (Portugal, Ireland, Italy, Greece and Spain). The same pattern: investor flight from government bonds sent yields up, as rating agencies, economists, journalists and politicians spread fear about governments' ability to repay their existing debts. And then "rescue packages" from the Troika, on condition of harsh austerity cuts. The EU sets up a centralised bail-out fund called the "European Stability Financial Facility" (ESFF), with capital initially of Eu440bn.

But, as almost everyone predicted, the "rescue packages" don't work, the market panic only deepens. In June 2010, Greek bond yields were above 10%. By the end of 2011, after yet more bail-outs and austerity measures, they were over 30%. Ireland has been bailed-out, Italy and Spain downgraded, and "austerity" cuts imposed all over Europe – even in countries like the UK which aren't (yet) in trouble with the markets.

Nationalisation of the collapse. Why are the markets panicking about sovereign bonds? On the face of it, investors are worried about government debt. As we saw in Workshop 2, bond yields reflect risk: where investors believe there is a higher risk of not getting repaid, they want a higher yield in return.

Why are government debts so high? According to the neo-liberal

politicians, and much of the media, the “PIIGS” were guilty of reckless spending, with governments supporting an affluent lifestyle for civil servants, pensioners, and others living off the state.

In fact, the truth is that European governments got into debt because they bailed out the banks in 2008.

In 2007, the average government deficit (how much the state spends more than it receives in taxes) was 0.6% across the Euro countries. Governments owed on average 66% of their GDP. In 2010 the average deficit was 7%, and average debt 84%. The table below shows some of the changes in specific countries:

	Deficit 2007	Debt 2007	Deficit 2009	Debt 2009
Spain	1.9%	36.1 % of GDP	-11.1	53.2
Ireland	0	25	-14.4	65.5
Italy	-1.5	103.5	-5.3	115.8
Greece	-6.4	105	-15.4	126.8
Germany	0.3	64.8	-3	73.5
France	-2.7	63.8	-7.5	78.1

Source: Eurostat / Economist Intelligence Unit estimates.

Basically, governments “nationalised” the bad debts of the banks. Spain and Ireland are two of the most dramatic cases. Both had some of the lowest national debts in Europe before the crisis. But also some of the biggest property bubbles. When housing markets crashed in 2008, banks in both countries were set to topple *en masse*.

In September 2008 the Irish state gave an unlimited guarantee to six big banks: it would cover all their losses. In 2009 it set up the “National Asset Management Authority” (NAMA), which took over Eu77bn in bad debts from the banks. By September 2010 the government had spent around 32% of the country’s GDP on bailing out the banks. (This accounts for all of the rise in government debt in the table above.) In November 2010 Ireland took out a Eu85bn austerity-linked “rescue package” from the EU and IMF.

In Spain, the government set up a Eu99bn fund to support the banks in June 2009. The big banks survive the crisis, but many local “*cajas*” (savings banks) are shut down or bailed out.

Only Greece and Italy had big debt problems *before* the banking crisis. Greece’s financial problems are not new; it has had a public debt over 100% since long before it joined the Euro in 2001.

Just about the debt? Are market panics in sovereign bonds really all about government debt? For example, Spain’s yields and ratings were hit even though its government was below the European average. The UK, for example, has much higher government debt, but so far has not suffered similar “runs” on its bonds.

Whose bail-out?

Why did the “Troika” step in to “bail out” the Greek state? What would have happened if Greece had defaulted on its debts in 2010? It would, indeed, have caused a major crisis for the Euro. But also a more direct crisis for many major European banks and corporations – especially in France and Greece.

The table below shows who held Greek bonds in September 2009 (as estimated by Barclays Capital analysts). Greece had a total of $390bn in debt. Over three quarters of that was lent by governments and private capital from outside Greece.

company “nationality”	banks	insurers	Investment funds
Greece	$55bn		$38bn
France	$24bn	$26bn	$4bn
Germany	$25bn	$8bn	$3bn
Italy	$7bn	$11bn	$8bn
Belgium	$9bn	$3bn	$7bn
Netherlands	$8bn		$12bn
UK	$11bn		$1bn

Source: Barclays Capital Research / http://www.nytimes.com/2010/04/29/business/global/29banks.html

By late 2011 the make-up of investors in Greece had changed substantially. The big international banks had sold most of their Greek bonds: the buyers were governments and, especially, the European Central Bank. According to figures from the Bank for International Settlements, German and French banks now owned just Eu2bn each in Greek debt.
(http://streetlightblog.blogspot.com/2011/06/betting-on-pigs.html)

With the first Greek bailout package of May 2010, the Troika made sure that there was no default or “haircut” on bonds. A “haircut” is where bond investors agree to sell their bonds back at a percentage of the value: that is, take a loss on the debt.

In October 2011 the Troika arranged a second Eu130bn “rescue

package" for Greece. This time investors would take a hit, losing up to 50% of the value. But by now the big banks were mostly safe out of Greece.

Whose crisis? "Debtocracy" and social war.

In November 2011 the Greek government fell in a political crisis around the second Troika "rescue" and austerity package. A government of "national unity", of parties from the Socialists to the Far Right, appointed Lucas Papademos as "technocrat" prime minister. Papademos is an economist, former governor of the Greek central bank and vice-president of the ECB. A few days later Italy's prime minister Berlusconi resigned, and was replaced by another unelected "technocrat", Mario Monti. As well as being an economics professor, Monti was also an "international advisor" to investment bank Goldman Sachs. These "unity" governments shared a clear agenda: to enforce austerity packages.

When the credit crunch hit in 2008, there was some talk in the media of a "Keynesian resurgence". Neoliberal economics seemed discredited. Left-wingers hoped governments would use their power over the bailed out banks to return to the postwar "social compromise".

Instead, quite the opposite has happened. The current crisis has cemented the power of finance capital. Politicians of all parties have prioritised the demands of bankers, and taken neoliberalism to a new extreme with further privatisation programmes. In a classic use of "shock tactics" (see Workshop 4), austerity is presented as the "only possible solution" to crisis.

By cutting jobs and incomes, austerity will throw economies even harder into depression, accelerating the economic collapse of the

“developed world”. But financial capital, and all those who invest in it, will do well, and that’s what matters.

In fact, what we have seen in this crisis so far is that most of the elite are not really interested at all in getting national economies back to growth. Rather, many capitalists and politicians take advantage of the crisis as a profit opportunity for their own business (or their friends’ businesses), even if it hurts the economy “as a whole” or “in the long run”. By pushing demand down even further, austerity is the last thing that will “solve” the crisis. But it will bring lots of profit opportunities: wage cuts, even more deregulation, and plenty of privatised state assets to snap up cheap.

Workshop 6: our consuming desires

"*It's a power plant that runs its turbines on a gigantic reservoir of unwept tears, always on the verge of spilling over.*"
The Invisible Committee – *The Coming Insurrection*.

Homo economicus.

Open any standard textbook on economic theory, and you'll first come to the chapter on "consumer demand". The basis of the whole system, according to capitalist economics, is our *desire*. We, the consumers, want things; the market simply satisfies our desires.

But the people in economics textbooks are special. To construct mathematical models which prove that markets are "efficient", economists have invented a simplified creature whose desires are calculable and predictable. This character is sometimes called "homo economicus", "economic man", or the "rational agent". Rational economic agents are unlike human beings in a number of ways.

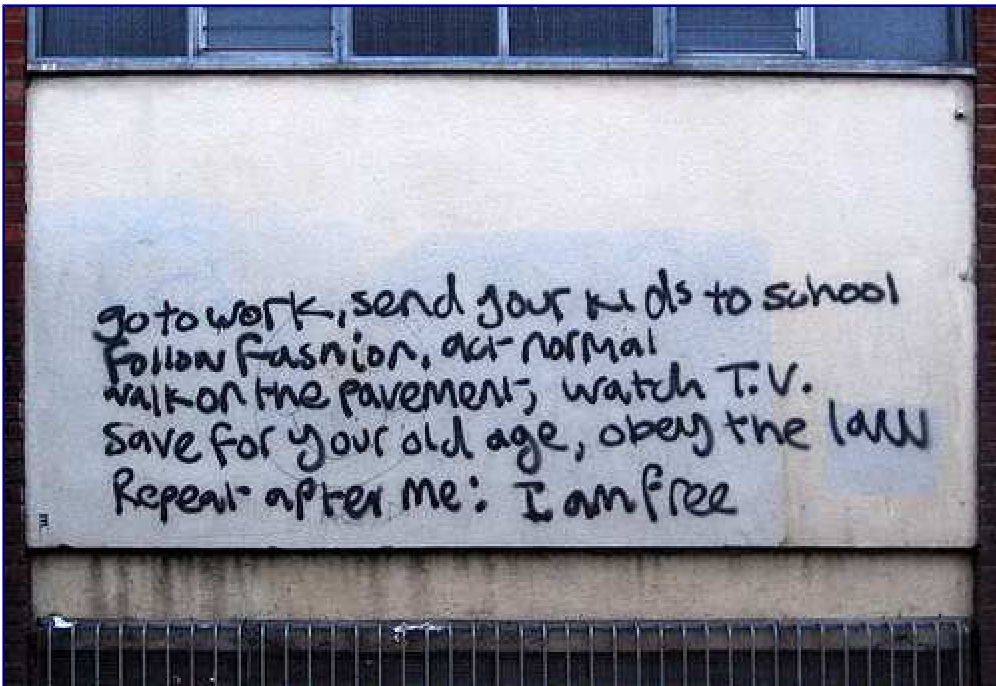
- **Our desires change and develop**. They are shaped by our histories and environments. And so, also, by the systems of power in which we live. In economic theory, however, rational agents' desires are fixed. The system itself has no influence on people's wants, it just "satisfies" them.

- **We have many different kinds of desires and values**, which often conflict with each other. In some situations we might act "selfishly", other times we might give our lives for a dream. In economic theory, rational agents' desires have to be consistent. Usually, rational agents are assumed to be "self-interested" – they ignore the needs and desires of other people.

- **Not all of our desires are for things which can be bought and traded in markets**. In economic theory, rational actors' desires are always desires for *commodities*. And in fact these desires are never satisfied – given the chance, economic theory says, people always want ***more***.

Economists argue that these assumptions about rational agents are harmless simplifications or "abstractions" which they need to make calculable models. But these models are used to devise and justify schemes which are imposed on real people. Economists, politicians, and capitalists fantasise about people who are "rational" commodity-hungry consumers. And, at least to some extent, the systems they help create can actually work to make us more like that.

In this workshop we will look at just a few of the ways in which capitalism, as it has developed, has indeed shaped our desires.



1) Greed is good: the idea of self-interest.

"*Dangerous human proclivities can be canalized into comparatively harmless channels by the existence of opportunity for money-making and private wealth …*" J.M. Keynes *General Theory* (London: Macmillan, 1936) p374.

The term "***homo economicus***" first appeared in the 19th century, but the roots of the idea that people are self-interested rational agents can be traced back to the renaissance, and really takes off in 18th century "political economy". (This section follows Albert Hirschman's historical study of "*The Passions and the Interests*".)

As we mentioned in Workshop 1, for ancient Greek writers "economics" meant something like the management of a household (an aristocratic household, with its subordinate population of women, slaves and animals). To run a household efficiently, you need to calculate, make budgets, keep an eye on market prices, keep accounts. This was a necessary part of the life of a free citizen, but only a small part. No Greek philosopher

thought that citizens should approach other parts of their life in the same way. Values like bravery, generosity, serving the community of citizens, and dying a good death, were much more important than economic rationality.

In medieval Christian Europe, merchants, bankers, and others who profited from markets lived in an uneasy relationship with the aristocratic elites, who made their money from looting, cattle rustling, and dominating the land. This restricted role for the market was reflected in the values of the rulers and the church. The official position of the Catholic church condemned the desire for money and possessions as the "sin of **avarice**". According to Saint Augustine, avarice was one of three main sinful lusts, the other two being the lust for power, and sexual lust. Some medieval writers went against this official position and openly celebrated the aristocratic pursuit of "honour" and glory". But the bourgeois vice of avarice was treated with contempt.

The idea of "***interest***" – as in "national interest", "self interest", "class interest", or "your best interest" – comes together with the rise of capitalism. At first, in the renaissance thought of writers like Machiavelli, it meant the interest not of individuals but of rulers of states. Machiavelli, in his famous book "The Prince", advised rulers to be calm and calculating rather than swayed by momentary passions. The early "mercantilist" school of economics studied how princes could modernise their national government to out-compete other states and amass wealth.

Then in early capitalist thought, for the first time, economic self-interest becomes something good. It was praised as a "calm passion": if people focus on accumulating wealth they make calculated long term decisions, and they become predictable, stable, governable. For writers like Hume and Smith, self-interest

has positive consequences for society. By pursuing gain, individuals create wealth and prosperity that spreads to everyone. And channelling peoples' energy into the pursuit of economic gain diverts them from more dangerous and violent lusts. (As seen in the quote from Keynes above, this idea was still going strong 200 years later.) Trade and business means stability, peace, and calm happiness for everyone.

By the nineteenth century, interest was no longer a "passion" at all. It had turned into a fundamental assumption about the way human beings are. Utilitarian philosophers like Bentham and Mill could now see people's desires, pleasures and happiness, as things to be calmly added up: calculating the "greatest happiness for the greatest number". In fact, by the 19th century the idea of interest had become so powerful that even many anti-capitalists, like Marx, now also saw everything in terms of economic interest.

2) Building the nation.

The growth of capitalism goes together with the rise of the nation state. In Europe, rulers created new national infrastructure to support the growing markets, such as:

- **Transport**: railways and canals, to move commodities.

- **Ports**: for international trade, defended and policed by customs systems and navies.

- **Armies** and **police** forces: to enforce property law.

- **Parliaments**: where capitalists and industrialists shared power with the old aristocratic elites.

Transport and national markets, as well as enclosure and the rise of big cities, meant people were on the move. Local ties and community identities, local customs, including languages and dialects, were lost. In the face of rising resistance and worker radicalism, the state's answer was the creation of stronger *national* identities. New institutions accelerated this process in the 19th and 20th centuries including:

- State **education** systems: teaching conformity, patriotism, and the "naturalness" of the market system.

- National mass **media**: controlled by capitalist media barons, and by advertising.

- National **welfare** systems.

Wherever resistance to capitalism was on the rise, nationalism was the response. Every time workers' movements started to threaten the elites, rulers mobilised patriotic feelings against the "foreign" or "unpatriotic" radicals. Just to take a few examples from English history:

- 1780s+: Patriotic "**Church and King mobs**", paid mainly in beer by crown agents, were used to attack and intimidate "Painites" and "Republicans".

- 1800s: **Napoleonic wars**. Repression against trade union and radical organisers justified by war conditions, radicals accused of being French spies.

- 1890s: Introduction of "**Aliens Act**", first major anti-immigration legislation, in a climate of media hysteria against Jewish "anarchists" and other undesirables.

- 1914+: **First World War**. Internment of foreigners, censorship and martial law. Patriotic upsurge (across Europe) helps dampen dangerous syndicalist movements.

- 1982: **Falklands War**. A new war, a new patriotic frenzy, helps the neoliberal Thatcher government back to power in the 1983 elections, despite recession and massive unpopularity before the conflict.

- 2000s: UK becomes world's most surveilled state, as government whips up and rides panic over Muslim "**terrorism**".

3) Mass production and mass consumerism.

But by the beginning of the 20th century capitalism in the most "advanced" industrial nations faced two very big problems.

- i) **Revolutionary movements**. More "enlightened" elites used workplace reforms, state education, nationalism, and

philanthropy, to get and keep workers on side. But too many still saw capitalism as their enemy, and resistance was growing.

- ii) **Lack of consumers**. As production kept on growing, producers were running out of affluent customers who wanted to buy more stuff.

Mass consumerism saved the day for capitalism, and transformed the world. The change is often dated back to 1910, when Henry Ford set up the first "**production line**" in the Highland Park, Michigan car plant. On the original 1910 production line it took workers 12 hours and 48 minutes to assemble one car chassis. By 1914 Ford had got it down to one hour and 33 minutes, and the Highland Park factory produced over 1000 cars a day. Over the next 10 years "Fordist" methods were copied across American industries, as every producer raced to keep up. (This section draws on Stuart Ewen's book "*Captains of Consciousness*".)

But now the new factories were producing much more than the small upper and middle classes could buy. More intelligent capitalists could see what would have to give. The market had to be expanded, and the only way to do that was to welcome the workers into consumer society. US President Herbert Hoover made it clear in a famous speech in 1926:

"*The very essence of great production is high wages and low prices, because it depends on a **widening range of consumption** only to be obtained from the increased purchasing power of high real wages and increasing standards of living.*"

The problem for capitalists here is that someone has to go first: if one boss raises wages, but her competitors don't, then she is at a

disadvantage. (Another classic “collective action problem” — see Section 5). This was Marx’s argument for why wages will always be forced down to subsistence level, and capitalism be condemned to crises due to lack of consumer demand.

Marx died in 1883. He was, perhaps, half right. In the 1920s advanced capitalist economies did manage to solve some of their collective action problem, wages and living standards rose, and working hours fell. Ford himself had led the way with the famous five dollar work-day wage in 1914. But still wages didn’t rise nearly as fast as production, and the gap in consumer demand was largely filled by credit (mainly instalment plans), which indeed contributed to the financial boom and then the massive bust of 1928. It was really after World War 2 that workers’ living standards in the industrialised world increased rapidly, thanks to Keynesian government intervention.

Manufacturing demand. However, it turned out that just paying workers more, and giving them time to spend their wages, still wasn’t enough. Workers might decide to save their income instead of spend it, remembering the hard times that weren’t so far away. Or, rather than endlessly pursuing the lust of avarice, they might have other desires for their “free time” than collecting new commodities.

This is where **advertising** came in. Before mass production, advertising had been about highlighting special qualities of a product to make it stand out from similar commodities. The new breed of advertising gurus in a rapidly growing industry saw this as too primitive. The idea now was to create a “real or fancied need” for the product in the first place. Schooled in the latest psychological theories, advertisers sought to create new desires by appealing to “profound .. human instincts”. In particular, they

targeted the “instinct” for “social esteem” — to fit in, to be wanted.

The main technique was to create feelings of “**social insecurity**” which their products were supposed to ease, albeit very temporarily. Adverts told women to fear ridicule, spinsterdom, or the sack, if their nails weren’t fashionably polished. How could you hope to get ahead at the office if you had bad breath from not gargling with listerine? If immigrants wanted to be accepted they needed to dress like proper Americans. Be anxious about your body, your background, your neighbours, your workmates, the modern world is a rat race and you need to stay sharp to keep afloat. A 1938 article in the ad industry journal *Printer’s Ink* put it bluntly:

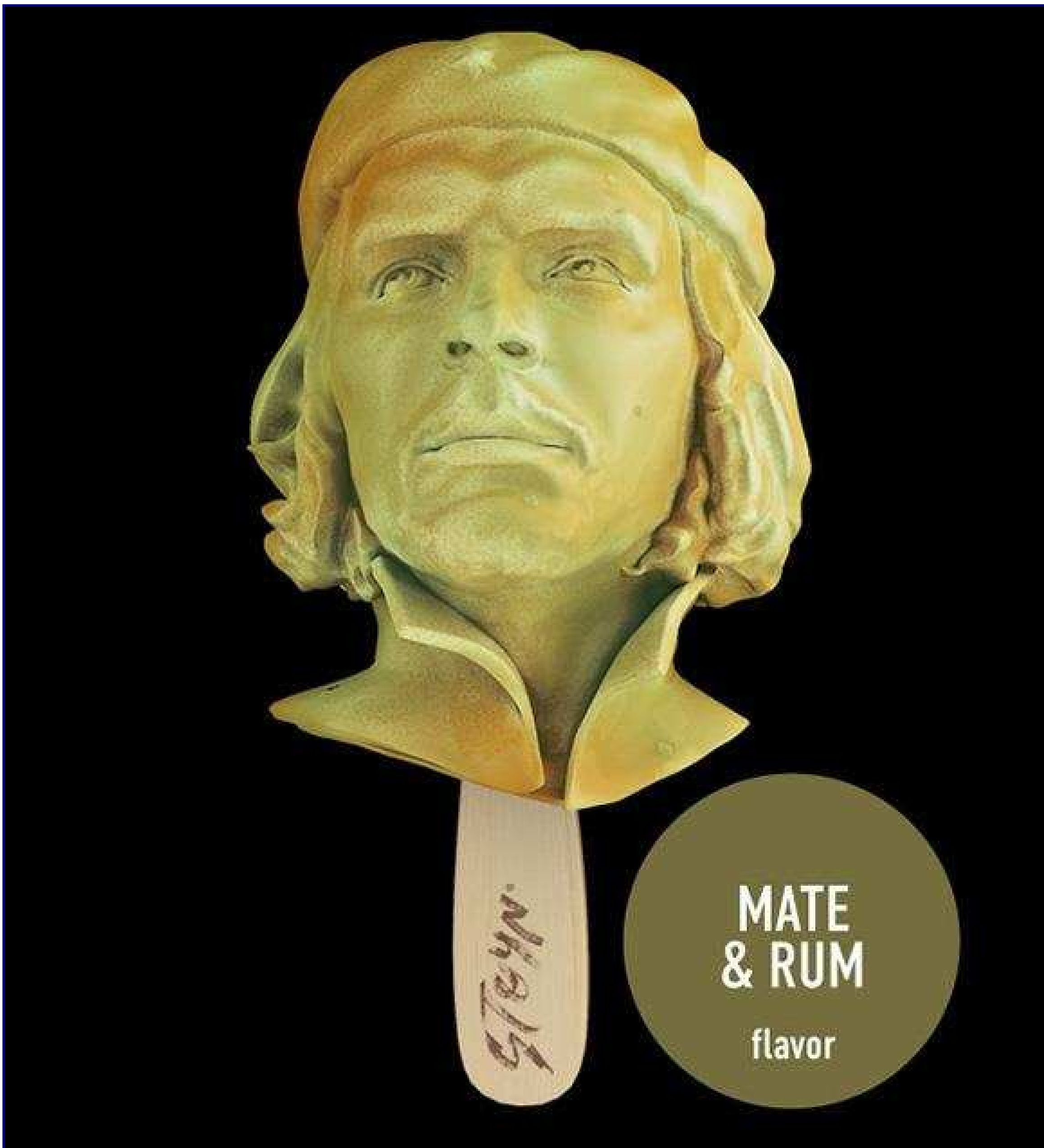
“*advertising helps to keep the* ***masses dissatisfied*** *with their mode of life, discontented with* ugly things *around them. Satisfied customers are not as profitable as discontented ones.”* (Ewen p38)

This dissatisfaction is not one that calls for political or collective solutions. The solutions are individual, commodities available on the market. But there are always more problems to come, more lacks and failings, more commodities you need to buy to keep up with the others. Cultivating the “instinct for social esteem”, mass consumerism became an endless race on a treadmill, an incurable anxious need, an itch that can’t ever be scratched.

Advertising and rationality. How does the reality of contemporary consumer culture, shaped by advertising, fit with the economists’ idea of the rational agent?

The idea that desires can be changed and shaped goes against one of the economists’ basic assumptions. It’s interesting that, like some dark family secret, economic textbooks almost never mention advertising. For their part, advertising gurus have little to do with economic theory, but there has been a big crossover between advertising theory and psychology – in particular Freudian psychology which emphasises the role of unconscious instincts. (See “*The Century of the Self*” – particularly on Edward Bernays, the inventor of “PR”, ad guru par excellence, and Freud’s nephew.)

But in fact there is a lot in common in both the economists’ and the advertiser’s idea of what it is to be human. For both of them, human beings hunger insatiably for more commodities. And this is what makes us calculable – even our darkest instincts can be controlled, manipulated, and governed.



4) "Recuperation" and resistance.

The 1960s saw an outbreak of anti-consumerist rebellions amongst students and youth, mainly in rich countries. Counter cultures which rejected establishment values and desires spread with unexpected speed. Suddenly everyone took LSD and had group **sex** in parks. Some even took part in student occupations and new revolutionary movements.

One interesting new intellectual current of the 1960s was the **Situationist International** radical/art movement. According to the SI writer Guy Debord, society in advanced capitalist countries had become a "spectacle". Commodification had "completed its colonisation of social life". In the "society of the spectacle", the only meaning left in our lives comes from the things we "have", or try to have; all our desires are shaped by the "images" we passively receive from advertising billboards, TV screens, and see reflected back off the other consumers we try to keep up with.

If everything is produced for us by an immensely powerful capitalist system, what can we ever do to escape being just passive consumers? The SI's answer was what they called (in French) "*detournment*" (there isn't any great English translation – maybe "re-turning", or "derailing" – or subversion). This means: we take the products and values fed to us by the system, but instead of consuming them passively, change them, mix them up, hack them, pervert them. Here the SI gave a theoretical name to what youth subcultures have always been doing. From the English "Teddy Boys" in the 1950s adopting aristocratic Edwardian fashion and turned it into working class machismo; to punks and queers who take derogatory labels and images and turn them into symbols of defiance.

But the flipside of subversion is what the SI called "recuperation". This means: the establishment takes a "radical" symbol or value and makes it safe, acceptable, and marketable. The classic example is the face of Che Guevara on a million T-shirts. In the 1970s, a new wave of advertising execs found that they could make just as good money selling new "alternative" commodities to the youth. Was the lasting legacy of 60s counter-culture just some new lines in consumer products?

5) Roles and identities.

Our desires don't appear from nowhere. They are embedded in the ways we live, in our interactions and relationships, in our habits and practices, in the value systems and power systems we live in. As advertising execs know, creating desires is fundamentally about creating *identities*. You desire the car, the watch, the shoes because of *who* they make you: successful businesswoman, playboy, filmstar, upstanding citizen, loving husband, wife and mother. Or: gangster, bad girl, rebel.

Capitalism offers a repertoire of roles or identities for you to aspire to. Each one is a dream of how you can live, what you can be. Simplifying, we might identify a number of historical stages of capitalist dream creation:

- In its early stages (18th and 19th centuries), the identities you could aspire to were very much limited by obvious social

hierarchies. As wages were pushed low and people could only afford necessities, workers were not of much interest to advertisers. Elites mainly tried to shape workers' identities and desires through the state (nationalism, schooling) and through religion. But their grip on people's desires remained fairly weak. Anti-capitalist movements had the space to thrive, and they offered people different desires, identities, and dreams. These alternatives were a real threat to the elites. (See Workshop 7). Lacking "consent", the state regularly had to turn to force to defend property and markets.

- In the 20th century, mass production and mass consumerism created new identities for workers in rich countries. Now many more people could be included in the capitalist dream. But the available identities were limited, uniform. Advertisers worked on the same lines as state education, promoting a basic set of roles: heterosexual nuclear family roles (husband and father, wife and mother); successful careerist; responsible citizen; patriot.

- After the 1960s, advertisers started to offer a wider range of identities. Even identities that go against state-promoted norms can be profitable. With less uniformity, there can be more tension between different corporate and state-promoted values — but they usually manage to get along in the end.

Old or new, conformist or "rebel", profitable consumer identities all need to share some basic properties.

- The role needs to be defined by commodities, by what you have.

- You have to remain dissatisfied and anxious in the role. You

can never be quite sure that you're doing it right; there's always a risk of losing your place. Very often, this dissatisfaction is linked to anxiety about status — about your position relative to other consumers. But in any case, the essential result is: you always need *more*.

6) More, more, more. Growth is everything.

"Their needs are so few that they do not wish to adopt civilized habits. What we call conveniences and comforts are not sufficiently valued by them to cause them to undertake to obtain them by their own efforts ... the great majority look upon the white man's ways with indifference and contempt." Nathan Meeker, US reservation agent to the western Utes, 1879. (Quoted in Dee Brown – *Bury My Heart at Wounded Knee*).

Economists, politicians, journalists, and anyone else you can see on TV, agree on one big thing: the goal is growth. Growth means producing and consuming more stuff. If the economy falls into recession or depression everything goes wrong. People lose jobs, people go hungry, hospitals close, and your granny has to sleep on the street.

By the early 20th century, most of the "**Left**" had accepted mass industrial production and consumption, but insisted that wealth should be spread more equally. Whether by revolution or income tax, there should be **redistribution of wealth** away from the rich to the poor. One of neoliberalism's victories is the idea that everyone can get richer together: the needs of the poor don't have to be satisfied by taking from the rich. If we can create enough stuff, at least some of it will "**trickle down**" to those at the bottom. The rich get richer, and the poor get richer too.

In the richest nations, until very recently, this idea actually looked

like it was working. Living standards (if standard of living just means the amount of stuff you have) were going up for almost everyone. Certainly, the rich were doing the best of all, getting most of the new stuff – and so, inequality has risen dramatically. But there was still enough new wealth left to improve incomes at the bottom.

A few basic principles of consumer economics at the start of the 21st century:

- Everyone wants more and more stuff.
- The economy can keep on creating more stuff for everyone.
- To keep it going we need to let markets be “free”: regulation or redistribution would hurt the markets, and the engine of growth will stop.
- To keep it going, we all need to keep wanting more stuff.

There are a few problems with this line of thought, which are becoming increasingly apparent. For example:

- As we saw in Workshop 5, most people in rich countries were only getting more stuff because they were getting heavily into debt.
- As we saw in Workshop 3, rich economies as a whole only carried on getting more stuff because they were getting heavily into debt to poorer manufacturing countries.
- The world as a whole does still keep producing more stuff. But for how long? This growth has been made possible by cheap petroleum, massive quantities of easily extractable fuel. Cheap fuel is disappearing. And now the ecological cost of industrial growth is starting to hit us.
- Is more and more stuff really what we want? Is it giving us what they said it would? Is it what we really *want* to want?

“Brothers and Sisters, what are your real desires? Sit in the drugstore, look distant, empty, bored, drinking some tasteless coffee? Or perhaps BLOW IT UP OR BURN IT DOWN. The only thing you can do with modern slave-houses — called boutiques — IS WRECK THEM. You can’t reform profit capitalism and inhumanity. Just kick it till it breaks.” The Angry Brigade — Communique 8.

Capitalism is an economic system, but it's not just that. If we want to survive capitalism, we don't just need to create a new economic system, we need to create a new *culture*. A culture that looks at capitalist values “with indifference and contempt”.

Workshop 7. Beyond capitalism.

1. It's a monster, but not a monolith.

So, what is capitalism, exactly? Capitalism is a handy term for the way in which economies, and also a lot more, are organised today. As we have seen, there is not really one definition or fixed idea of capitalism. There are really many different "capitalisms", in different parts of the world, and in different times. Capitalisms have been constantly evolving, from the 16th century until now, and will keep on changing in the future.

We talk about the "capitalist system" as if it is just one thing. More accurately, we could say that there are capitalist institutions, capitalist relationships, capitalist rules and conventions, even – capitalist desires, identities, and dreams. For example, contemporary capitalist systems involve:

- **Markets**: places (real physical marketplaces, or virtual systems) where people trade commodites.

- **Private property**: systems of rules and laws about who has the right to use, exchange, make or destroy things.

- **States**: governments, police forces, armies, courts, prisons, border controls, and other state institutions, which enforce private property systems and market rules, and help create new markets and commodities by force.

- **Companies**: corporations which produce the goods sold on capitalist markets, or provide financial and other management services to keep things circulating around the globe.

- **Educators**: institutions, from schools to advertising agencies to families, which help reproduce our respect for the rules, and our desires for commodities.

- **Consumers**: all of us, so long as we keep on respecting the rules, working, buying stuff, playing the roles we're offered by advertisers and educators (and each other), always wanting more commodities, and encouraging each other that all this is "normal".

Warning: we should note that much of the way the authors understand capitalism and resistance is pretty ***Eurocentric***. This reflects where we come from. It would be great if future versions of these workshops could have a more global understanding. And maybe we need other collaborators to help with that.

So what's next?

In many ways, capitalism has been very successful. The global capitalist economy is better than any previous system at producing massive quantities of commodities, and moving them all round the world. Many millions of people in the "developed" world manage to use, horde, and waste masses more stuff than their ancestors could ever dream of. Other billions of people in the "third world" don't do quite so well.

But capitalism can't last much longer in its current form. It is based on rapid growth, promising more and more commodities for everyone. Most people in the developed world are "doing good"; and workers in the third world can also dream that one day soon they will be included too. This massive growth has been fuelled by cheap energy: seeming limitless easy supplies of oil and other fossil fuels; and an ecosystem that can absorb seemingly endless environmental destruction without too major effects. But these resources are running out. The effects of global climate change are not yet fully perceived, but the strong likelihood is that the damage is already irreversible. Capitalism has dramatically shifted

the earth's ecosystem, with implications that will be disastrous for most humans and animals on this planet.

This doesn’t mean that capitalism as such is doomed. It may, once again, be transformed and survive.

But capitalists face major collective action problems: to solve their economic and ecological crises, corporations and states need to cooperate globally in ways they have never been able to achieve before. Most likely they won’t be able to do this. Markets and states will try to carry on as before, but keep on getting hit by new crises. Without growth, governments will not be able to keep us feeling “included” in capitalist prosperity. But if elites cannot maintain social order with the *carrot*, they will turn more and more to the *stick*, and try to keep populations down by force.

So, in many ways we will see the world turning backwards. Like in capitalism’s earlier days, we will live in societies of drastic inequality and violent social conflict. Billions of people will be left out of the “dream” of growth and consumption. Many may die. But are there other dreams that can take its place, and inspire resistance?

Marxism is dead.

One alternative dream which has died is that of Marxist state socialism. The idea was that the state can step in to “plan” mass economies, playing the role filled by markets in a capitalist system. State bureaucrats and technocrats could work out what goods needed to be produced, and where they needed to be distributed. The people would be happy as the system worked efficiently; the officials, despite their massive power, would somehow be immune from corruption and tyranny. It didn’t work.

State planning did not produce as much stuff as quickly as capitalism. Socialist state officials, just like other state officials, abused their power and set themselves up as an corrupt elite, a “new class” just as vicious as the worst capitalists.

Not a monolith.

We saw that capitalism is not monolithic. This means: first of all, it is formed of many interlocking institutions, rules, and relationships, all changing. You might imagine capitalisms without advertising, for example, or even without banks, or maybe even without states or families – though they would be very different kinds of capitalism from the one we know now.

But also, not all the institutions and relationships we live with now are fully capitalist. States, or families, or churches, for example, have changed in the last few hundred years as a result of capitalism, but they existed before. And even within a highly capitalist society lots of things are going on which are not very capitalist at all. Most people don’t exchange their time for money with their friends or lovers. We help someone in need in the street without calculating how much it should cost. People still volunteer to fight and die for things they believe in.

The anarchist Kropotkin often used to point out lots of examples of what he called “mutual aid” at work even in very capitalist environments. For example, the Red Cross, or mutual insurance systems for shipowners, were set up by capitalist businessmen, but worked on quite non-capitalist principles.

For more on what climate change means for possible futures for capitalisms, and anti-capitalisms, see: Desert (*anonymous*).
http://theanarchistlibrary.org/library/Anonymous__Desert.html

Three kinds of relationships.

Like all theory, this involves some over-simplifying, but we might follow anthropologist David Graeber’s definition of three distinct kinds of social relationships. He calls them: hierarchy; exchange; and communism – or, in Kropotkin’s term, “**mutual aid**”.

In **exchange relations**, people swap goods by calculating “equivalences” (i.e., equal values). If I give you x, sooner or later you should give me y, which is worth the same. People are, at least in some sense, equal: it shouldn’t matter, in a market, *who* you are, or what our relationship is, just what you have got to trade, i.e., your property. (In reality, the situation is rarely so “ideal”).

In **hierarchical relations**, on the other hand, the way we relate to each other is all about who we are, our status. Kings and subjects, or teachers and pupils, or judges and accused, or parents and children, don’t exchange goods as equals: they give “tributes” or “favours”, make judgements, pay respects, etc. Ongoing relations involve patronage, support, loyalty.

In **mutual aid**, we give to each other when we need help, without expecting anything in return. As the old tag goes: “from each according to their ability, to each according to their need.”

Studying the long history of debt and money, Graeber argues that societies all over the world have always involved a mixture of these different kinds of relations. “We are all communists with our closest friends, and feudal lords when dealing with small children. It is very hard to imagine a society where people wouldn’t be both” (p114).

State socialism talked about mutual aid, but in fact practised brutal hierarchy. Capitalism prioritises exchange relations. But exchange never takes over everywhere, and indeed capitalism relies upon many institutions – state hierarchies, families, community or “national” loyalties, etc. – that are not based mainly on exchange.

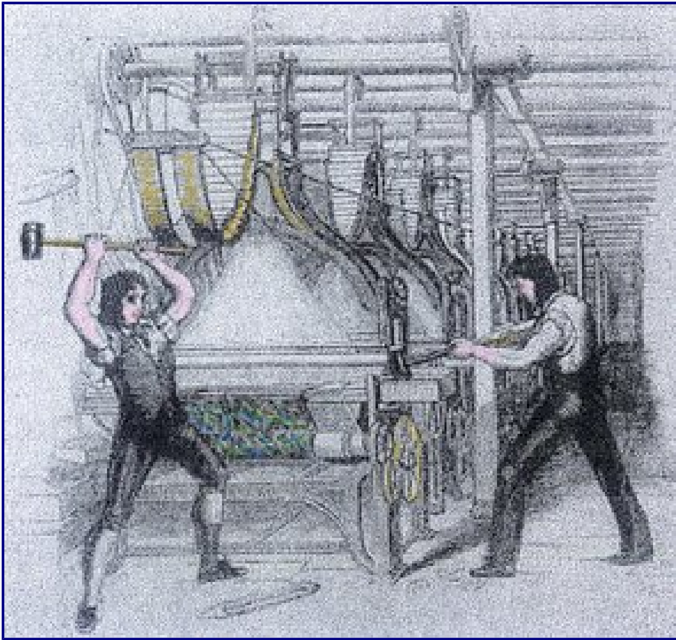
Maybe we can think of **anti-capitalism** as the struggle to stop spaces of mutual aid being colonised by relations of exchange (and, so, property) or of hierarchy. And to spread mutual aid relations instead. So, in practice: creating institutions and practices based on mutual aid, which can meet peoples’ needs and desires better than capitalist and hierarchical systems. And also, necessarily, defending these new systems, making them strong enough to resist attack by those who want to control our lives.

2. A potted history of other worlds.

We don’t have to start from scratch. If you dig underneath the failed history of state socialism, you can see people have been thinking about and working on many different anti-capitalist alternatives for hundreds of years.

Communist Utopias.

Historians like to say that early capitalism was a **radical** force overturning old feudal structures. This story hides the fact that there were much more radical ideas and movements around already. Revolutionary ideas were often clothed in Biblical language — the supposed slogan of the English peasant rebels of **1381** was "when Adam delved and Eve span, who was then the gentleman?" Heretical sects throughout Europe formed communities without private property or hierarchies. Most were wiped out with extreme violence. In 16th century Germany some 300,000 peasants rebelled against feudal authorities in the **Peasants Wars**, and published a charter of "12 Demands". Perhaps 100,000 of them were massacred. Soon afterwards appeared the **Anabaptists**, a radical Christian communist movement mainly in Germany and the Netherlands. In the **English Revolution** of the 1640s similar ideas reappeared. The **Diggers** called for people to defy property law, occupy unused land and farm it in communities. Some "**Ranters**" were still more radical: they opposed the family, or even religion altogether.



Defending old ways.

Throughout history, radical movements have looked both forwards and back: proposing new alternatives for the future; whilst defending existing spaces against capitalist attacks. German peasant rebels, English Diggers, or later anti-enclosure rebels defended ancient rights to the use of “common land”. The **Luddites** defended traditional arrangements on wages and working conditions which were being swept away by the capitalist market. **Russian peasant revolutionaries** in the 19th and 20th centuries saw the traditional village commune or “**mir**” as a possible base for a future without either capitalism or the Tsarist state. The **Zapatista** uprising in Mexico uses traditional systems of village self-government and collective land rights.

To sum up: as well as inventing new ways, anticapitalisms can involve defending, and reviving, pre-capitalist traditions of mutual aid which are still alive – because they have been fought for in centuries of previous struggle.

Mutualism and cooperatives.

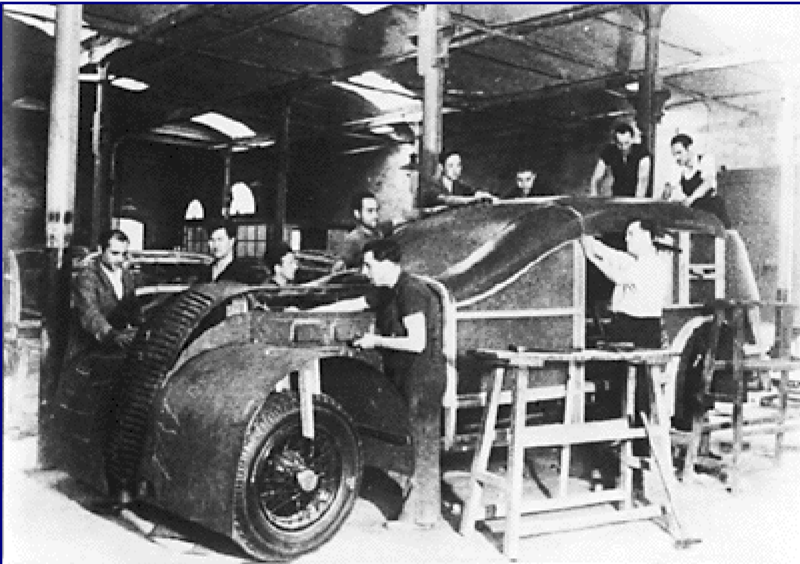
Industrialisation increased rapidly in 19th century Europe, as millions were thrown off the land forced to join the new urban "proletariat". Many of the first urban workers to form radical anticapitalist organisations were skilled **artisans** who still maintained some independence. In France and other European countries, the ideas of the anarchist printer **Proudhon** became massively popular. Proudhon and others sought to organise skilled workers into co-operatives or **workshops** which would share tools, knowledge, and defend each other against the bosses. **Cooperatives** of workers in different trades, and in different towns, would then form federations to exchange their products and resources. (So Proudhonist **federalism** did involve some level of exchange at a bigger level, as well as mutual aid at the level of individual coops.) The idea was that these cooperative federations, by pooling their resources, could become altogether independent of capitalist markets. Thus they would create the "new society in the shell of the old". Similar ideas, though not always as radical, were developed in the cooperative movement in England, and elsewhere.

But a problem with many cooperative movements, in the 19th century and since, is that they have often failed to involve the people who really have the most to win, and least to lose, in the struggle against capitalism: the "**dispossessed**" masses of "unskilled" and "unemployed" (or work-refusing) people who have no resources to share.

A barricade of the Paris commune (Rue Saint Sebastien, 10th arondissement).

Insurrections and assemblies.

In 1534 Anabaptist rebels took over the city of **Muenster** in Germany and set up an early form of socialist commune. But the first major workers' insurrection under capitalism is often considered to be the **Paris Commune** of 1870. The elected government of the city commune was not radically anti-capitalist, but many people in the working class neighbourhoods on the outskirts were. They came together voluntarily to organise everything from defence militias, to canteens and first aid clinics, to free self-run schools, and redistribute clothes and supplies. The commune lasted just two months before it was brutally destroyed by government troops. But it inspired many for the future. Revolutionaries built on its lessons to develop further ideas about how to self-organise neighbourhoods, and whole cities. In the 1917 **Russian Revolution** the slogan "all power to the soviets!" originally meant self-organisation by local **soviets**, neighbourhood and workplace assemblies. Lenin and the Bolshevik Party adopted the slogan to win popularity, then in fact crushed the soviets and imposed their own Party control.


CNT worker run armoured car factory, Barcelona 1936.

Syndicalism.

The first mass **workers' movements** appeared in the factories and slums of the late 19th century. At the turn of the 20th century a new organising strategy emerged that seemed it might have the strength to overturn capitalism for good -- revolutionary syndicalism. Millions of workers had now joined radical trades unions open to all, skilled and unskilled. The idea was that factories would be run by workers directly, through their union assemblies; the big unions' federal structures would take over coordinating the distribution of the different factories' inputs and outputs. So: the same structures that workers had built to fight strikes and community struggles would directly turn into the basic economic institutions of the new world.

Syndicalist cooking union, La Paz, Bolivia, 1935.

By the 1910s, syndicalism seemed to have a genuine chance in many European countries. Theorists like Pataud and Pouget, activists in the French **CGT** union, had their plans ready: when the moment was right, a massive **general strike** would collapse capitalism, and the new workers' organisations would step in. Faced with this threat, the capitalist elites fought back with extreme repression, imprisonments, assassinations against workers' leaders. But what ultimately saved capitalism was probably the First World War, a bloodbath of nationalist destruction. And then the Russian Revolution: the seeming success of the authoritarian Bolshevik "communists" in Russia undermined the surviving anarchist and syndicalist movements, as many switched to Marxism and the new idea of party and state-led revolution. The only serious syndicalist movement to survive was in Spain. In 1936 the anarchist **CNT** union put syndicalism into practice in Catalonia for a few short months, before it was wiped out by Franco's fascist armies supplied by Germany and Italy; tacitly supported by all the capitalist states of Europe; and attacked from within by Stalinist agents.

Workers’ assembly at Zanon occupied factory, Argentina.

Resurgence of workers control.

From 1917 until 1990 anti-capitalist resistance was often smothered by the Russian (and Chinese) backed Communist Parties. They funded and co-opted resistance movements, turning on any that were too radical or threatened to upset their grip on power. And yet pockets of resistance always kept reappearing – and more so as the Soviet empire weakened in the 1970s. In **Italy** there was a wave of factory **occupations**, where workers took over their workplaces and ran them with workers councils. A movement of “**workers control**” also grew up across the Iron Curtain in Yugoslavia. Similar movements in Latin America were largely wiped out by US-backed totalitarian dictatorships. But the old idea would resurface in **Argentina** in 2001 when workers occupied factories deserted by capital after the economic crash. Occupation movements are now on the rise in **Greece** and may spread as economic crisis hits more European countries.

Prestes Maia squat, Sao Paulo, Brazil. The banner reads “We are Zumbi (rebel slave leader)”.

DIY culture.

In the richest countries like France, West Germany, UK, or US, workers’ resistance had all but disappeared, incorporated into completely tame trade union and parliamentary movements. But radical ideas were at least kept alive by flourishing “**counter-cultural**” movements mainly of students and youth. The student rebellions of **1968** started a resurgence of new interest in anarchist ideas. New anarchist and anti-authoritarian thinking saw how

capitalism was now effectively commodifying and colonising not just work, but our dreams and values with its mass consumer culture. In the 1970s, **punk** appeared with its rebellious ethic of "**Do It Yourself**" (DIY). Punk squatters and drop-outs lived off the excessive waste of consumer society in the rich world where food, clothes, and all kinds of consumer goods are simply tossed away unneeded into the street. Living off the scraps of rich cities doesn't offer a sustainable alternative to capitalism, but the experimental ethos of DIY culture, and its attacks on passive consumer values, has important contributions to make to future resistance movements.

Possibilities from new technologies.

Could new computing and communications technologies help solve many of the coordination problems that non-capitalist systems faced in the past? In some ways, the possibilities of self-organisation and mutual aid on a massive scale seem to be demonstrated by new phenomena like the **free software** movement, or even projects like wikipedia. Thousands of people all over the world create new technologies cooperatively without any money being exchanged. Could internet technologies efficiently organise distribution of resources around the globe without the need for markets? For example, the "Participatory Economics" (**ParEcon**) scheme is an anarchist-influenced plan for a large-scale economic distribution system which uses computing power to take over the role played by capitalist markets in a "decentralised planning" distribution system. Ursula Le Guin, in her novel ***The Dispossessed***, also gives a vision of a computer-aided anarcho-syndicalist future. *Parecon project*: http://www.zcommunications.org/zparecon/parecon.htm

Future Primitive.

But in a scheme like parecon, which is rooted in the 19th century syndicalist tradition, post-capitalist economics still means large-scale production and distribution on a“national” or global scale. As the scale of ecological destruction from industry becomes clear, many anarchists have moved against large-scale production and call for a return to smaller, simpler ways of living. Could we go back to a world based in small more or less self-sustaining village communities? Or even, as some “primitivists” argue, back to a world without agricultural “civilisation” at all? Or perhaps we can create new kinds of “tribes”, “packs”, “bands” – find new ways to live in small-scale cultures, bringing together elements from the pre-capitalist past with possibilities our ancestors never had? Perhaps ecological change will force us to, whether we like it or not.

Collection of primitivist texts:
http://www.primitivism.com/primitivism.htm

New localisms.

Noisebridge's members have filled this small space with an enviable collection of shared tools, parts and works in progress.
Photo: Dylan Tweney / Wired.com

Geeky people in their "hackspace", or tool-sharing workshop.

Or perhaps new technologies can actually help us move towards a more local scale of life. In the nineteenth and twentieth centuries, technological advances usually went hand in hand with massification: new machines, from spinning jennies to production line robots, needed to be concentrated in industrial scale factories close to sources of massive energy, and crowded humanity. More recent information-based technologies are encouraging decentralised production: "**all purpose computing**" can mean any of us can become a designer, engineer, artisan, with a small laptop and internet access to plans, designs and information. New "**future manufacturing**" hardware, e.g., **3-D printing**, will mean that we can manufacture even very advanced technological products locally, while solar cell and wind turbine technologies can provide local energy self-sufficiency. Could these advances help reverse two centuries of centralisation and industrialisation? Could **hackers** be the new radical artisans?

3. Hatching in the shell of the old.

Capitalism survives by spinning dreams. The basic story all over the world is the same: just hold on a bit longer, and you can have your place in the capitalist dream too. The new crisis is the beginning of the end of this dream. Crises of capitalism are opportunities for anti-capitalism. But these opportunities mean nothing unless we take them.

To look at Europe: millions of people, especially the young, migrants, the unskilled, and everyone else at the bottom, are being cut off from the job market and the welfare state. They are becoming **dispossessed**. If anticapitalists can suggest other answers, and build new alliances and communities of the dispossessed around them, then we have a chance to seriously challenge capitalism. But this won't happen automatically, just because conditions are getting bad. We have to make it happen.

How can we do this? It seems pointless to draft any grand plan of what a post-capitalist society would look like. We aren't anywhere near there yet. Anyway, maybe grand blueprints are never that helpful. What we need right now are answers to the immediate problems. What can we do in the face of mass unemployment and increasing poverty? How can we organise in our communities to deal with the end of welfare, and defend against attacks by increasingly repressive states? What do we do about the rise of fascism and nationalist movements? How can we take the offensive and help capitalist structures fall? Etc.

But when we tackle these immediate problems we can do it with an eye for the future too. First of all, we need to create the infrastructure for resistance. But the same infrastructure can also start to replace capitalist institutions. The idea here is to create

structures which are **versatile**, and can play different roles as situations change.

We can learn a lot from the history of past anti-capitalist movements. Very roughly, there have been three main approaches:

- Centralised, or statist, movements like Marxism aimed to take over the existing authority structures – the state, police, army, etc. – then use them to reshape economic and social relations "from the top". Their focus was on building an efficient "Party machine" which could conquer the state — with votes, or with guns. If they were "successful", they just ended up getting sucked into the same state system, and after a few years looked just the same as the old bosses.

- Escapist movements just tried to run away and set up utopia on a desert island. Unfortunately there aren't many desert islands left.

- Bottom-up resistance movements – including mutualism, insurrectionary assemblies, syndicalism, and more – wanted to destroy the centralised authority structure, and replace it with something different altogether. So they couldn't wait until "after the revolution" to build the new structures. They were already building, using, testing and developing them in their everyday life: workshops, federations, rebel bands, affinity groups, communes, assemblies, workers councils, etc. The same organisation methods, based on the same values of mutual aid, do two things: a) organise everyday resistance right now; and b) get ready to step in and replace capitalist structures when they retreat.

We don’t live in 1871 or 1936. We live in a very different globalised and high-information form of capitalism. We can learn a lot from history, but we also need to **experiment**, create, and develop **in practice**, our own new kinds of structures that can play these roles.

Anarchism.

These workshops are about capitalism, and anti-capitalism. But they are also about **anarchism**. Anarchism means fighting for a life free of all kinds of domination and oppression — not just in some perfect world "after the revolution", but also right now in the way we live today. Living in the midst of capitalism, we have to start by creating small spaces of freedom, linked into resistance networks of solidarity and friendship. As we grow and learn, we expand our spaces and networks. There is no end to this struggle. There will always be more to fight for, more to dream of.

"I believe that, thanks to our free actions, individual or collective, we can arrive at a future of love, fraternity and equality. I desire for all just what I desire for myself: the freedom to act, to love, to think. That is, I desire anarchy for all humanity. I believe that in order to achieve this we should make a social revolution. But I am also of the opinion that in order to arrive at this revolution it is necessary to free ourselves from all kinds of prejudices, conventionalisms, false moralities and absurd codes. And, while we wait for this great revolution to break out, we have to carry out this work in all the actions of our existence. And indeed in order to make this revolution come about, we can't just content ourselves with waiting but need to take action in our daily lives. Wherever possible, we should act from the point of view of an anarchist, that is, of a human being."

America Scarfó

Investigate further …

Workshop 1. An economic system.

Like other subjects, economics is a political battlefield. A battalion of ideology lurks behind every claimed "fact". What makes it even worse is how hard economists try to hide this basic point. So you get a mass of pro-capitalist economics textbooks which never talk about politics, or even history, and ignore the existence of any alternative positions. And also a few Marxist textbooks which are just as confident about their own dogmas. You may find that you will learn more from historians, and a few anthropologists, than from economists.

Some favourites:

Peter Kropotkin – *The Conquest of Bread*. Still the classic of anarchist communist economics.
Silvia Federici – *Caliban and the Witch*. Feminist history of the rise of capitalism and the state, the commodification of our bodies, the attack on women by early capitalist institutions, and the resistance.
David Graeber – *Debt: The first 5000 Years*. Big historical and anthropological study of debt, money, economic relations, and more. Not sure about all of it, but it's fascinating.
Albert Hirschman – *The Passions and the Interests*. Study of the rise of capitalist ideology and the very idea of "self-interest". (See workshop 6).
Michel Foucault – *The Birth of Biopolitics*. On liberalism, neoliberalism, and the birth of "economic man". Not an easy read.
E.P Thompson – *The Making of the English Working Class*. Massive, detailed, history of early industrial capitalism in England, the destruction of pre-capitalist social relationships, and the development of new forms of resistance.
Marshall Sahlins – ***Stone Age Economics.*** Hunter-gatherer economics and the "original affluent society".
Naomi Klein – ***Shock Doctrine***. Great on recent neoliberalism and

“disaster capitalism”.
Anonymous – ***Desert***. Any discussion of capitalism and anti-capitalism risks irrelevance unless we consider what drastic climate change may mean for our future possibilities. This recent book is highly recommended for anarchists and anti-capitalists interested in thinking about life on a hotter planet.

Some classic texts in capitalist economic theory:

Adam Smith – ***The Wealth of Nations***
David Ricardo – ***On The Principles of Political Economy and Taxation***
Karl Marx – ***Capital***
J.M. Keynes – ***The General Theory of Employment, Interest, and Money***
Milton Friedman – ***Free To Choose*****.** This being his more “popular” defence of capitalism.
Gary S. Becker – ***The Economic Approach To Human Behaviour***. Perhaps the most radical statement of the all-conquering ambitions of neoliberal economic theory and the rational choice model.

There are also some useful (though sometimes a bit technical) discussions and notes on different traditions in economic theory on the History of Economic Thought website of the **New School for Social Research** (leftie university in New York).

Workshop 2. Finance.

There are a few mainstream introductory books on global finance around. This one is okay:

Stephen Valdez ***Introduction to Global Financial Markets***

There is a lack of good “radical” studies of contemporary financial markets. Some of the stuff from the ***Dollars and Sense*** collective in

the US is good, though generally quite US-focused. But pro-capitalist finance sites are usually more interesting and informative than the socialist ones. Here are a couple worth checking out:

Nouriel Roubini, the "doctor doom" of the economics profession, and his gang of researchers: http://www.roubini.com/
Paul Krugman, the guru of liberal economists, has a blog at the New York Times: http://krugman.blogs.nytimes.com/

If you want to do more research yourself on the intricacies of financial markets, there are various places to look for reports, statistics, etc. Often the most interesting are research reports by the investment banks themselves. Some of these you can find by googling about, though many are restricted access. If you are really inquisitive, one thing you could do is call up the banks' press offices and ask for their research on a particular topic saying you are a freelance journalist. Otherwise, a few other sources of info:

IMF: publish annual "global financial stability report", "economic indicators", and other interesting stuff:
http://www.imf.org/external/pubind.htm
World Bank: also lots of data and research publications, mostly public access: http://econ.worldbank.org/
ISDA (International Swaps and Derivatives Association), the international industry body / lobbying group for derivatives issuers and traders. Publishes research papers, anti-regulation propaganda, statistics and other info: http://www2.isda.org/

If you are interested in specific countries or regions, look at local central bank and finance ministry websites, and local industry bodies.

Those evil **ratings agencies** publish both their "rating reports" on transactions, and the underlying methodologies behind them, as well as more general research papers. These are a really important source of info on securitisation deals and such. Some are freely available,

though you may have to fill out a registration form.
Fitch: Fitchratings.com
Moodys: http://www.moodys.com/
Standard & Poors: http://www.standardandpoors.com/
Workshop 3. Global power.

A good general introduction to World Systems Theory (WST) and global political economy is: **Herman Schwartz – *States vs. Markets***

The godfather of WST is **Immanuel Wallerstein** (google him).

Ha-Joon Chang -- *Kicking Away The Ladder* looks at how industrialised nations use protectionism to grow their nascent industries, then "kick away the ladder" to stop others copying them.

For a brazen neoliberal "institutionalist" theory of development and inequality, which comes recommended by Reagan and Thatcher, see **Hernando de Soto -- *The Mystery of Capital***. Know your enemy.

On the iron fist of the invisible hand: **William Blum – *Killing Hope***. A history of US military and clandestine interventions since 1945. www.killinghope.org and to download here:
sandiego.indymedia.org/media/2007/02/125025.pdf.

On the crisis and the current global shift: **Graham Turner – *The Credit Crunch*; Paul Mason – *Meltdown*;** and other references for Workshop 5.

The mainstream sources for global income etc. stats are the research and data departments of the IMF (www.imf.org), World Bank (www.worldbank.org), and OECD ("Organisation for Economic Cooperation and Development" – www.oecd.org).

Angus Maddison's historical global income stats are here**:**
http://www.theworldeconomy.org/

Workshop 4. The state.

Max Weber's famous definition of the state appears in his lecture "*Politics as a Vocation*".

Some classic references in liberal political philosophy include:
John Locke *2nd Treatise of Civil Government*;
David Hume ***A Treatise of Human Nature*** Book III Part II (section 2 on the origin of property, section 7 on the origin of government) and his political *Essays*;
Jean-Jacques Rousseau *The Social Contract*.

Again, **Silvia Federici – *Caliban and the Witch*** is a brilliant feminist and anticapitalist history of the early days of capitalism and the nation state.

On the dark history of liberalism and its involvement with slavery, colonialism, etc., one book is **Domenico Losurdo *Liberalism: A Counter History***

For recent developments in neoliberalism and "disaster capitalism" **Naomi Klein -- *Shock Doctrine*** is really worth reading. There's also marxist geographer **David Harvey's *A Brief History of Neoliberalism***.

A good source for research on outsourcing of the state (with a UK focus, but a bit of global stuff) is **corporatewatch**.
Statewatch is a research organisation monitoring the growth of state power in Europe today — surveillance, border controls, etc.
See SIPRI (Stockholm International Peace Research Institute) for stats on military expenditure and the arms trade. Also the UK's Campaign Against the Arms Trade (CAAT).

Workshop 5. Crisis.

For a more in-depth look at different theoretical approaches (Keynesian, Marxist, etc.) to the 2008 crisis, see: http://libcom.org/library/crisis-stories

There are lots of books out on the causes of the current crisis. Two good ones are:
Graham Turner – ***The Credit Crunch*****:** ***Housing Bubbles, Globalisation, and the Worldwide Economic Crisis***
Paul Mason – ***Meltdown***.
If you don't want to read Mason's book, his website also has a quick powerpoint run-through and other useful links:
http://www.paulmason.typepad.com/

Marxist geographer **David Harvey** also has some interesting thoughts. This animation of one of his talks on the crisis is a decent intro: http://www.youtube.com/watch?feature=player_embedded&v=qOP2V_np2c0

Foster & Magdoff – *The Great Financial Crisis*, Monthly Review Press, is also worth a look. It is good on financialisation, particularly with reference to the US economy, but lacks a global analysis. Note: most of the chapters are available as earlier article versions on the web: http://www.monthlyreview.org/0506jbf.htm

Two feature-length films on the crisis are worth watching. **Inside Job** is a good example of the "blame the bad bankers" approach, but has lots of useful info. Similarly, **Debtocracy** has useful info particularly on the politics behind the debt crisis in Greece.

For the European sovereign crisis, Corporatewatch's guide is good (to be published very soon): www.corporatewatch.org. And here are a few interesting articles you can read online:

http://old.atterres.org/?q=node/13&page=6

http://www.independent.co.uk/news/business/analysis-and-features/what-price-the-new-democracy-goldman-sachs-conquers-europe-6264091.html
http://mobile.bloomberg.com/news/2011-12-09/european-crisis-timeline-from-maastricht-treaty-to-fiscal-union-agreement?category=
http://www.nytimes.com/2010/04/29/business/global/29banks.html
http://www.economist.com/blogs/freeexchange/2011/06/greek-debt

Workshop 6. Desires.

The section on self-interest is largely based on:
Albert Hirschman – **The Passions and the Interests:** *Political Arguments for Capitalism before its Triumph***.**

Michel Foucault's lecture course on ***The Birth of Biopolitics*** is also fascinating on liberalism, neoliberalism, "homo economicus" and the idea of human beings as "subjects of interest".

On the history of advertising and mass consumerism, **Stuart Ewen** is excellent. The section above largely follows his ***Captains of Consciousness***. His more recent book ***PR! A Social History of Spin*** is also good.

Adam Curtis' TV documentary series ***The Century of the Self*** also largely follows Ewen's account, with an added emphasis on the link between advertising and Freudianism. Some of the claims are a bit simplistic, but it is fascinating and entertaining. Last time we looked it was all up on youtube.

For the story of Meeker's complete and brutal incomprehension of a superior culture, and many other sad stories, see **Dee Brown – *Bury My Heart at Wounded Knee (An Indian History of the American West).***

Guy Debord's master work is ***The Society of the Spectacle***. There's

also a movie version, which should be on youtube. The other SI classic is **Raoul Vaneigem – *The Revolution of Everyday Life***. Both these, and more, are available at this SI online library: **http://www.nothingness.org/SI/**

On cultures, subcultures, and subcultural resistance, see **Dick Hebdige – *Subculture: the Meaning of Style*.**

The first part of ***The Coming Insurrection*** (by the "**Invisible Committee**") is certainly influenced by Debord in its style as well as content. The second part, which moves from critique to theses for new insurrectionary movements, is one of the key revolutionary works of our times.

But if you really want French theories of desire, nothing compares to **Gilles Deleuze and Felix Guattari – *Anti-Oedipus*.**

Workshop 7. Beyond.

Some favourites:

Peter Kropotkin *The Conquest of Bread*. Classic statement of anarchist communism from 100 years ago. While certainly outdated in some number of ways — e.g., its faith in labour-saving technologies — this is still about the best anarchist work on economics. Its main interest is in how to organise a revolutionary economy, learning from the experience of the Paris Commune in particular. But also has some real insights on economic theory in general, and a critique of Marx's economic thought and the "labour theory of value" .

Ursula Le Guin – *The Dispossessed*. Classic anarcho-syndicalist science fiction vision. Although a fantasy novel, this is also one of the best worked out programmes for what an anarchist society (and on a desert planet, too) might actually look like, warts and all.

Marge Piercey – *Woman On The Edge of Time*. Another novelistic vision, this time of a society of self-sufficient small scale communes which also raises many issues about gender, sexuality, and cultural identities. Its beautiful utopian visions are embedded in a story of the dystopian present.

Anonymous – ***Desert***. Any discussion of capitalism and anti-capitalism risks irrelevance unless we consider what drastic climate change may mean for our future possibilities. This recent book is highly recommended for anarchists and anti-capitalists interested in thinking about life on a hotter planet.

Some anti-capitalist history:

David Graeber – ***Debt***. For the discussion of three forms of social relations used above. Also lots of history and anthropology of non-capitalist, and capitalist, social arrangements.
Luther Blisset – *Q*. Radical historical novel featuring German peasants war, Anabaptists, the invention of leafleting, free love, and international bank fraud. Described by its authors as a "handbook of survival skills".
Christopher Hill – ***The World Turned Upside Down***. History of the diggers, ranters, levellers, and others in the English Revolution.
E.P Thompson – *The Making of the English Working Class*. Massive scholarly reference on the early period of industrial capitalism in England, and resistance to it. Includes perhaps the most complete history of the Luddite movement.

Syndicalism, parecon, and critics:

Rudolf Rocker – *Anarcho-Syndicalism: Theory and Practice*
Classic exposition of anarcho-syndicalism from 1938.
Emile Pataud and Emile Pouget – *How We Shall Bring about the Revolution*. Fictionalised manual for a syndicalist revolution beginning from a general strike, from 1909.

On the success (or otherwise?) of syndicalist economic organisation in Spain 1936 see:
Gaston Laval -- *Collectives in the Spanish Revolution*.
Parecon project:
http://www.zcommunications.org/zparecon/parecon.htm
Many anarchists have been highly critical of syndicalism. For a recent strong critique see:
Alfredo Bonnano -- *A Critique of Syndicalist Methods*.
See also his ***Let's Destroy Work, Let's Destroy the Economy***, and other writings, which can all be found here:
http://www.elephanteditions.net/
Also **Bob Black – *The Abolition of Work***
(http://theanarchistlibrary.org/library/Bob_Black__The_Abolition_of_Work.html)

Primitivism and militant ecology:

There is a comprehensive library of primitivist texts here: http://www.primitivism.com/primitivism.htm
Derrick Jensen -- *Endgame* is becoming a new classic of green anarchism. You can also watch the movie *End:Civ* based on Jensen's ideas.

Mutualism:

If you can sort out the interesting stuff from the rabid misogynistic and anti-semitic rants, here is an online archive of **Proudhon**'s writings:
http://dwardmac.pitzer.edu/anarchist_archives/proudhon/Proudhonarchive.html
Kevin Carson is a contemporary Proudhon-inspired "mutualist" who calls himself a "free market anti-capitalist":
http://mutualist.blogspot.co.uk/

For more materials, with weblinks, go to:

network23.org/kaput

What is capitalism, exactly? And can we destroy it before it destroys us?

This text is based on a series of participatory workshops. It offers an introduction to economics, finance, and the theory of capitalism, for anti-capitalists. No previous exposure to economics necessary.

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