ISSN 1758-5708

www.thesocialistcorrespondent.org.uk

The Socialist Correspondent

Issue Number 4
Spring 2009

ISSUE NO. 4

Contents

SPRING 2009

Discussion, debate and authors' opinions
To encourage the broadest possible discussion and debate around the aims of exposing capitalism and promoting socialism, we hope our readers appreciate that not all the opinions expressed by individual authors are necessarily those of The Socialist Correspondent.

Front cover:
Paris trade union demonstration
29 January 2009
Picture by Daniel Finnan
http://www.flickr.com/photos/danielfinnan/3236323591/

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Marx was right 150 years ago

The current capitalist crisis is a result of the same causes as all the periodic crises of capitalism: excessive speculation and fictitious credit.

Karl Marx explained this 150 years ago. (see K Marx, "The English Commercial and Financial Crisis", New York Tribune, 15 December 1858; re-printed in The Socialist Correspondent, Issue 2, Summer 2008).

Capitalist Crisis: what now?

These periodic crises lead to the destruction of the means of production and labour power, that is, to factory closures and redundancies, the 'real economy', as it is now being referred to.

Unemployment rising, increasing negative equity and house re-possessions, living standards falling are all outcomes of the bankruptcy of capitalism. The current crisis has the makings of one of the most severe. And, what are we offered as solutions by the Labour, Tory, Liberal Democrat and Nationalist parties in the UK? Variations on the same theme: marginally different ways of managing the system.

It may seem an empty truism but none of them question the capitalist system as being the root of the problem. Until the system as a system is challenged then we have got to expect more, or worse, of the same.

As Paul Sutton in his "Capitalist Crisis: what now? What next?" points out Keynesian solutions are "essentially palliative rather than truly transformative", and argues that there is a need to move on to more fundamental change. Ultimately the overthrow of the capitalist system is the only real solution.

Communist Manifesto

In this context the Communist Manifesto is as relevant today as it was in 1848, when it was first

Commentary

published. Pat Turnbull reviews the Manifesto on its 160th anniversary.

Speculation

Greg Kaser in his piece, "Speculation, Inflation, Contagion", points the finger at speculation and raises the issue of the "Tobin Tax", a proposed tax on foreign exchange transactions (97% of the $1.3 trillion a day deals in the foreign exchange markets are reportedly for speculative purposes).

Interestingly the Canadian Parliament has passed a vote calling for this. Of course this would not change the system. It would be a regulatory mechanism, maybe a regulatory system too far for most capitalists!

US Imperial Supremacy

As Uri Cohen relates in his article, "Global Finance and the 'New Cold War', with the defeat of socialism, and "under overall US command the Western world morphed into a rolling privatisation, corporate plunder and military intervention machine." Cohen goes on to outline the origins of the current Russo-American conflict. He argues that the West allowed Russia's Yeltsin to "give away Russia's riches to his hand-picked friends as a means of securing the loyalty of the new post-Soviet corporate elite to the US-friendly regime in the Kremlin", and it was because they feared a return to socialism. These "hand-picked friends", who stole Russia's assets, went on to become Russia's oligarchs.

Gideon's Gaffe

One of those Russian oligarchs is Oleg Deripaska, an aluminium tycoon. Earlier in the year he hosted Nat Rothschild, the British financier, Peter Mandelson, the then EU Trade Commissioner and George Osborne, Shadow Chancellor on his yacht, Queen K off the coast of Corfu. Osborne leaked a story to the media to score a petty political point and ended up with a media scandal and huge, maybe permanent, damage to his long-time friendship with Nat Rothschild, of the extremely wealthy and powerful Rothschild family, as well as his own ambitions. Gideon is George's original name: hence Gideon's Gaffe. The short piece by Questor exposes the connections of politicians, media barons and tycoons.

The EU, Mandelson and Trade

Peter Mandelson returned from Corfu to become Lord Mandelson and Business Secretary in the New Labour Cabinet. You can see why he was selected as Business Secretary for a government which courts big business. Under his watch as European Trade Commissioner, Mandelson oversaw trade tariff rates reduced on aluminium exports, hugely benefiting Deripaska.

This was at the same time as he was imposing Economic Partnership Agreements (EPAs) to the severe disadvantage of the ACP (African, Caribbean, Pacific) countries. This includes a series of clauses in the EPA arrangement which allows the European Union to exert significant influence on the ACP countries' economic governance in a highly partisan and non-developmental manner.

This pressure from the richest countries to keep the countries of the developing world within the capitalist fold and prohibit economic independence is very difficult to challenge successfully.

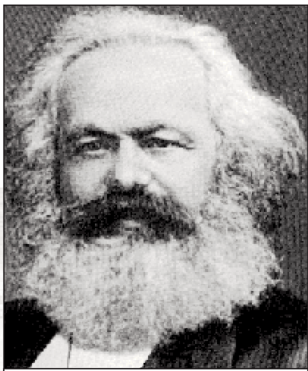
South Africa

Alex Davidson reflects on the divisions in the African National Congress which led to changes in its leadership and then to the recall of Thabo Mbeki as President of the Republic of South Africa. With the national election looming, the article looks at the underlying causes of the differences and what it might mean for the people under a (certain to be elected) new ANC government.

Deep contradictions of capitalism laid bare

On the 14th October 2008 *The Times* carried what for it must have been a very troubling lead editorial under the title, "Has Capitalism Failed?"

PAUL SUTTON examines the financial crisis, the gathering general crisis of capitalism and the economic doctrine of neo-liberalism.



"MARX IS BACK"
The Times - 21 October 2008

Exactly a week later on 21st October it followed it with a full-page photograph of Karl Marx on the lead page of its magazine section bearing the caption "He's back: does the financial crisis prove that Karl Marx was right all along?"

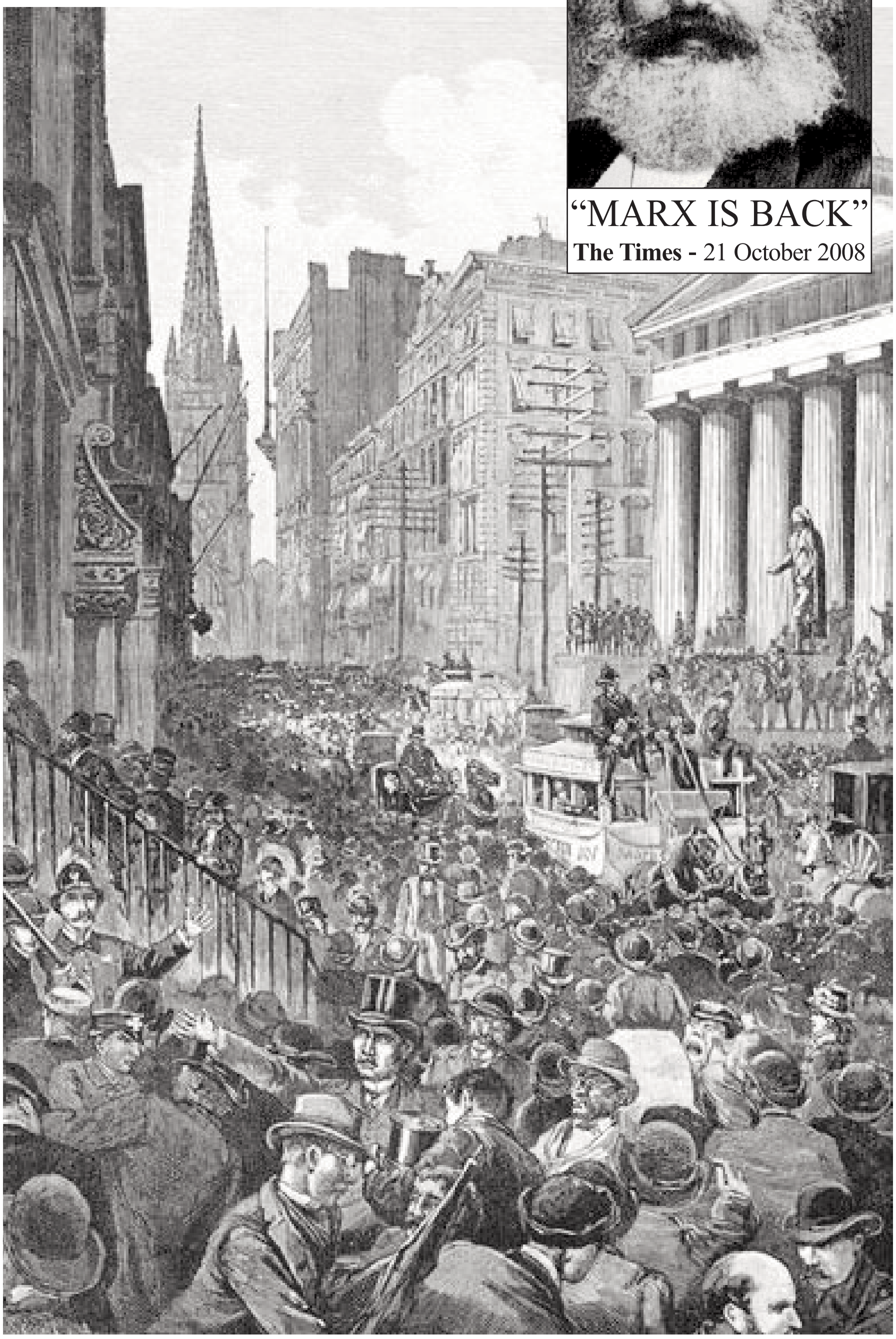
The twin spectres of 'capitalism failing' and 'Marx resurrected' measure the shock that first the financial crisis and following it the gathering general crisis of capitalism have had on the ruling classes and their economic doctrine of neo-liberalism.

Its speed, its generality and its depth pose for the first time in more than a generation in the advanced capitalist countries of the world the prospect for early progressive change and the opening of new lines of revolutionary struggle to end capitalism.

It is therefore worth reflecting on how this has come about and what it shows about the strength and weaknesses of capitalism today.

The very instructive 'Timeline: Global credit crunch' on the BBC website dates the beginning of the crisis from early 2007 when problems with the US sub-prime mortgage market first emerged. While this is a good date to start from to understand the current phase of the crisis (see The Socialist Correspondent No. 2, 2008) the roots lie earlier in the Thatcher years and the onset of globalisation.

In October 1986, to much fanfare, the Stock Exchange in Britain was simultaneously computerised (electronic trading of shares was generally introduced representing in Marxist terminology an advance in the technical 'forces of production') and de-regulated (traditional 'restrictive practices' in the market were abolished allowing new practices to flourish representing a change in 'the relations of production', not least in the social origins of the new entrants of stock traders). The expectation was that Britain could once again



Wall Street During the Panic of 1884
Schell & Logan. Engraving: Harper's Weekly; May 24, 1884

2007-2009: a timeline of the world crisis of capitalism

GOOD TIMES NEVER FELT SO GOOD

In October 2007 the Financial Times Stock Exchange (FTSE) 100 share price index of the UK's 100 top companies, one of the barometers of the state of the British economy, reached a record high of 6,721.60 points.

That very same month the Royal Bank of Scotland (RBS) - the fifth largest bank in the world - emerged as the victor in the battle to takeover the Dutch bank ABN Amro. It cost RBS and its allies a staggering £65 billion. For Britain's banks the good times never felt so good.

FROM BOOM TO BUST IN LESS THAN A YEAR

A year later the FTSE 100 had, it seems, fallen off a cliff. In November 2008 it was down at 3,780.96 points, a catastrophic collapse of 56% in one year. Around the same time RBS was also in dire straits and was soon effectively nationalised as the UK government stepped in to prevent its certain collapse.

RBS's hero, its chief executive Sir Fred Goodwin, was in disgrace and resigned, earning for himself the title of "the world's worst banker". In 12 months, Britain's banking system, its flagship bank and its swashbuckling chief had all gone from heroes to zeros. As we show below, the same banking collapses and catastrophies were going on in the USA, the sub-prime mortgage lending heart of the rupture that led to the financial tsunami - the credit crunch that swept the developed capitalist world and whose consequences are and will still be felt for some time to come.

Across the USA, all over the European Union, in China, in Russia the story was the same. Banks and other financial institutions either going to the wall or being bailed-out by their governments.

The FTSE 100 and RBS collapses are only two chapters in a very long story of the much greater breakdown of the world capitalist system.

That banking and financial collapse has now fed into what some call the "real economy" as opposed to the usurious, parasitic and dominant banking and financial sector.

UK unemployment is fast heading towards two million. In January the UK economy officially went into recession and every week thousands of jobs are being shed as the "real economy" takes the expected pounding. British manufacturing, especially the car industry, is facing a gloomy future. Over 4,000 workers have been laid off until June at the Honda car plant at Swindon.

2007 But the story began in the USA in the summer of 2007. The sub-prime mortgage lender, Countrywide Financial had to draw down an £11 billion line of credit and then secure an additional $12 billion bail-out. Some consider this to be the start of the crisis.

In the UK that same summer Northern Rock went the same way as Countrywide causing panic in high streets all across Britain as worried Northern Rock depositors queued to take £1bn of their savings out of the troubled bank. it is the biggest run on a British bank in 100 years. Eventually Northern Rock was nationalised.

2008 In March in the USA, Bear Searns was bailed out with $29 billion by the US Treasury. In July, IndyMac, a spin-off of Countrywide was seized by Federal Regulators following frantic queues of depositors in Los Angeles.

September 2008

This was an extraordinary month and it began with US financial markets plunging as the government attempted to save the country's two largest mortgage lenders, Fannie Mae and Freddy Mac. The two were eventually nationalised. That same month the following all took place:

- Lehman Brothers declared bankruptcy after failing to find a buyer.
- Bank of America agreed to purchase the embattled Merrill Lynch.
- A consortium of 10 US banks created an emergency fund of at least $70 billion to deal with the effects of Lehman's closure.
- The US Federal Reserve gave insurance giant AIG an $85 billion rescue package.
- JP Morgan Chase bought the banking assets of the failed Washington Mutual.
- 81 US public corporations filed for bankruptcy.
- Short selling on 799 US financial stocks was banned.
- President Bush asked Congress for $700 billion to purchase troubled mortgage assets. The House of Representatives rejected Bush's plan and the Dow Jones plunged 777 points. The Plan was revised and passed by Congress.
- US stock markets continued to fall.
- In Iceland the Glitnir bank was effectively nationalised after the government acquired 75% of its stock.
- The UK government waives monopoly concerns and approved Lloyds TSB's £12.2 billion takeover of the troubled HBOS. HBOS' share price drops like a stone and there are fears of 40,000 British banking redundancies.
- Other British banks, notably RBS and Bradford and Bingley, begin to suffer as the financial crisis spreads across the whole sector. Bradford and Bingley's £20 billion savings business is sold to Grupo Santander of Spain while its mortgage business is taken into public ownership.

As 2008 rolled on to its close, Iceland's entire banking structure is effectively nationalised as the country tries to stave off "national bankruptcy."

Ireland announced it was officially in recession, the first EU country to do so, and in Hungary the value of the Forint fell by 10%. The European Central Bank announced it was bailing out Hungary with a loan of five billion euros. In November, the IMF announced it too was going to Hungary's rescue with $25 billion.

UK unemployment rose to over 1.8 million and from 1 December, the Government cut VAT from 17.5% to 15% for 13 months in an attempt to encourage a big spend from UK shoppers before Christmas. On 4 December 2008, the Bank Of England cut interest rates from 3% to 2%.

The year ended with the financial scam scandal of Bernard Madoff, who, after nearly half a century of trading on Wall St., was arrested amidst allegations that his entire hedge fund investment business was nothing more than a fraudulent $50bn (£33bn) scheme to dupe investors.

2009 January in Paris, millions of workers protest at the Sarkozy government's failure to help working people. In February UK unemployment hits 1.98 million and in the same month the Bank Of England again reduced interest rates to 1%, the lowest in the Bank's 315 year history.

become the leading financial centre in the world or at least a rival to Wall Street.

In itself, this could not have happened without the gathering strength of globalisation. While long-distance and then international trade have been with us since the dawn of civilisation, globalisation in its present form is different in the breadth of its geographic spread, its intensity and in its concentration in production and finance.

This has led to the emergence of the global companies we recognise today with their global 'logos' and their global production and supply chains, which have transformed the world and the way it organises work.

The Thatcher government was both the mouthpiece and the facilitator of such development. Its clearest expression was in the promotion of neo-liberalism, which has at its heart the privileging of the private sector over the public sector and the promotion of the market as the answer to all problems.

In its Anglo-American (Thatcherite) version neo-liberalism included cutting taxes on the wealthy and on business; cutting public expenditure and privatising production and services (as in selling off public utilities in electricity, gas and water); de-regulating labour markets by re-regulating the trade union movement through restrictive trade union laws; encouraging and facilitating the free flow of capital in and out of the country (both productive as in investment and speculative as in currency dealers and global hedge fund managers); and concentrating the government management of the economy on the control of inflation rather than the creation of employment. The result was the grossly unequal society that is Britain today.

But not all the blame should be put on Thatcher and her successor John Major. The incoming New Labour government uncritically applied neo-liberal doctrine, exemplified in the first few days of office with the much touted creation by Gordon Brown, then Chancellor of the Exchequer, of an 'independent' Bank of England charged with 'independently' determining the bank rate by reference to the rate of inflation, not the rate of growth of the economy.

It was followed by the City 'charm offensives' which saw bankers and financiers celebrated, honoured (as the money rolled in to New Labour coffers) and put in charge of government agencies and, on occasion, ministries. And it lasted throughout the time Brown was Chancellor so that as late as his last annual speech in that capacity to City leaders at the Mansion House in June 2007 he was praising the City of London for its "efforts, ingenuity and creativity" that had enabled it over his ten years as Chancellor "to become a new world leader".

The Bank of England in Threadneedle St., London. Picture released into the public domain by Adrian Pingstone (Nov. 2004).

New Labour uncritically applied neo-liberal doctrine ... with the much touted creation by Gordon Brown ... of an 'independent' Bank of England charged with 'independently' determining the bank rate by reference to the rate of inflation, not the rate of growth of the economy.

Indeed, the whole speech is nothing less than a hymn of praise to financial globalisation and the place of the City in it which now saw "40% of the world's foreign equities traded here", "over 30% of the world's currencies exchanges take place here, more than Tokyo and New York combined" and in which "while New York and Tokyo are reliant mainly on their large American and Asian domestic markets, 80% of our business is international".

On this basis Brown was able to "congratulate you Lord Mayor and the City of London on these remarkable achievements, an era that history will record as the beginning of a new golden age for the City of London" (www.hm-treasury.gov.uk/2014.htm).

What a difference a year makes! Instead of Gordon Brown's City speech in which he trumpeted "I believe it will be said of this age, the first decades of the 21st century, that out of the greatest restructuring of the global economy, perhaps even greater than the industrial revolution, a new world order was created" we have the spectacle of escalating financial chaos and growing world disorder.

More directly is the admission by the new Chancellor of the Exchequer, Alistair Darling, to the Guardian newspaper at the end of August 2008, that the UK was facing its worst economic crisis in 60 years. And more dramatic still is the interview by the Deputy Governor of the Bank of England at the end of October when he stated that the situation is "possibly the largest financial crisis of its kind in human history".

He may, perhaps, be accused of some exaggeration, but an audit by the ***Daily Mail*** a day later (25 October 2008), and coincidental with the 79th Anniversary of the Wall Street Crash, is very revealing.

Britain's economic output was down by 0.5% - more than twice the decline expected by the City and the first contraction for 16 years; sterling had its worst ever week against the dollar since 1971 and hit a record low against the euro; stock exchange markets tumbled around the world with leading UK shares losing almost £50 billion; experts warned that some hedge funds were close to collapse which meant savers and pension funds could lose billions; and hundreds of jobs were axed in the insurance, cosmetics, haulage and textile industries.

In the same edition, demonstrating the spread of the financial crisis to the developing world, the Prime Minister of Pakistan was reported as saying his nation faced “an economic tsunami”.

The cost of the financial crisis is truly staggering. The Bank of England in its bi-annual Financial Stability Report released in October put the cost of the crisis at US $2.8 trillion (£1,800,000,000,000).

Losses in financial institutions in the UK were reported as £122.6 billion, in the eurozone as £625 billion and in the US £1 trillion. The Bank also warned that 1.2 million UK home owners were now at risk of ‘negative equity’ following falls in the housing market.

However, as Robert Peston, the BBC’s business correspondent was quick to point out in his blog (28 October), these figures were almost certainly an underestimate.

In his words “it's peanuts compared with the losses suffered over just the past month by pension funds, insurance companies, banks and all of us from the slump of more than 25% in the average value of shares listed on global stock markets”.

All of which pointed to us “careering into a pretty nasty global recession”. Indeed, recession is now reluctantly admitted by the government, the only dispute being whether it will lead to global depression reminiscent of the 1930s.

So what has been done by the ‘macroeconomic managers’ of the global capitalist system to counter their worst nightmares? Two initiatives stand out.

The first was that taken by George Bush in the US in late September. It aimed at avoiding no less than the ‘collapse’ of the US banking system by the government setting aside US$700 billion to buy bad (toxic) debt from the US banks most exposed to default, so minimising risk and allowing banks to resume lending.

The sum involved represented the biggest intervention in the US market since the Great Depression of the 1930s. It proved controversial with the US Congress and the US public, but it did not prove to be enough.

A further initiative was needed. In the morning of 8th October the UK Treasury announced a scheme to recapitalise British banks and resuscitate the frozen credit markets. Under it the government offered to invest up to £50 billion in the banking sector, while also offering cover for as much as £250 billion of bank debt and adding £100 billion to the Bank of England's short-term loan scheme.

Eight of the UK’s largest bank and building societies confirmed their participation in it in what, in effect, was a partial nationalisation. It was followed at mid-day by the announcement of co-ordinated interest rate cuts of half of one percent by the Bank of England, the European Central Bank and the US Federal Reserve.

Three days later the finance ministers of the G7 group of leading industrialised nations met and agreed a five-point plan to stabilise the situation based on the UK model, including government part nationalisation of banks.

Another three days later, on October 14 the US government announced it was making $250 billion available to purchase equity (part-nationalisation) in a number of banks to restore confidence to the sector. It was undoubtedly a difficult but nevertheless essential decision for the US government to make.

The US Treasury Secretary, Henry Paulson, was reported as stating that taking equity in banks “was objectionable to most Americans, including myself. But we must do this to restore confidence in the financial system” (BBC news website).

These actions have been widely interpreted as signalling the end of neo-liberalism and a return to Keynesianism, in which government intervention would compensate for market failure. Some caution needs to be entered here.

The measures taken in the US, as George Bush indicated on October 14, were not directed “to take over the free market, but to preserve it”. That is, they were reluctant and temporary to compensate for what he had termed in September as “the markets not functioning properly” so implying a return to ‘business as usual’ once the market had ‘bounced back’ from the shock.

Nevertheless, a groundswell of opinion in the UK has begun to look for alternative ways to manage the economy. One of the foremost proponents has been Will Hutton who has been a persistent critic of neo-liberalism.

Writing in the Observer (2 November 2008) he was pleased to announce that “John Maynard Keynes is back” and went on to argue that the current crisis is “a once in a generation chance to reform the British and world financial system”. This would require increased government borrowing (and hence spending) to stave off the worst effects of the recession (and prevent it from becoming a depression) as well as new mechanisms to tightly regulate finance and direct funds for investment and mortgages.

These are worthy proposals pointing toward progressive change. However, the intent behind them is still essentially palliative rather than truly transformative and will, unless given strength and direction, result at best in some form of neo-Keynesianism in which, as Hutton puts it, “the socialisation of the financial system [becomes] an imperative to save capitalism”. There is a need, in short, to move on to more fundamental change.

Here there are two essential steps. The first is understood by reference to insights on the capitalist system made more than 60 years ago by a progressive Austrian thinker, Karl Polanyi.

In his book The Great Transformation: The Political and Economic Origins of Our Time (1944) he argued that self-regulating markets (neo-liberal systems) cannot survive since they make unsustainable demands on ordinary people. The reaction to the market system brings forth a counter-movement in the form of mobilisations for democracy and for greater government and international controls on markets.

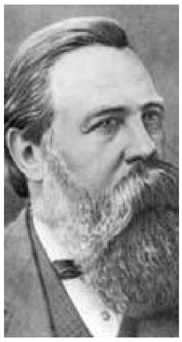
The modern example of such mobilisations would be the anti-globalisation protests that have taken place around the world. They have created very active grass-roots movements and brought people into politics with demands for greater democracy and greater government action on their behalf, at national and international levels.

In the UK it is seen in the ideas and work of Tony Benn in books such as his Arguments for Democracy (1981) and actions by countless others in support of full employment, social justice and peace.

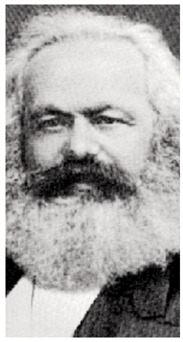
But this type of action also has its limitations unless working people take a full command of their lives in their own interest. It demands that a class becomes conscious of its interests as a class – a class in itself and for itself as Lenin so neatly put it.

This demands an altogether more focused and deeper understanding of political mobilisation and the prospects for political change. This is the second essential step. The revolutionary movement must now be directed toward the discovery of how modern capitalism really works using the opportunity provided by the crisis to analyse the deep contradictions in capitalism it has laid bare.

Workers of all countries Unite!



Frederich Engels



Karl Marx

More than 160 years ago the Communist Manifesto was written. PAT TURNBULL outlines why that brilliant work by Karl Marx and Frederich Engels is still as relevant today.

1848 was a year of revolutions in Europe. The Communist League, an international association of workers meeting in November 1847 in London, commissioned Karl Marx and Friedrich Engels to write the Manifesto.

In the Communist Manifesto the two great classes of capitalism face each other: the bourgeoisie (the capitalist class) and the proletariat (the working class). Marx and Engels trace their history and describe their nature.

First the capitalists:

'…the modern bourgeoisie is itself the product of a long course of development, of a series of revolutions in the modes of production and of exchange.'

'The bourgeoisie … has pitilessly torn asunder the motley feudal ties that bound man to his "natural superiors", and has left remaining no other nexus between man and man than naked self-interest, than callous "cash payment"…. [It] has set up that single unconscionable freedom – Free Trade.'

'The bourgeoisie … has converted the physician, the lawyer, the priest, the poet, the man of science, into its paid wage-labourers.'

'Constant revolutionising of production, uninterrupted disturbance of all social conditions, everlasting uncertainty and agitation distinguish the bourgeois epoch from all earlier ones.'

'The need of a constantly expanding market for its products chases the bourgeoisie over the whole surface of the globe…. In place of the old wants, satisfied by the productions of the country, we find new wants, requiring for their satisfaction the products of distant lands and climes.'

The Communist Manifesto's section on crisis-ridden capitalist production seems especially appropriate.

'Modern bourgeois society with its relations of production, of exchange and of property, a society that has conjured up such gigantic means of production and of exchange, is like the sorcerer, who is no longer able to control

the powers of the nether world whom he has called up by his spells. For many a decade past the history of industry and commerce is but the history of the revolt of modern productive forces against modern conditions of production, against the property relations that are the conditions for the existence of the bourgeoisie and of its rule. It is enough to mention the commercial crises that by their periodical return put on its trial, each time more threateningly, the existence of the entire bourgeois society. In these crises a great part not only of the existing products, but also of the previously created productive forces, are periodically destroyed. In these crises there breaks out an epidemic that, in all earlier epochs would have seemed an absurdity – the epidemic of over-production. Society suddenly finds itself put back into a state of momentary barbarism; it appears as if a famine, a universal war of devastation had cut off the supply of every means of subsistence; industry and commerce seem to be destroyed … '

'And how does the bourgeoisie get over these crises? On the one hand by enforced destruction of a mass of productive forces; on the other, by the conquest of new markets, and by the more thorough exploitation of the old ones. That is to say, by paving the way for more extensive and more destructive crises, and by diminishing the means whereby crises are prevented.'

On 11th October 2008 the Daily Telegraph carried this paragraph: 'Factories are closing and unemployment is rising as the financial crisis hits the real economy, and instead of talking about a recession, economists are nervously discussing the possibility of a depression.' And this: '..without loans to buy house, cars and consumer goods, the worldwide market for everything from bricks to iron ore has dried up, leading the International Monetary Fund to warn of the worst global downturn since the 1930s.'

Back to the Manifesto: 'The executive of the modern State is but a committee for managing the common affairs of the whole bourgeoisie.' Gordon Brown's 'committee' has provided billions of pounds of stabilisation fund for the British capitalist class.

So much for the capitalists. And now the Communist Manifesto turns to the working class:

' … not only has the bourgeoisie forged the weapons that bring death to itself; it has also called into existence the men who are to wield those weapons – the modern working class – the proletarians.'

'These labourers, who must sell themselves piecemeal, are a commodity, like every other article of commerce, and are consequently exposed to all the vicissitudes of competition, to all the fluctuations of the market.'

'This organisation of the proletarians into a class, and consequently into a political party, is continually being upset again by the competition between the workers themselves. But it ever rises up again, stronger, firmer, mightier.'

'Of all the classes that stand face to face with the bourgeoisie today, the proletariat alone is a really revolutionary class.'

'Law, morality, religion, are to him so many bourgeois prejudices, behind which lurk in ambush just as many bourgeois interests.'

'All previous historical movements were movements of minorities, or in the interest of minorities. The proletarian movement is the self-conscious, independent movement of the immense majority, in the interest of the immense majority.'

'What the bourgeoisie, therefore, produces, above all, is its own grave-diggers. Its fall and the victory of the proletariat are equally inevitable.'

'You [the bourgeoisie] are horrified at our intending to do away with private property. But in your existing society, private property is already done away with for nine-tenths of the population.'

'In one word, you reproach us with intending to do away with your property. Precisely so; that is just what we intend.'

When the Communist Manifesto was written, no socialist societies had existed, no societies where the working class was the ruling class. We, however, have experienced socialism, in particular the more than seventy years' of socialism in the Soviet Union. We can see that the Manifesto's prediction of the essential characteristics of socialism is remarkably accurate.

'National differences and antagonisms between peoples are daily more and more vanishing, owing to the uniformity in the mode of production and in the conditions of life corresponding thereto.

'The supremacy of the proletariat will cause them to vanish still faster.'

'In proportion as the exploitation of one individual by another is put an end to, the exploitation of one nation by another will also be put an end to. In proportion as the antagonism between classes within the nation vanishes, the hostility of one nation to another will come to an end.'

'The proletariat will use its political supremacy to wrest, by degrees, all capital from the bourgeoisie, to centralise all instruments of production in the hands of the State, i.e. of the proletariat organised as the ruling class; and to increase the total of the productive forces as rapidly as possible.'

'In place of the old bourgeois society, with its classes and class antagonisms, we shall have an association, in which the free development of each is the condition for the free development of all.'

The Communist Manifesto predicts these features of a society where the working class owns the means of production:

'1. Abolition of property in land and application of all rents of land to public purposes.

2. A heavy progressive or graduated income tax.

3. Abolition of all rights of inheritance.

4. Confiscation of the property of all emigrants and rebels.

5. Centralisation of credit in the hands of the State, by means of a national bank with State capital and an exclusive monopoly.

6. Centralisation of the means of communication and transport in the hands of the State.

'All previous historical movements were movements of minorities, or in the interest of minorities. The proletarian movement is the self-conscious, independent movement of the immense majority, in the interest of the immense majority.'

7. Extension of factories and instruments of production owned by the State; the bringing into cultivation of waste-lands, and the improvement of the soil generally in accordance with a common plan.

8. Equal liability of all to labour. Establishment of industrial armies, especially for agriculture.

9. Combination of agriculture with manufacturing industries; gradual abolition of the distinction between town and country, by a more equable distribution of the population over the country.

10. Free education for all children in public schools. Abolition of children's factory labour in its present form. Combination of education with industrial production, etc. etc.'

The Communist Manifesto makes these important statements about communists and their relationship to the working class:

'The communists fight for the attainment of the immediate aims, for the enforcement of the momentary interests of the working class; but in the movement of the present, they also represent and take care of the future of that movement.'

'In short, the Communists everywhere support every revolutionary movement against the existing social and political order of things.

'In all these movements they bring to the front, as the leading question in each, the property question, no matter what its degree of development at the time.'

The third section of the Manifesto, 'Socialist and Communist Literature', is the most embedded in its historical period and speaks least directly to readers today. Some formulations in the Manifesto were also later developed by Marx and Engels as a result of further study and experience. Marx revealed in 'Capital' that it is not the workers' labour but their labour power that is the commodity they sell to the capitalist class. Engels showed in 'Origin of the Family, Private Property and the State' that the statement in the Manifesto 'the history of all hitherto existing society is the history of class struggles' needs to be qualified; the very earliest period of human society was classless, until enough could be produced to allow a section of society to appropriate it to themselves.

Soon it will be twenty years since the most bitter defeat the working class has suffered, the defeat of socialism in the Soviet Union. Nevertheless, the Soviet Union survived for over seventy years in the face of the most powerful and implacable enemy. It showed the people of the world that another society is possible, a society not based on anarchy, but on planned production, not for profit, but for people's needs. It showed that even in a short historic period human beings can develop whose morality is not competition but co-operation, not narrow nationalism, but internationalism.

Capitalism was greedy to regain the third of the world it had lost. What has it done with its victory? It has unleashed wars in Yugoslavia, Iraq, Afghanistan, DRCongo, Sudan, Rwanda, Georgia – wars which have cost millions of lives and squandered billions of dollars worth of the product of the workers of the world.

Now it is sunk in an enormous slump which it did not foresee and will only be able to drag itself out of again at the cost of billions of dollars.

Capitalism is unable to govern itself and it is unable to meet the needs of the people of the world. The closing words of the Communist Manifesto are as true as when it was written:

'The proletarians have nothing to lost but their chains. They have a world to win.

'Workers of all countries, unite!'

Gideon's Gaffe - the real error of George Osborne[1]

What have a Russian oligarch (Oleg Deripaska), a British financier (Nathaniel Rothschild)[2], the then European Union Trade Commissioner (Peter Mandelson) and the Tory Shadow Chancellor (George Osborne) got in common?

QUESTOR looks into what went on when the four men met on the Greek island of Corfu.


George (Gideon) Osborne

Some may say that they holiday together in Corfu. Correct! But, why should they, is the real question? Was it about money for the Tory Party? Or, preferential trade tariffs for one of the oligarch's industries? It may have been all of those things.

However, the main reason is that they all have one thing in common: a deep, personal and common interest in capitalism and its preservation.

The issue began with a leak to the media that Mandelson had bad-mouthed Prime Minister Brown to a senior Tory while on holiday. It turned out the senior Tory was the Shadow Chancellor, George Osborne. Then, retaliation in the form of a letter from Nathaniel Rothschild to The Times, indicating that Osborne had, with the main Tory fund-raiser present, been trying to solicit funds from the Russian oligarch for the Tory party.

As the scandal about Osborne possibly soliciting donations for the Tories from a Russian oligarch developed, the Conservative Party issued a statement[3] denying this. However, the statement was enlightening in that it shows the political connections between these men:

"George Osborne has met Oleg Deripaska on five occasions, four of which happened over a weekend in Corfu in August … On Friday August 22 … Mr. Osborne and his wife were invited onto Mr. Deripaska's yacht by Mr. Rothschild. Others present included Mr. Mandelson. The conversation involved Russian and British politics …

"That evening Mr. Osborne attended a party at the Rothschild villa and sat on the same table as Mr. Rothschild, Mr. Deripaska and Mr. Mandelson …

"The following evening, August 23, Mr. Osborne attended a dinner … Mr. Deripaska did not attend but both Mr. Rothschild and Mr. Mandelson did. The conversation involved the state of British politics."

On August 24, "Mr. Rothschild having phoned Mr. Deripaska invited Mr. Osborne for a further drink on Mr. Deripaska's yacht … There was a discussion about British and Russian politics, education and Russian history …

"Mr. Osborne met Mr. Deripaska again briefly the following lunchtime when both Mr. Deripaska and Mr. Mandelson visited the Rothschild villa."

Osborne's gaffe was to leak Mandelson's negative remarks about Prime Minister Gordon Brown made during these "private" conversations for petty political gain. This caused Mandelson some bother and the media coverage infuriated Rothschild, who responded with a letter to The Times raising the soliciting of funding for the Tory Party by Osborne.

This was an attack on his old school friend and Oxford chum for breaking a taboo, the sanctity of his home and private conversations between friends. The affair also exposed some of the others present that weekend including, media baron Rupert Murdoch, Rebekah Wade, editor of the Sun newspaper and Ben Silverman, co-chairman of the American television network NBC. These people would prefer their private conversations and connections to be kept in the shadows.

It is not often that we are privy to who meets who among the powers that be. The exposure of that August weekend in Corfu gives a rare insight into some of the "secret" connections and how serious they are about politics even during their "holidays". And, there were other unnamed guests at the Rothschild villa and on the Deripaska yacht. Maybe they are even more important than the cast so far named.

Nat Rothschild wasn't pleased nor will be the others present and now exposed since these included Rupert Murdoch and Oleg Deripaska, two powerful men in the capitalist system. George Osborne in hoping to score against the Labour government, scored only an own goal … or two.

Osborne is the recipient of £190,000 from Nat's mother, Lady Rothschild, for his private office.[4] Osborne may be less of a beneficiary from the Rothschilds in the future. However, as he himself, is a multi-millionaire that is less of a problem than blowing a very important friendship and connection - one own goal

He may also have now jeopardised some other very important connections through what will be regarded as making a petty political point and thus foolishly exposing much more serious business. As Rothschild wrote in his letter to the Times, "it ill behoves all political parties … to make capital at the expense of another *in such circumstances.*" (editor's emphasis)

These "circumstances" were the presence of Deripaska, Murdoch, Silverman and unnamed others.

Rothschild is believed to have first met Oleg Deripaska, the Russian aluminium tycoon, in Paris in 2002. They were both attending an international board meeting of Brasilinvest, a £500m Sao Paulo-based investment company with interests in finance, property and telecommunications. Keynote speakers at the exclusive event were George Bush Snr and Helmut Schmidt, the former German Chancellor. Deripaska had already served on the board of Brasilinvest for some time, while Rothschild had just been invited to join the board for a three-year term.

Credit crunch delayed Brown's downfall

In the last issue of The Socialist Correspondent (No.3 Autumn 2008) I hinted strongly that Gordon Brown's tenure as leader of the Labour Party could be in jeopardy.

JAMES THOMSON returns to the same theme and argues that the economic crisis has helped Mr Brown survive.

My prediction was made well before Labour's annual conference in Manchester at the end of September, and a couple of months before the Glenrothes by-election on 6 November.

The Manchester conference was where and when Brown started turning things around and put his cabinet contenders and his opponents in the party on the defensive.

Manchester was almost only about Brown dealing with his enemies in the party. In the party at large and especially among delegates at Manchester, the prevailing mood and desire was for all the plotting and in-fighting to end. For the sake of party unity and future party success, criticism of Brown at Manchester was frowned upon and suppressed. That's why David Miliband metamorphosed in a matter of days from being a leader-in-waiting to an incoherent novice.

Manchester was also about a major Brown makeover and re-presentation of him to the country. His suit looked sharper, his hair looked coiffured and his shirt collars no longer turned up at the edges. He admitted mistakes, the 10p tax scandal which "stung him" and of course his wife Sarah, US-style, took to the platform and introduced him before his speech to conference.

Manchester was very good for Brown and a YouGov poll in the Sun newspaper put Labour seven points up - from 24% to 31% - and led the paper to pronounce it, "One of the biggest post-conference boosts in 20 years."

Even Michael Meacher MP commented in the Guardian (28 Sept.) on "Gordon Brown's new lease of life."

But makeovers and upbeat conference performances don't account for the turn around which led Labour to win the Glenrothes Westminster by-election when all the political portents and pundits, even this one, suggested they'd lose.

Last September was a truly extraordinary month of banks and financial institution collapses all round the world (See page 5). In his speech to the Manchester conference Brown spoke of the need to "Re-build the world financial system." Hailed for 10 years as the UK's "most successful ever" Chancellor, this was Brown's territory which he knew better than any other political leader in the world. Brown was in his element as he and Alistair Darling travelled the world promising again and again to "do whatever it took" to protect the British economy and the British people from the ravages of the worst worldwide economic downturn since the 1930s.

His opponents in the party were forced into silence and, as his confidence grew, Brown used the economic situation to even get the Tories on the run as the party that would "do nothing" to help people through one of the worst periods in economic history.

His personal standing in the polls steadily rose as the man the British people trusted most to be in charge in these extraordinary, dire and desperate times.

In the summer of 2008 - the 25th of July to be precise - it was all so different when, in another Westminster by-election, Labour lost its third safest Scottish seat, Glasgow East.

As I said in Issue No. 3, "Something of a political earthquake happened that day: the Scottish National Party defeated Labour by 365 votes, overturning a huge Labour majority of 13,507 with a huge swing of 22.54%."

If a week is a long time in politics, then the 102 days from a jaundiced July in Glasgow to a glorious November in Glenrothes gave him enough time to turn his fortunes around. Brown was a man transformed by the economic crisis.

So also was Scotland. During the aforementioned extraordinary month of September of 2008, two other small

Gideon's Gaffe - the real error of George Osborne

According to Mario Garnero Snr, chairman of Brasilinvest, "During the board meeting Nat was introduced to Oleg, and together they became good friends in their own right."

Rothschild was reluctantly forced to teach Osborne a lesson. Osborne may well now be regarded as not fit for Executive office in the capitalist system through his "schoolboy prank". In other words, Gideon's gaffe may well hinder George from becoming Chancellor let alone Prime Minister – own goal number two.

However, we should thank Mr. Osborne for his gaffe because he has exposed for all to see the close personal connections between the political elite, media barons and big business.

FOOTNOTES:

(1) George Osborne is remembered as saying that "if I am going to be Prime Minister, I no longer want to be known as Gideon (his original name). I want to be known as George." He is the eldest son and heir of the baronet Sir Peter Osborne.

(2) Nathaniel Rothschild is Britain's top hedge fund manager with a family fortune of £1.4bn.

(3) Conservative Party Statement issued 21 October, published in the Daily Telegraph, 22 October 2008.

(4) Osborne failed to declare on the House of Commons Register of Members' Interests £487,000, including Lady Rothschilds' £190,000, originally given to the party and then subsequently directed to his private office. Lady Rothschild had specifically asked that her £190,000 donation to the party be passed on to Mr Osborne. Following a complaint, the Commons Standards and Privileges committee found that Mr Osborne should have registered the money. The Standards Commissioner judged that it "would not be fair or reasonable to criticise" Mr Osborne over not declaring it.

countries - Iceland and Ireland - held up by the Scottish National Party as being successful models of independence that Scotland should follow, nose-dived economically.

Ireland became the first EU country to go officially into recession and in Iceland in October, Prime Minister Geir Haarde announced that credit to all Iceland's banks had been cut off and that the country was on the verge of "national bankruptcy."

Scotland's oldest bank, the Bank of Scotland, part of the then Halifax Bank of Scotland (HBOS) group and the country's biggest and single most successful company, the Royal Bank of Scotland (RBS) had also nose-dived due to the billions of pounds of toxic sub-prime debts they held.

HBOS was rescued by a takeover by Lloyds TSB and RBS has been effectively nationalised with the UK government now holding a 70% stake in the disgraced bank.

In the midst of Iceland and Ireland's travails and the collapse of two of Scotland's most revered financial institutions, Brown's and Darling's mantra to do whatever it took to protect people and their savings and help the economy, made most Scots feel much more secure as part of the big British economy and state. The idea of independence a la Iceland and Ireland no longer held the attraction it did before the world financial crisis took hold.

That was the overall political and economic climate in which the Westminster by-election at Glenrothes was fought.

It is widely accepted that Labour, under the leadership of the new Secretary of State for Scotland, Jim Murphy, fought the best campaign exploiting the fact that the SNP controlled the local Fife council for years and was responsible for local care home cuts that badly affected vulnerable elderly people. Even Mr and Mrs Brown appeared in Glenrothes.

Buoyed by their July trouncing of Labour, the SNP over-confidently believed their success at Glenrothes was a foregone conclusion. SNP leader Alex Salmond has accepted blame for that complacency and for not reacting sooner to Labour's campaign attacks.

What is more likely, in addition to the overall economic situation, is that the SNP minority Scottish Government had been in power for a year and six months: the shiny, new gloss had gone as they have had to deal with, and be blamed for, all the things that have gone wrong since they came to power in May 2007. The latest example of the SNP's honeymoon being over is that the opposition parties in the Scottish Parliament, voted down the SNP's second annual Budget of £33 billion. That opposition lasted less than a week as all of the parties stepped back from the brink. Salmond warned them that if the SNP Budget did not go through it would trigger a Scottish General Election.

Baron Mandelson

Nonetheless, the confidence of Salmond and his party in Government has been dented and the first signs of that came to the surface in Glenrothes which Labour held comfortably (see table).

Glenrothes was vital to Brown's survival and his subsequent consolidation as Labour leader and Prime Minister. No one is more suited to pursue Keynesian economic interventions than the "socialist" Gordon Brown and it is no exaggeration to claim that the credit crunch has helped save his leadership and premiership. It is most unlikely that he will be challenged as Party leader before an election. The comeback to the Cabinet, for the third time, of Brown's most bitter opponent, Peter Mandleson as Business Secretary, was an act of supreme confidence and a declaration to the Labour Party, more than the country, that Brown is completely in charge. So much in charge than he can return his arch-enemy to the fold.

Politics is not an exact science and who knows what other "events my dear boy, events", as Harold MacMillan said, lie in wait for him in the period up to the next General Election.

Speculation, as always, is rife inside and outside Westminster about when Brown will call that election. Should he go sooner, while he's still doing relatively okay in the "who's best for the economy" polls and before the current recession deepens into a depression?

A recent ICM/Guardian poll (26 January) shows Brown is slipping behind David Cameron in the popularity stakes: Labour is on 32% (-1), Tories 44% (+6) and LibDems 16% (-3).

Despite the soft and caring veneer of David Cameron, the Tories are still the No1 party of capitalism: no wonder therefore, that in this deep crisis of capitalism, they have even fewer answers than New Labour.

Or should Brown go later and use all the resources and levers of government to ride out the current recession and come out the other end in 2010 being seen to have done the best that he could in the most difficult of circumstances? You pays your money you takes your choice.

The most important question to be answered however, is what are Brown and his Government going to do to save the livelihoods, homes and savings of the millions of people being hit every day by this latest crisis of capitalism which by all accounts still has a long way to go?

Unfortunately, Brown's only answer, consistent with the way he's acted on behalf of British big business and finance since 1997, is to gently chivy the "greedy and irresponsible" banks to lend more but then to keep on bailing them out with gargantuan amounts of taxpayers' cash. Brown's New Labour are as committed to the capitalist system as ever they were and all that he will do is to tinker at the edges of the exploitative capitalist system in an effort to make it work better.

Meanwhile, this crisis of the capitalist system is causing misery for millions around the world.

Glenrothes by-election, 6 November 2008

Party	Votes	%	±%
Labour	19,946	55.1	+3.2
Scottish National Party	13,209	36.5	+13.1
Conservative	1,381	3.8	-3.3
Liberal Democrats	947	2.6	-10.1
Scottish Senior Citizens	296	0.8	N/A
Scottish Socialist	212	0.6	-1.3
UK Independence	117	0.3	-0.9
Solidarity	87	0.2	N/A
Majority	**6,737**	**18.61**	**-9.89**
Turnout	**36,195**	**52.37**	**-3.7**
Labour hold	**Swing**	**-4.96**	

Vince was a good and loyal comrade

The first in an occasional series of 'Scenes from working class life.'

I met him back in about 1975. I was secretary of the Communist Party's Hammersmith Borough Committee, and for some reason - selling the Morning Star, or collecting signatures for some campaign - I was out in North End Road.

GINA NICHOLSON pays a personal tribute to Jamaican-born communist, Vince Lawrence (1935-2008), pictured.

A very tall black man approached me, his hair long and Afro, spreading out round his head like a dark halo. I could understand perhaps one word in five, his Jamaican accent the stronger the more upset he became.

Eventually I gathered that he was a local communist who had been refused a new card by the branch secretary for bad reasons. I remembered his name,

"Leave nothing for death but a burned out castle."
Zorba the Greek

Vince Lawrence, and remarked that the secretary had said he was a Maoist. This he vehemently denied. "I, a Maoist? Ask anyone!" 'Anyone' had acquired an aspirate.

On inquiry, the secretary enlarged a little on her opinion of him, without withdrawing the Maoist label. She said he wasn't very nice to his wife. I said I didn't think, even if it were true, that was a reason for refusing to recard someone.

In this I had the somewhat reluctant support of the District organiser, who would have recarded anyone, dead or alive, to make the figures look good.

Vince got his card, and many times helped me leaflet the depressing housing estates - the Peabody Estate, the Guinness Estate, the Clem Attlee Estate, even the dreaded Fulham Court. On several occasions he found a mate in one of the flats, and tried to persuade him, sometimes successfully, to join in one of our activities.

We marched in Brixton against racism. I was walking beside Vince when two idiots at the side of the march spotted him - you couldn't miss him, he was over six feet tall - and started making monkey gestures at him.

Neither of us reacted at all, but another comrade punched one of them and I think he got arrested, which was no more than he deserved.

In about 1976 we organised the first Chile Boat trip, to raise funds for the expatriot Chileans in flight from the vengeful government which had replaced Allende.

We hired a boat which sailed down to Southend and back to Westminster, making a day of it. Vince made pigtail stew for the occasion, a hot Jamaican dish. Some comrades had recorded dozens, maybe hundreds of folk songs, and songs from the movement designed to keep up a continuous anti-capitalist sound.

This in practice was vociferously objected to by one of Vince's friends. Vince brought him to me. "I've had Paul Robeson pushed down my throat since I was three," he said. He wanted rap. I explained the rationale behind our music, which sounded hollow to me even as I spoke the words, but Vince listened attentively and when I paused, took up the cudgels.

His friend didn't get his preferred music on that occasion; but we scaled down the movement stuff on the next trip, a year later, and after that I don't think we attempted it again. I'm sure Vince felt as awkward as me; but he was loyal.

His working class credentials were pretty good. He came to this country as a carpenter, and eventually found work with a firm which made furniture. On the day he started work, his work-mates walked out in protest at having a black man as a co-worker. He walked out with the rest, and asked to speak to the mass meeting. I love to think of Vince at eighteen, over six feet tall, black as could be, addressing that gathering of surly racist workers, jealous of their privileges and their Englishness.

From what he told me, he must have given them a lesson in internationalism. He explained that he was a worker and belonged with his co-workers when they went on strike, even if the strike was against him. He talked about the workers' struggle in Jamaica.

At any rate, he broke the strike - the only one he ever broke. And he worked for that company for about ten years after, and there was never any more trouble of that kind.

A few years back he revisited Jamaica and when he returned he was almost tearful about the state of things. Formerly, he had been lyrical about the weather, the fertility of the soil. "Drop a peach stone and in no time you have a peach tree," he was fond of saying.

But after his visit he was despondent. "In Kingston they have bars at the windows. People break in and steal - not the hifi, not the tv set, but the food from the fridge." That was about 1990.

My daughter, though she didn't know him very well, observed that she always thought he was a fast liver, and he was. He smoked - mainly cannabis. I think he grew it in his garden. He drank, mainly rum. He broke and bruised a lot of female hearts.

But it was one of his ex-wives who came round a few weeks ago and told me of his death. "Massive heart attack, and only 73," she mourned. He had gone back to Jamaica. "He didn't want to go, but the situation with his (present) wife was so bad…"

From Jamaica he came back every year to visit. The last time he came he was insisting that the 'yardie' problem did not emanate from Jamaican society. "We have no yardies there," he said. I didn't know whether to believe him, but I liked his spirit, as always.

He was a good, true and loyal comrade, and there are too few of them left.

Global finance and the 'New Cold War'

The defeat of the US-sponsored Georgian invasion of South Ossetia at the hands of the Russian Army signals the end of the post-Cold War era: an era in which national sovereignty and international law were violated with greater frequency than at any time since World War Two.

URI COHEN studies the connections between global finance and what he says is the 'New Cold War'.
First published by www.21stcenturysocialism.com

Post-Cold War allies: Vladimir Putin and Hu Jintau

Since the defeat of communism, deregulated corporate capitalism and the financial markets have triumphed over organised labour and lorded over most governments. This has been the era of United States imperial supremacy.

In Iraq and Afghanistan, one could no longer distinguish between the US army of occupation and the mercenary armies of the 'security industry'; allied to the more traditional transnational capitalist enterprises in Oil & Gas, Finance, and 'Reconstruction'. Under overall US command, the Western world morphed into a rolling privatisation, corporate plunder and military intervention machine.

However, since the opening of the 21st Century, the US Empire has had to face two worrying challenges: the gradual re-emergence of multi-polarity in state power relations, mainly with rising China and resurgent Russia; secondly, the eruption of class war and social revolution in Latin America.

The War on Terror was the US way of dealing with the multi-polarity challenge. Neo-conservative ideologues thought the 9/11 atrocity presented the US with a wonderful opportunity to rally the rulers and the people of Europe and the 'Anglo-Saxon' world behind America's leadership, to help them maintain control over rival capitalist factions within the EU, to reassert discipline under US leadership of the rich capitalist countries, a discipline which had been maintained during the Cold War by the threat of communism.

The neo-cons hoped this new Islamaphobic solidarity would serve to deter rival Eurasian capitalist powers from challenging US hegemony. But the USA's war of plunder and mass killing in Iraq did not work. The occupation of Afghanistan did not finish off the Taliban nor spread Western hegemony to former Soviet Central Asia.

Emerging regional powers including India, Brazil and South Africa began to challenge US global trading policy, and China continued to grow in industrial, financial and military power.

Among the root causes of the new Russian-American conflict is the serious mistake of Western governments, the IMF and the World Bank in the early 1990s. The Western powers, which backed Boris Yeltsin in his 1993 military coup against Russia's elected parliament, failed to insist that the great privatisation of Russia's economy should be done in a way that would open up the country's industries to foreign capitalist ownership, as a pre-condition for extending loans.

Moscow, 3rd October 1993: under orders from Boris Yeltsin, tanks shell the Russian Parliament.

This blunder occurred because, during that period, the Western governments were fearful that the Russian communists might return to power. So they let Yeltsin give Russia's riches to handpicked friends, as a means of securing the loyalty of the new post-Soviet corporate elite to the US-friendly regime in the Kremlin.

This corrupt manoeuvre violated free-market dogma in one important respect. From Chile in 1973 to Poland in 1989, neo-liberal market reforms involved removing government protection for domestic industry and agriculture, so it could be made into easy pickings for the benefit of EU and US capitalist takeovers. But in Russia, Western governments and financial institutions had enthusiastically supported Boris Yeltsin's handover of Russia's riches to local criminal gangs and family friends, who went on to become Russia's oligarchs. Many of Yeltsin's close friends were former Soviet factory bosses and former members of the Communist Party elite. The new Russian oligarchs did not owe allegiance to Western finance capital, the European Union or the USA. Their political allegiance was owed to the Russian State and the Kremlin, which had installed them as the owners and chiefs of newly privatised industries. So when President Putin assumed office, all he had to do was to make an example of a couple of troublesome oligarchs, for the rest of Russia's new capitalist class to fall into line behind his government.

Putin took back a few energy companies into state ownership and left the majority of private firms under no illusion that they could allow Western firms to acquire controlling stakes in strategically vital Russian enterprises. From then on, the bulk of Russia's energy wealth had to flow not only into private offshore bank accounts and Western investment banks, but back into the domestic economy. At that moment, Russian corporatist capitalism was born and American-led globalisation was dead in its tracks. The US response to Putin's brake on Western financial expansionism was an intensification of the drive to weaken and isolate Russia in Eurasia. NATO speeded up the incorporation of the former Warsaw Pact countries and former Soviet Republics into the Western alliance. US bases were constructed near the Russian border. Ronald Reagan's Star Wars project of 'Missile Defense' was resurrected, in order to make a future American nuclear strike against Russia a more viable option.

Above all, US diplomacy worked very hard to turn all Russia's former allies and neighbours into belligerent enemies; encouraging them to take a hard line against the Russian government and their local Russian ethnic minorities in the many economic, political and ethnic disputes which arose out of the dismemberment of the USSR.

Both the US and the EU participated in the political destabilisation of East European states and the former Soviet republics that remained friendly to Russia. 'Colour revolutions' - Western-funded attempts to overthrow governments which maintained friendly relationships with Russia - succeeded in Georgia and Ukraine, had mixed results in Kyrgyzstan, and failed in Belarus. Yet on the back of the huge industrial expansion of China, which fuelled a boom in the world prices of commodities and in particular oil and gas, Russia's corporate elite grew in wealth and confidence. Spectacular economic growth, averaging six to seven percent every year, helped Putin weaken the two main oppositions, the communist party and the pro-Western 'liberals'.

His successful military action against the separatists in Chechnya, who were backed by both Al-Qaida and Western forces, finally put an end to all attempts to dismember the Russian Federation.

By the winter of 2007, the Credit Crunch was developing into a full blown crisis amogst the Western financial institutions. Western finance capital has followed the US government into the red. Their financial liquidity has dried up due to failed speculative financial products that were supposed to vacuum the riches of the world into the coffers of the financial hubs of London and New York. But by now the vultures of private equity and banking could only identify one source of capital left to save them: sovereign funds.

The phrase 'sovereign wealth funds' is an oxymoron in the context of US led globalisation. In theory, capital was supposed to flow freely in the de-regulated world markets through privately owned corporations and financial institutions. To the neo conservative mind, the USA's multi-trillion war machine should be the only sovereign fund in the world, in order to force open any remaining global barriers still standing in the way of Western capitalists.

But by late 2007 even half-witted bourgeois economists could not fail to notice that the nations which had amassed the greatest financial surpluses were largely the countries which have not followed the neo-liberal prescriptions of privatising natural resources and allowing an uncontrolled opening of their domestic economies to foreign capitalist ownership and competition.

The liquidity rich 'Sovereign Funds Club' has a strange variety of member states. It stretches from the Saudi Royals who keep the oil business in the family, to the Venezuelan revolutionaries who utilise public ownership of the energy sector to create a fairer society.

El Alto, Bolivia: workers celebrate the nationalisation of the gas industry.

Of immediate concern to the US are the sovereign funds that belong to the two previous Cold War enemies of the USA, veto-wielding members of the UN Security Council who also happen to possess an independent nuclear arsenal - namely Russia and China.

We must remember that towards the end of the Cold War the US-led arms race had successfully weakened the Soviet economy, leaving the Western capitalist camp with superior financial resources to the USSR, superior technology, as well as an equal nuclear weapons capacity. But 15 years after the collapse of the USSR, the USA has found itself once again facing potential competitors on the world stage who are amassing financial reserves that could help build rival spheres of influence in Asia, Africa, Latin America and even one day perhaps in the heart of Europe.

Russian and Chinese state funds have accumulated over a trillion US dollars in financial reserves. Both emerging powers are attempting to use their newly acquired financial resources in order to export capital and buy stakes in vital global corporations. Only ten years ago, Third World leaders shopping for inward investments and new technology could only turn to Western finance capital and Western governments for help. Western capitalists will only oblige those needs under strict pre-conditions involving wholesale privatisations, abolition of protective tariffs that used to shield indigenous farmers, and by slashing public spending.

But today, poorer countries have more choice. The Chinese have extended investment to Africa without the usual neo-liberal preconditions. The new socialist governments in South America have concluded financial and industrial joint venture agreements with both China and Russia without being forced to slash public spending on healthcare, education and food subsidies for the population.

On the contrary, both the Venezuelan and Bolivian revolutionaries have gone on a well planned nationalisation spree, in step with genuine popular democratisation. This is not what the early 21st Century was supposed to look like. Resembling the spells of the sorceror's apprentice, the economic forces unleashed by globalisation are having unpredicted effects, over which the Western governments and their international financial institutions have diminishing control. Nevertheless, for the United States, developments which will further undermine its imperial power are unacceptable and must sooner or later be confronted.

A low-key rehearsal for a future American showdown with China was seen in the period preceding the Olympic games, during which Western politicians and Western-financed political groups sought to exploit China's perceived vulnerablitites, specifically on Tibet and 'human rights'.

But in the current economic climate, an open US confrontation with China would precipitate a catastrophic economic meltdown. So instead, using Georgia as its proxy, the fight was picked with Russia: on an issue through which, it was vainly hoped, a wedge could be driven between Russia and China. Thus we now have a 'New Cold War'. As the challenges to the world supremacy of the United States become more pressing, the hawks in Washington will explore new and more dangerous options in their desperation to preserve their global empire.

Speculation, inflation, contagion: the connection

An economy is a system. So it should be obvious that one thing leads to another. But all too often the straightforward explanations are overlooked. To be sure, there is no lack of opinions regarding the current crisis. They range from lax lending by the banks and mortgage lenders to government mismanagement.

GREG KASER argues that financial speculation is the common factor and proposes 'Tobin Taxes' to limit this speculation.

Our difficulty lies in sifting the plausible theories from the inadequate or downright misleading ones. We need an explanation that is comprehensive and consistent. In a nutshell, the acceleration of inflation in food and fuel prices, coming soon after a long trend of rising house prices and a stock market boom, have a common origin in the activities of financial speculators.

More than a year after the start of the 'credit crunch' crisis, BBC Radio 4 interviewed former US Treasury Secretary Lawrence Summers. In an aside, Dr. Summers pointed out that over the last twenty years, the world had experienced a major financial crisis every two years or so. He mused that this looked like a structural problem within capitalism rather than being a coincidence.(1)

During the 1990s we witnessed financial crises in several countries (Japan, Mexico, Argentina, Russia, Indonesia, Malaysia, South Korea, Taiwan and Turkey), the crisis in the USA of its savings and loans banks between 1985-89 and the collapse of the 'dot-com bubble' of 2000-2001, as well as in house prices, and, most recently, in fuel and food prices worldwide.

House prices have risen across the industrialised market economies (see table), showing that inflation is not the result of restricted supply, although such factors are relevant in explaining the differences in house price inflation between countries.

So, for instance, in the UK, the government has identified restrictive planning regulations that have held back house building. But this brake on supply in the UK is not relevant in the USA. Yet both, and many more countries, saw large rises. The evidence points to a common, demand-side, factor being responsible.(2) An expansion of credit followed the inflation in house prices.

Inflation in House Prices 1997-2007

Australia	159%
Belgium	131%
Britain	213%
Canada	78%
Denmark	128%
France	144%
Ireland	240%
Italy	102%
Japan*	-32%
Netherlands	102%
New Zealand	123%
Spain	190%
Sweden	149%
Switzerland	19%
USA	165%

* Japan experienced deflation in property prices since 1990.

Source: The Economist, 8 December 2007

The current 'credit crunch' started when investor confidence in the housing market as a secure repository for wealth evaporated. Because interest rates were quite low and house prices were rising fast, US banks lent more money to 'sub-prime borrowers' with patchy credit histories. Even relatively poor people, working in casual jobs, were persuaded to take on mortgages that they would find difficult to repay.

But because they thought that they could always sell the house for more than they paid for it, and thus repay the debt fully, they and the mortgage provider thought the risk was manageable. But once house prices peaked and began to fall, these borrowers found their home was worth less than their mortgage: negative equity meant that any drop in their income could result in them losing their home.

In turn, the banks were faced with having to accept houses that only covered part of the mortgage owed if borrowers handed back the keys. Moreover, banks had themselves 'borrowed' money in order to raise the funds to lend as mortgages through securitisation.

When a company sells its products it gains a stream of revenue. If you own a share in that company you may expect to share that income stream, paid as a dividend. The price of the share is related to the value of the income stream. If investors expect a company to do better in future, then its share price will rise.

A reduction in the expected stream of income will lead to a fall in the share price. In just the same way, a bank, which sells loans, will obtain a stream of income from the interest it charges borrowers. What banks did was to sell a share in the future income stream to investors – a process known as securitisation.

Companies can also issue bonds, which are in effect claims on its future income streams. By 2006, two-thirds of new mortgage lending in the UK was funded by securities. The value of these securities stood at $4.7 trillion at the end of March 2008.(3)

The fact is that few investors buy a share in a company, a corporate bond or a security from a bank and then leave it in a drawer to await the annual dividend payment that it may generate. Shares, bonds and securities are traded continuously. Professional investors buy and sell this financial paper (essentially IOUs from companies and banks) in order to make a profit on the difference in its price in the capital markets.

The dividend payable is usually less valuable than the capital gain from selling the share, bond or security. While share prices are rising, it is easy to sell for more than you paid. But if the expectations concerning future income streams are downgraded, then the share, bond or security loses value.

This deflation in asset prices – following a period of inflation – is what is undermining banks' balance sheets and driving them to merge, seek government bail-outs or go into liquidation. Leslie Masters described the way governments and central banks have sought to rescue banks from these consequences in Issue No3 of The Socialist Correspondent.(4)

Suffice to say, that one of the biggest investment banks, Merrill Lynch, lost $14 billion since the start of 2007, which wiped out a quarter of all the profits it made since 1971, when it was listed on the New York Stock Exchange. The bank sold some of its mortgage-based securities in July 2008 for 22 percent of what they had paid for them.(5)

Moreover, banks traded securities between themselves. This was meant to be a good thing, because it disbursed the risk associated with the security more widely amongst the community of professional investors. But once the income streams backing the securities started to diminish or become less certain, the financial sector as a whole was hit by mutually transmitted contagion.

Several weaker banks were forced to merge with stronger competitors, including Bear Stearns, Merrill Lynch and Wachovia in the USA, and the Halifax-Bank of Scotland and the former building society, the Alliance & Leicester, in Britain, at the same time as the fourth largest investment bank on Wall Street, Lehman Brothers, went into bankruptcy. These banking collapses promoted generous bail-outs by the US Treasury and the German and Swiss governments allowing the banks to off-load their property-based securities onto the taxpayer, and the injection of government investment into American and European banks by their respective governments.

Chancellor Alistair Darling is not alone in describing this financial crisis as one of the worst ever. Laurence Summers thinks "that the west is facing the most serious financial crisis since the second world war". Another economist, Nouriel Roubini, predicted: "this recession will be long, ugly, painful and deep. And the credit losses associated with it will be closer to $2 trillion – leading to the most severe systemic financial and banking crisis since the Great Depression".(6)

But there is less agreement concerning the cause and the solutions, although many echo the words of Alan Greenspan, previously the Chairman of the US central bank, the Federal Reserve, when he described the stock market boom of the late 1990s as an example of "irrational exuberance".(7)

Professor Willem Buiter, who once sat on the Bank of England's Monetary Policy Committee, writes with apparent relish of the punishment that a market correction will inflict:

"Capitalist market economies are inherently cyclical. The private credit system is intrinsically prone to alternating bouts of irrational euphoria and unwarranted depression. Busts play an essential role. They clean up the mess created during the boom by inflated expectations, over-optimistic plans and unrealistic ventures. These become embodied in unsustainable household debt, productive capacity with no foreseeable use, excessive corporate and financial sector leverage and enterprises whose only asset is hope. The correction is painful, even brutal: unemployment rises, as do defaults, repossessions and bankruptcies. … Financial stability was undermined by thoughtless financial liberalisation, especially in the US and the UK. Light-touch (really soft-touch) regulation permitted an explosion of opaque instruments often held by non-transparent 'shadow banking' institutions. … It will take two or three years to work off these excesses."(8)

The problem with this explanation is that it seems to owe more to psychology than to economics (with an economist favouring an explanation that involves rational behaviour). According to Buiter investors just got carried away and placed bets on ever more unlikely outcomes. He is by no means alone in putting forward this morality tale. Guardian columnist Ian Jack opined that "booms and bubbles are caused by greed, busts and crashes by fear."(9)

But why should this mass psychosis have occurred among people who wanted to make money, not to lose it? The answer lies in part in the remark by Chuck Prince, at that time the chief executive officer of Citigroup, the parent company of giant Citibank: "As long as the music is playing, you've got to get up and dance. We're still dancing".(10) There is no reason to stop playing the game whilst there is money to be made; the trick is not to be the one left holding the parcel when the market changes direction. But the trading in loans and securities among the banks had already spread the contagion, so once the music stopped the whole sector was left with a slice of the problem.

The funds for speculation are advanced by the super-rich and large corporations. There are over ten million people in the world with financial assets worth more than one million dollars. Their combined assets are valued at $40.7 trillion, and this figure excludes the value of their homes. Their wealth has been expanding at a rate of 6-7 percent a year.(11)

The super-rich often use professional investors to manage their money. The value of assets under management in the first half of 2007 in Europe was €5.5 trillion, and world-wide over $300 billion was managed by hedge funds.(12)

Obviously, the super-rich don't put all their eggs in one basket; the majority of their wealth is invested in traditional assets like property, government bonds and shares. Professional investment fund managers also manage the assets of pension funds or work directly for big corporations. Along with the super-rich they are in continuous pursuit of those assets yielding the largest capital gains. It is this search for yield that leads them to speculate in riskier segments of the global financial market and in the stock markets of developing economies.

Capital is becoming more and more 'fluid'. Instead of being tied up in factories, warehouses and shops – which economists would call 'lumpy' capital – a larger proportion of capital is embodied in financial paper, which can, in principle, be traded more easily. A market with 'liquidity' is one with a large pool of buyers and sellers actively trading. The returns to be made from buying financial assets, such as shares, bonds and securities, including complex IOUs like derivatives and collateralised debt obligations, has encouraged companies to liquidate their 'lumpy' capital and act more like financiers than manufacturers. To this extent, then, the speculative bubbles of the last two decades were born from the industrial restructuring of the 1980s, as much as from the exponential rise in the wealth of the super-rich. Moreover, the sums involved are massive: the value of all types of credit derivatives were estimated as around $20 to 30 trillion – equivalent to nearly half the annual value of world output.(13)

A speculator is someone who buys an

asset in the expectation of making a profit from selling the asset later when its price changes. This motivation differs from that of an investor who buys an asset with the expectation that the asset will generate an on-going return.

An investor does not buy the asset just to sell it again. There is something enduring implied by the word 'investment', even though the profit-motive remains the overall driving force in capitalism. The rise in 'fluid' capital has encouraged speculation; and the capital gains from speculation have encouraged the liquidation of 'lumpy' capital. It is clear that speculative bubbles have driven up the value of shares on stock markets all over the world, although often at different times.

The so-called 'dot-com' boom in shares in information and communication technology (ICT) companies at the start of the 21st Century is a well-known example. After the 'dot-com' bust, speculators turned their attention to financial securities and commodities. It is often argued that speculation cannot influence other markets because they only represent a minority proportion of trading. However, this objection fails to appreciate that prices in any market are not set by the average transaction, but by the marginal deal.

A speculator is competing with regular buyers in the market. Since the speculator expects to make a financial gain quite quickly, bidding for the asset will tend to drive up its price. If the rest of the market knows what prices are being achieved, this changes the perceptions of all buyers and sellers. So the higher price becomes established. (Remember, the speculator is not actually intending to hold onto the houses, barrels of oil or bushels of wheat, or what ever else is being traded, just the financial paper linked to the prices of these things).

This pattern has repeated itself many times over since the 1990s in markets as different as art, wine and pasta. Of course, there are always sector specific reasons why the price of an artwork or of durum wheat is rising, whether it is the popularity of an artist or a shortage of wheat due to poor harvests and/or increasing demand.

Developing countries like China have been growing rapidly and buying more oil, gas and coal, metals and foodstuffs. But the size of the price rises has been exceptional. Over the year to 2008, food prices worldwide rose by 25 to 30 percent; rice and wheat doubled; while oil went from under $60 a barrel to $140 from the start of 2007. Apparently, the whole of the world's oil production up until 2013 has been bought already on the oil futures market. Mainstream economists have begun to accept that speculation has contributed to the sudden rise in oil prices. Alan Greenspan stated recently that speculation was "importantly responsible" for the oil price rise, though he added that he believed this was "good speculation" that would not create a bubble, an assertion proved wrong a few days later as oil prices fell back.(14)

Similarly, the near continuous rise in share prices since 1980, dented only three times in 1987, 1990 and 2000-03, could be said to reflect better performance by companies and the IT revolution (see figure 2).

While this may be true, it is also the case that the increase is unprecedented in historical terms. The steep falls in share prices in September/October 2008 may herald a period of persistently lower valuation.

Until the recent inflation in food and fuel, speculative bubbles have only impacted directly on working people through the rise (and fall) in house prices. Although existing home-owners experience a rise as a boost to their wealth, high house prices deter first-time buyers and, in the end, force people to spend a larger slice of their salary on meeting mortgage repayments.

Furthermore, rising stock markets in the 1990s permitted companies to secure pension contribution holidays, which subsequently left funding gaps in their pension schemes. Although the negative consequences on working people of recurrent speculative bubbles were already clear in the 1990s governments and central banks ignored the problem. Now the food and fuel price spikes are hitting household budgets hard. Moreover, the problem is economy-wide and not confined to a specific sector such as banking, energy, housing or ICT. That means we require economy-wide measures to moderate the tendency towards asset price inflation, with taxation being the most suitable instrument.

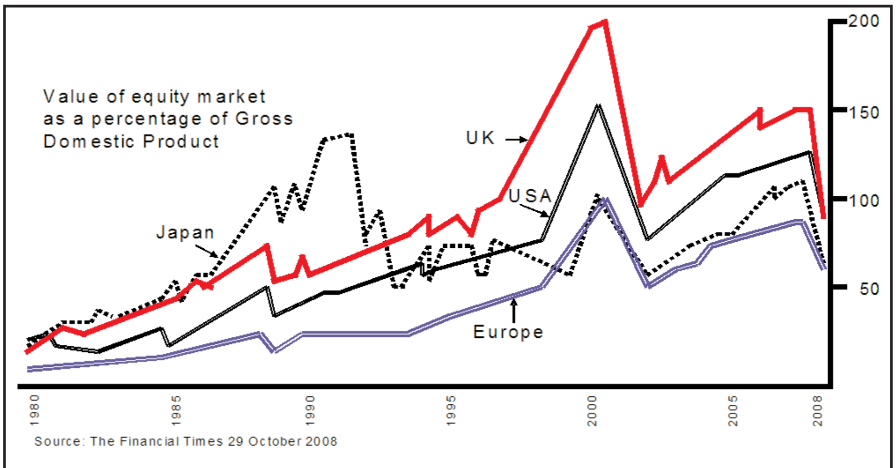


Figure 2: Stock Market Trends

THE 'TOBIN TAX'

For the most part, commentators have identified only part of the problem. Even though TUC General Secretary Brendan Barber was correct to say that "the credit crunch … was caused by the super-rich taking risks," he did not follow through adequately, going on to call only for "proper regulation of the finance sector" to stop the bankers gambling.(15)

This position reflects a wider consensus that the current crisis resulted from unsustainable borrowing and/or "a collapse in lending standards."(16) But while tougher regulation may be a sensible measure, it will not modify the driving force, the search for yield.

Unless the gains to be made from trading in financial paper are reduced – by, say, transaction taxes – thus making the bets less worthwhile for the speculators, the 'Casino economy', as The Guardian termed it, will simply continue.(17)

To put this proposition another way: measures need to be introduced to blunt the profit motive for speculation and thus push capital towards productive investments, and into activities that create jobs. A tax of this type was proposed by Nobel Prize winning economist James Tobin in the early 1970s.

Tobin proposed that a tax on foreign exchange transactions would put "sand in the wheels" of international finance. It would help preserve stability in the system. The Campaign for a Tobin Tax, supported by Jubilee 2000 and War on Want, reports that 97 percent of the $1.5 trillion a day deals in foreign exchange markets are for speculative purposes. A Tobin tax could easily raise $50 billion a year for development cooperation programmes.(18) Although it has gained some political support in Europe, Gordon Brown remains "very un-persuaded", citing "big problems" with it.(19)

However, the well-regarded Canadian North-South Institute issued a paper in 2007 demonstrating how it might operate in practice using the existing inter-bank foreign exchange transaction system.

In fact, a Tobin tax is simply one form of transactions tax. In the UK, stamp duty is levied on the purchase of shares and houses. For every £1000 of shares you buy, a levy of £5 is charged; it is paid automatically through the electronic settlement and registration system. Unfortunately, stamp duty is levied at the wrong stage of the transaction. It should be levied on the sale of assets, in order to encourage longer-term holding and to discourage speculative trading. In any case, a Tobin-like transaction tax on the sale of an asset would moderate the rhythm of financial markets, encouraging less speculation and more stability.

The post-War business cycle in capitalist industrial countries, which used to be driven largely by firms' inventory adjustments, and which was dampened by the introduction of 'just-in-time' manufacturing, has been replaced by volatility in asset prices. Capital has become more 'fluid' and available for speculation. Central banks were reluctant to raise interest rates to stem the resulting inflation in asset prices since this would have had recessionary implications for the economy as a whole. (Although when the stock market bubble in 'dot-com' shares burst, the US Federal Reserve cut interest rates to boost liquidity, which in turn encouraged the house price boom). So the interest rate is not an adequate instrument to mitigate speculative bubbles. A number of things should instead be done.

Firstly, as proposed already, transaction taxes should be introduced to encourage investors to hold onto assets and to discourage speculators from short-term trading in assets. Transaction taxes will moderate the tendency to sharp rises and falls in the prices of assets that attract speculators' interest. The revenues from transaction taxes should be used to fund international development. Improving the conditions for productive investment in developing countries will further help shift 'fluid' capital away from speculation and generate employment worldwide.

For transaction taxes to be effective, governments must clamp down on tax havens and privately-owned share and securities trading platforms (and/or so-called 'dark pools' of liquidity). Tax havens like Jersey, Gibraltar, Bermuda, Liechtenstein and Switzerland are believed to harbour over €4 trillion of assets held by individuals in offshore accounts.(20)

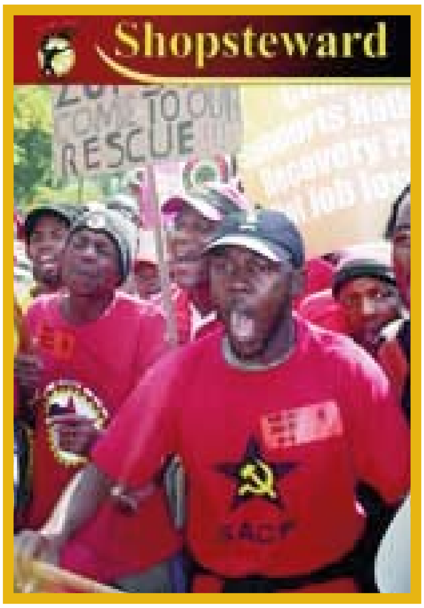
Hedge funds and even pension funds often trade large blocks of shares secretly using the brokerage services offered by investment banks, instead of trading openly on the stock exchange. The investment banks are setting up joint share-trading platforms, using high-speed electronic communication networks, to capture business from the stock exchanges. For any transaction tax to be effectively collected, these private markets must be regulated and tax evasion addressed seriously.

Thirdly, having nationalised Northern Rock, much of RBS and part of Bradford and Bingley, the British government should operate them in the public interest to offset the impact upon lower-income working families of the 'credit crunch' restrictions imposed by the commercial banks.

Lastly, we need to recognise that inequality in income and wealth matter. Inequality continued to grow under New Labour, with Peter Mandelson stating in 1998 that the party was "intensely relaxed at people getting filthy rich". Now that we can see the damaging role played by the super-rich in creating inflationary price spikes and speculative bubbles there is no excuse for neglecting inequality. Higher tax rates levied on the super-rich would not only finance decent levels of social security but also begin tackling the source of this current form of capitalist crisis.

FOOTNOTES:
(1) Radio 4 The World this Weekend, broadcast on 3 August 2008. Laurence Summers is a professor at Harvard University and served as finance minister in the Clinton administration.
(2) The International Monetary Fund, April 2008, World Economic Outlook: Housing and the Business Cycle, chapter 3, Box 3.1, Washington: IMF. Martin Wolf of the Financial Times notes that the IMF suggested that the portion of house price rises not explained by fundamentals was larger in, among other countries, the UK, Australia, France and Spain (and, to a lesser extent, the USA). Behind these synchronised bubbles lay a shift in global conditions, driven by low real interest rates, easy monetary policies, financial innovations (securitisation, etc.) and a search for yield among over-confident investors. See Martin Wolf, America's housing solution is not a good one to follow, Financial Times, 10 September 2008.
(3) Martin Wolf, Financial Times, 10 September 2008. A trillion is a thousand billion or 1 x 1012. A billion is a thousand million (1 x 106).
(4) Leslie Masters, 2008, Over production of credit is causing the crunch, The Socialist Correspondent, 3, Aug: p. 4-5, 25.
(5) Financial Times, 5 & 29 August 2008.
(6) Financial Times, 7 August, The Independent, 5 August, and The Guardian, 30 August 2008.
(7) Speech to the American Enterprise Institute on 5 December 1996.
(8) Willem Buiter, 2008, Welcome to the world of diminished expectations, Financial Times, 6 August 2008. Professor Buiter is based at the London School of Economics.
(9) The Guardian, 20 September 2008.
(10) Financial Times, 9 July 2007.
(11) World Wealth Report by Merrill Lynch and Capgemini, in the Financial Times, 25 June, and The Economist, 28 June 2008.
(12) See The Economist, 12 July 2008, and the Financial Times fm supplement, 4 August 2008.
(13) The Economist, 21 April 2007.
(14) Financial Times, 11 August 2008. "It was classic stabilising speculation. It brought forward the price increase that would have otherwise taken place over a much longer period of time, reducing demand sooner and ultimately cutting the top off the intermediate price peak." Greenspan's opposite number, the president of the European Central Bank, Jean-Claude Trichet, however took a less sanguine view, arguing that "it was 'reasonable conjecture' that speculators had distorted commodity markets, leading to prices above those justified by fundamental supply and demand factors", according to the Financial Times, 6 September 2008.
(15) Morning Star, 16 September 2008.
(16) See Gillian Tett, A year that shook faith in finance, Financial Times, 4 August 2008. Tett notes, "industry data suggest that between 2000 and 2006, nominal global issuance of credit instruments rose twelvefold to $3,000 billion a year from $250 bn. This activity appears to have become particularly intense from 2004, partly because investors were searching for ways to boost returns after a long period in which central banks had kept interest rates low. … Some policy-makers were uneasy about the scale of this explosion. In particular, there was growing concern that 'slicing and dicing' [that is, separating out debts with different risk profiles and packaging them into a single security] was fuelling a credit bubble, leading to artificially low borrowing costs, spiralling leverage and a collapse in lending standards."
(17) The Guardian, Leader, 16 Sept. 2008.
(18) Romilly Greenhill, 2002, Campaign for a Tobin Tax gains momentum, on www.jubileeresearch.org
(19) The Guardian, 23 July 2002.
(20) Financial Times, 15 August 2008.

South Africa: another turning point?



Front cover of the COSATU Magazine No.17

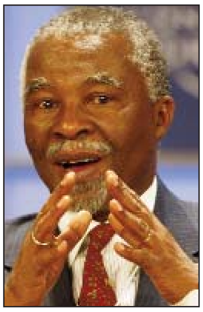
In 1994 the first democratic election in South Africa's history led to the ending of apartheid and marked a historic turning point.

ALEX DAVIDSON asks, "Are we at another turning point in South Africa's history?"

The African National Congress Conference at Polokwane in December 2007 elected Jacob Zuma as its President defeating the incumbent, Thabo Mbeki.

The other 5 officers[1] were all elected from the "Zuma" slate and virtually all of those associated with the Mbeki government failed to get elected to the National Executive Committee with some notable exceptions.[2]

Jacob Zuma



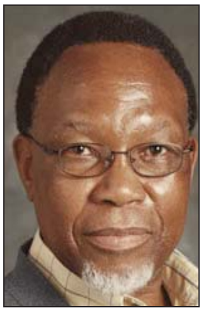
Thabo Mbeki

This reflected a growing discontent with the Mbeki government and leadership.

Corruption charges against Zuma were still being pursued but then in October 2008 Judge Nicholson found that Zuma had not been properly consulted on the charges according to the law and in his judgement referred to political interference by the Executive. Following this judgement, the ANC National Executive Committee recalled Thabo Mbeki as President of the Republic. Thabo Mbeki resigned as President and some ten Ministers and Deputy Ministers followed with their resignations.

The Deputy President of ANC, Kgalema Motlanthe, was then elected President of the Republic.[3]

Shortly thereafter a Convention was called by Mosiuoa 'Terror' Lekota (former Defence Minister) and others which established a breakaway from the ANC. It launched itself as a new party, "Congress of the People" (COPE) in December 2008 with Lekota as leader and Mbhazima Shilowa, former Gauteng Premier, as his deputy and some other prominent ANC members have joined.[4]



Kgalema Motlanthe

The divisions in ANC go back some time. In 1996 with the government's adoption of GEAR[5] extremely serious differences began to emerge. COSATU and the SACP were unhappy with the dropping of the Reconstruction and Development Programme (RDP) and its replacement by GEAR. This policy was adopted with only limited consultation with the Alliance partners. The economic policy of the government was seen as neo-liberal, favouring business rather than labour. However, Mbeki saw GEAR as a means of self-reliance rather than a capitulation to old colonial masters. At the core of the programme was the fear of the begging bowl, of giving up South Africa's limited sovereignty to the IMF and/or the World Bank.

These differences with the government's economic policies deepened and were reflected by new leaderships emerging in both the SACP and COSATU. Blade Nzimande was elected General Secretary of the SACP at the party's congress in 1998.

He was one of the earliest and most outspoken critics of GEAR. "The difficult relationship between Mbeki and Nzimande is rooted in a combination of ideological dispute and personal grievance."[6]

Zwelinzima Vavi became General Secretary of COSATU, replacing Mbhazima Shilowa in 1999. Initially Shilowa had been opposed to GEAR but was persuaded to change his position by Mbeki.

Increasingly the SACP and COSATU became critical of the ANC government. Notwithstanding this, Thabo Mbeki was elected President of ANC following the retiral of Nelson Mandela and he was elected President of the country in 1999 and re-elected in 2004.

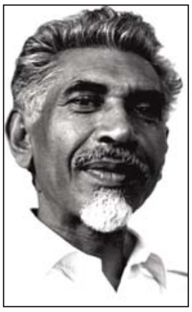
From 2004 the question of the leadership succession developed. Constitutionally a person can only serve two terms as President so for Mbeki to serve another term the constitution would have to be changed. Mbeki denied wanting a third term as President of the Republic.

The corruption charges against Jacob Zuma relate to a major arms deal. Mbeki chaired a cabinet sub-committee on arms procurement from 1996-1999 that put together and approved the purchase of R30billion worth of military hardware. The arms deal eventually cost double that owing to the unstable rand. This arms deal is at the root of the corruption charges against Zuma.

The first casualty of the deal was Tony Yengeni, ANC Parliamentary Chief Whip, charged by the Directorate of Special Operations (DSO), known as “the Scorpions” and subsequently found guilty of having accepted a big discount on a luxury 4x4 Mercedes Benz. Then in 2001 Schabir Shaik was arrested after a Scorpions search-and-seize operation on his offices and home.

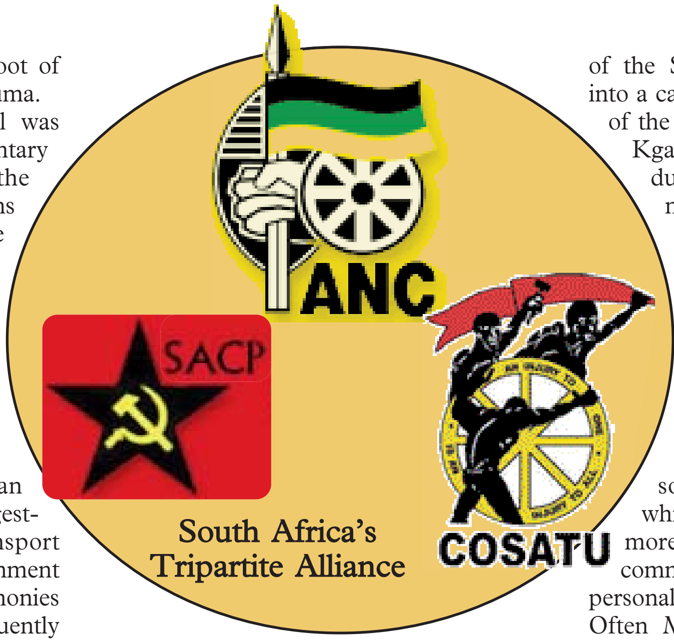
In 2003 the South African “Sunday Times” ran a story suggesting that Mac Maharaj (Transport Minister in the Mandela government and ANC veteran) had received monies from Shaik. Maharaj was subsequently investigated by the Scorpions, Maharaj found himself at the centre of a political storm when he confirmed allegations that Bulelani Ngcuka, Director of the National Prosecuting Authority (NPA), had been investigated by ANC intelligence in the 1980s for being an apartheid spy.

This led to a government initiated enquiry, which cleared Ngcuka. While Maharaj was under investigation Ngucka tried to get him to persuade Zuma to answer certain questions. Smeared by the brush of corruption, Maharaj fought back accusing Ngcuka of abusing his office and daring Ngcuka to charge him. Maharaj has never been charged.


Mac Maharaj

In his memoirs Mac Maharaj wrote: “…why was Ngcuka abusing his power in such an unscrupulous way. What was his agenda? I can’t say … I believe it was about who would succeed Thabo Mbeki; it was about the direction this country takes; it was about whether it will be undiluted GEAR (the government economic policy) or a regulated market; and about who can make the most from black economic empowerment. It seemed to be about who becomes the kingmakers in South Africa.”(7)

Accusations of corruption against Jacob Zuma, Deputy President, emerged during the trial of Schabir Shaik, charged in 2001 and who was found guilty of corruption and fraud related to the arms deal and sentenced to fifteen years imprisonment on 2 June



South Africa’s Tripartite Alliance

2005. Neither Shaik nor Zuma denied that payments had been made by Shaik to Zuma. Both insisted that the transactions were loans.

President Thabo Mbeki then relieved Zuma from his post as Deputy President of the Republic and appointed Phumazile Mlambo-Ngcuka, then Minister of Minerals and Energy and wife of Bulelani Ngcuka, as Deputy President. Corruption charges were to be brought against Zuma by the National Prosecuting Authority. Zuma remained Deputy President of the ANC.

In December 2005 Zuma was charged with rape but was acquitted in May 2006 in a very high profile trial, which stirred much emotion throughout the country.

During this time the leadership succession question remained front page news.

In October 2005 Billy Masethla, Director of National Intelligence, was sacked. He was accused of being behind hoax e-mails implicating senior ANC members in a conspiracy against the party’s then Deputy President, Jacob Zuma. Masethla appealed against his dismissal and the court upheld his appeal. Masethla was elected to the ANC NEC in December 2007.

A view developed that factionalism had entered the state and that the Scorpions were abusing their power.

“There are worrying indications that sensitive sectors of the state like intelligence, prosecutions and the public broadcaster have been polluted by political factionalism.”(8)

In October 2008 Judge Nicholson gave his judgement which led to the recall of Mbeki as President.

The disenchantment with the actions of the Scorpions had by now grown into a campaign for its dissolution. One of the first acts of the new President, Kgalema Motlanthe, was to introduce a bill in Parliament, which moved the Scorpions from the office of the National Prosecuting Authority and integrated them into the South African Police Service. The President also took the decision to remove the Director of Public Prosecutions, Vusi Pikoli.

There are a complex of reasons behind these divisions which have grown deeper and more serious since 1994. Some commentators see it as a question of personalities or the quest for power. Often Mbeki was seen as ‘aloof and intellectual’ and Zuma as ‘a man of the people’. Personalities do certainly come in to the issue but it is more than that. The question of personality cannot be ignored, however, the political issues ultimately are the more important.

GEAR engendered far more dissent in South Africa than either Mbeki’s AIDS scepticism or his ‘quiet diplomacy’ on Zimbabwe and led to “the most serious schism the party had experienced in its century of existence – and would fuel the rebellion against Mbeki following the firing of Jacob Zuma in 2005.”(9)

From the time that the Reconstruction and Development Programme was transformed into GEAR there had been a growing discontent with the economic policies within the ranks of the Tripartite Alliance.

Whilst the economy continued to grow and many advances were made in terms of access to clean water, electrification, sanitation, housing, education and other areas of social policy, the gap between rich and poor grew wider and unemployment remained very high at some 25% officially but nearer 40% in reality.

The SACP drew the following conclusion: “Thanks to our post-1994 state interventions, big capital has been the major beneficiary of 13 years of ‘stabilisation’ and economic growth. The subordinate ‘caring’ state dimension of GEAR consisted in reducing the RDP (Reconstruction and Development Programme) into a set of technical ‘delivery’ targets funded out of tax derived from this capitalist growth – delivery but without transformation.”(10)

This discontent with the government’s economic policies was exacerbated by Mbeki's lack of consultation with ANC's partners, COSATU and the SACP.

"For years we have had to endure from some quarters of the ANC consistent displays of contempt and disdain for the elected leaderships of the SACP and COSATU." (11)

Jacob Zuma was seen by many as a victim and thus became the reservoir of discontent within the ANC alliance.

Other factors, which have to be taken into consideration, are the issues of careerism, opportunism and corruption, largely a consequence of ANC holding power. From 1994 and the first democratic election many leaders of ANC, COSATU and the SACP had entered government, locally and nationally, as politicians or officials.

This weakened the structures of the Tripartite Alliance. With the introduction of Black Economic Empowerment (BEE) many others went into business. At the same time as these departures from the structures of the movement, some people saw that the best and quickest way forward for them personally was to join the ANC.

Nelson Mandela

The first of the ANC leaders to openly talk about these negative tendencies was former president Nelson Mandela. In his political report to the 50th National Conference in 1997, he stated that, *"Later in this report, we will discuss the intrusion of this self-same media within our ranks, during the last three years, to encourage our own self-destruction, with the active involvement of some who are present here as bona-fide delegates to the conference of a movement to which they owe no loyalty... In reality, during the last three years, we have found it difficult to deal with such careerists in a decisive manner. We, ourselves, have therefore allowed the space to emerge for these opportunists to pursue their counter-revolutionary goals, to the detriment of our movement and struggle. During this period, we have also been faced with various instances of corruption involving our own members, including those who occupy positions of authority by virtue of the victory of the democratic revolution... Clearly we have to take all necessary measures to purge ourselves of such members and organise ourselves in a way that will make it difficult for corrupt elements to gain entry into our movement".*(12)

President Mandela was joined in the same conference by Acting Secretary General Cheryl Carolus, who further reflected on the matter: "*The competition within the organisation for positions in government has added a new dimension to the contestation of ANC leadership positions. Election to an ANC position is viewed by some as a stepping stone to positions of power and material reward within government. While such views might be inevitable, we need to ensure that personal ambition is sufficiently tempered by the needs of the organisation and the demands of the National Democratic Revolution. The organisation needs to develop mechanisms which will ensure that the contestation of leadership positions does not divide the organisation and does not detract from the key programme of the movement*".(13)

These problems of careerism and corruption have continued to the present. The ANC January 8th Statement in 2008 said: *"while the ANC's organisational strengths have included an ability to broaden its appeal beyond its traditional support base and adapt mass work under new conditions, it has acquired a number of 'accumulated weaknesses'. As conference indicated, these weaknesses include:*

- *An inability to effectively deal with new tendencies arising from being a ruling party, such as social distance, patronage, careerism, corruption and abuse of power;*
- *Ineffective management of the interface between the movement and the state;*
- *A flawed approach to membership recruitment;*
- *A decline in ideological debate among cadres; and*
- *A lack of institutional resources to give practical effect to the movement's leadership role.*

In the run-up to conference, the process of leadership contestation seriously tested the ANC's unity and cohesion, core values, character, and tried and tested organisational practices."(14)

In the run-up to the December 2007 Polokwane ANC Conference the SACP stated in an Open Letter to the ANC membership: *"The SACP is calling for an end to a leadership style in which loyalty to individuals over-rides loyalty to the struggle, in which gross incompetence trumps effectiveness, in which favourites are propped up in the midst of endless failure and scandal."*(15)

These open criticisms of the Mbeki style of leadership had been growing for some time prior to the Polokwane conference. For example, the "Presidency is too powerful"(16) and our democracy is "excessively presidential."(17)

Following the Polokwane conference the new ANC leadership established their authority. As well as re-calling Thabo Mbeki as President of the Republic the right of ANC structures over the appointment of Premiers and Mayors was re-asserted.

ANC have now gone into election mode in preparation for the election to be held on 22 April 2009. This includes the launch of the manifesto, determination of the national and provincial lists of candidates and deployment of cadres in the campaign.

FOOTNOTES:
(1) Kgalema Motlanthe (Deputy President), Gwede Mantashe (Secretary-General), Baleka Mbete (Chair), Thandise Modise (deputy Secretary-General) and Matthew Phosa (Treasurer-General).
(2) Including Nkosazana Dlamini-Zuma (Foreign Minister); Pallo Jordan (Minister of Arts and Culture); Manto Tshabalala-Msimang (Minister of Health, now Minister in the Presidency); and Trevor Manuel (Finance Minister).
(3) Kgalema Montlanthe was Secretary-General of ANC from 1998-2008.
(4) Including Rev Allan Boesak, Nosimo Balindlela (former Eastern Cape Premier), Phillip Dexter (former SACP Central Ctte) and Barney Pityana (Vice Chancellor of the University of South Africa).
(5) GEAR: Growth, Employment and Redistribution Plan.
(6) Gevisser, Mark, "Thabo Mbeki: the dream deferred", p674, pub 2007, Jonathan Ball Publishers.
(7) O'Malley, Padraig, "Shades of Difference: Mac Maharaj and the Struggle for South Africa", p442, pub Viking Penguin.
(8) An SACP Open Letter to the ANC Membership, "We can't go on like this..together, let's make sure things change", African Communist, November 2007.
(9) Gevisser, Mark, "Thabo Mbeki: the dream deferred", p666, pub 2007, Jonathan Ball publishers.
(10) "Umsebenzi", journal of the SACP, "A Shift to Where?", May 2007.
(11) An SACP open Letter to the ANC Membership, African Communist, November 2007.
(12) Political Report, 50th National Conference, 1997.
(13) Organisational Report, 50th National Conference, December 1997.
(14) ANC Statement, 8 January 2008
(15) An Open Letter to the ANC Membership, African Communist, November 2007.
(16) SACP, SAPA, May 2006.
(17) Vavi M., General Secretary, COSATU, May 2006.

The Philippines and the prospects for left unity

A review of the history of the left in the Philippines by the late WILLIAM J POMEROY. First published in the Socialist History Society Newsletter, April 2008. Prior to his death in January 2009, aged 92, Bill agreed to his article being reprinted in The Socialist Correspondent.

In 1938 the leaders of the Left parties in the Philippines met and agreed a merger of two parties, the Partido Kommunista ng Pilipinas (PKP) and the Socialist Party. The PKP had been formed in 1930 out of the trade unions and peasants' movements.

The Socialist Party had been founded by Pedro Abad Santos, who came from a big landlord family but had developed sympathy with socialism.

He built around himself a militant organisation of young people which became the terror of the landlords.

Their 1938 merger had historic consequences. In 1941 the Japanese invaded and occupied the Philippines. The merged PKP met and set up an effective guerrila resistance movement called the Hukbalahap (Hukbo ng Bayan Laban sa Japon - The People's anti-Japanese Army). The territory where it occurred - in the provinces of Pampanga, Neuva Ecija, Tarlac and Bucalan - became the base of the PKP.

In 1946 the Philippines acquired its independence from the United States. In the elections of that year to determine the government of the Philippines the PKP and several smaller nationalist organisations united to form a political party, the Democratic Alliance. Their candidates won all 7 congressional seats in central Luzon and actually held the balance of power in the first post-war government. These events show the correctness and effectiveness of left unity.

The Alliance was in a position to defeat the measures that would establish US military and economic control of the independent Philippines. But the landlord comprador government, acting on behalf of US interests, refused to let the Alliance congressmen take their seats. This enabled the American demands to be carried out. This was accompanied by military attacks on the mass-based areas of the PKP, causing the Huks to reorganise and fight back.

Bill and Celia Pomeroy on their wedding day, 28th May, 1948. They both spent 10 years in Philippine prisons in the 1950s.

The PKP debated what policy to pursue. In 1948 it decided that the main form of struggle to be used against the neo-colonial government now had to be the armed struggle. The armed struggle was defeated, however, due mainly to large-scale US military assistance given to the government but due also to the failure of the PKP to carry out the succcessful broad front policy of the 1930s. Instead it had adopted a hegemonistic, go-it-alone attitude toward the liberation struggle. Later, in a no-holds-barred assessment of the armed struggle period, the PKP severely criticised the armed struggle period and those responsible, describing it as ultra-Leftist adventurism and accusing it of failing to carry through the Left Unity programme.

In 1956 the PKP gradually shifted towards putting the emphasis on forms of legal struggle. Comrades "outside" were instructed to go back into the cities to develop legal forms of struggle.

In the early 1960s a broad national unity organisation was formed called the Movement for the Advancement of Nationalism (MAN). Many organisations as well as individuals were affiliated. MAN had the promise of developing a broad democratic nationalist party in opposition to the landlord comprador rule in the country.

This promising development was, however, shattered by the actions of a Maoist group that had grown up within the PKP and which portrayed the shift from the armed to the legal struggle as a betrayal of the people. It tried, first, to gain control of the PKP but was decisively defeated.

So it then formed its own Communist Party of the Philippines (CPP) and launched a vitriolic propaganda campaign against the PKP, calling it moribund. It set up an armed force, the New People's Army, aimed at the armed overthrow of the government and then began launching guerrilla attacks on government installations.

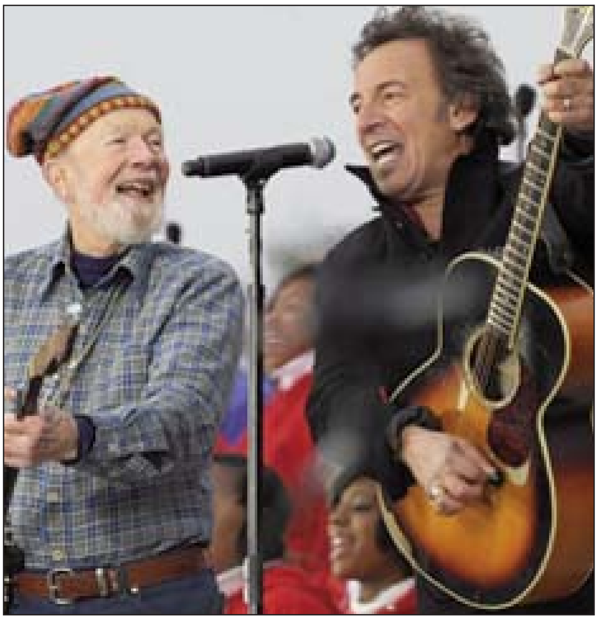
This move by the Maoists created disputes, confusion and antagonisms within the MAN leading to its decline and collapse. Those who were affiliated with MAN continued to organise, as did the PKP, working for the unity of all progressive forces.

This division amongst the Philippine left has continued to the present time. The Maoist strategy has not been successful and by the 1980s several groups had broken away from the CPP to take up the legal struggle and to participate in elections both local and national.

Today in the Philippines new organisations promoting democratic nationalist policies have arisen amongst the people, especially amongst the youth. Though separate from both the PKP and CPP some are promoting socialism as the answer. The existence of so many groups may look chaotic but, nevertheless, the fact that so many support the same objectives creates the possibility for a form of left unity.

The PKP continues to build up its own mass organisations and to call for the unity of all left national democratic organisations against neo-colonialism and for socialism as the solution to the country's problems. Only with such a common front is there a prospect of a broad left unity and the inclusion of all groups - even Maoist members.

Woody's words ring out at Obama inauguration



Two days before the main event, half a million people, including Barack Obama, stood in the cold at the Lincoln Memorial on Sunday 18 January 2009 to attend a concert to celebrate the inauguration of the 44th President of the United States of America.

At the end of that concert, Bruce Springsteen and 89 year old Pete Seeger (left in picture) sang Woody Guthrie's *This Land Is Your Land*, the way that Woody wrote it back in the 1940s as a rejoinder to the jingoistic 'God Bless America.'

Pete, who met Woody at a migrant workers' benefit concert in March 1940, had the crowd sing the song as it was actually written, as not only a celebration of America, but as a demand for workers' and people's rights. "You sing it with us. We'll give you the words," said Pete.

That is, he restored the verses that have been censored from the song over the years to make it less political. These included lines that refer to "the relief office"; "private property"; "stood there hungry"; and "freedom highway."

Seeger, like Guthrie, was hounded by the establishment during his life. He was questioned by the McCarthyite witch hunting committees of Congress in the 1950s, black listed, and banned from television until the late 1960s. At the end of his memorable performance, 89 year old Pete Seeger bounded off the stage like a man half his age to rapturous applause. To see for yourself go to: http://www.truthout.org/011909R

The full text of Barack Obama's speech following his Inauguration on Tuesday 20 January can be viewed at:
www.whitehouse.gov/blog/inaugural-address/

THIS LAND IS YOUR LAND
by Woody Guthrie,
(pictured right)
as performed by Pete Seeger and half a million people in Washington DC on Sunday 18 January, 2009.

Chorus
This land is your land This land is my land
From California to the New York island;
From the red wood forest to the Gulf Stream waters
This land was made for you and me.

1.
As I was walking that ribbon of highway,
I saw above me that endless skyway:
I saw below me that golden valley:
This land was made for you and me.

2.
I've roamed and rambled and I followed my footsteps
To the sparkling sands of her diamond deserts;
And all around me a voice was sounding:
This land was made for you and me.

3.
In the squares of the city, in the shadow of the steeple
By the relief office I saw my people;
As they stood there hungry, I stood there whistling
This land is made for you and me.

4.
A great high wall there that tried to stop me;
A great big sign there said private property;
But on the other side it didn't say nuthin';
That side was made for you and me.

5.
Nobody living can ever stop me,
As I go walking that freedom highway;
Nobody living can ever make me turn back
This land was made for you and me.