

Jump! You Fuckers!

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19 January, 2009

This is ~~Not~~ a Time for Finger-Pointing

‘We can spend a lot of time talking about how it happened and how we got here. But we have to get through the night first.’¹ With these words Hank Paulson launched his tax-payer funded bailout of the United States financial sector in September 2007. So what if this was the man who, in the wake of the Enron scandal, had warned against losing perspective and rushing towards ‘harsh regulations that are unnecessary’²? This was no time for effete analysis and soul-searching. The fiercely independent Wall Street financiers needed vast sums of public money and they needed it immediately.

Nick Clegg, the reliably wrong leader of the Liberal Democrat Party³ in Britain, adopted a similarly statesmanlike tone. Staring at the chaotic disaster that is the finance sector he announced that ‘when a ship is sinking, you send out the lifeboats. You don’t argue about who has steered it into an iceberg. That can wait for another day.’⁴ Whatever else Clegg may have done in a colourful and exciting political career, he clearly hasn’t been on a sinking ship. As the passengers on the Titanic would have no doubt recognized, there’s no better moment to start the blame game than when a ship is sinking. Especially if there aren’t enough lifeboats to go round.

As it is, the lifeboats are likely to be laden to the gunnels with the same plausible chancers who insisted that icebergs were a thing of the past, that the vast whiteness growing ever vaster was no more than a trick of the light, and that the structures in place were unsinkable anyway. The rest of us are about to get thoroughly wet. It is still not clear how bad it is about to get. We might be facing the worst recession since the early eighties. On the other hand it might get really nasty.

So we should try to establish exactly what caused the crisis, who is responsible, and how. And that does require a certain amount of finger-pointing. Not because it is fun, although it is, but because we can’t afford to be magnanimous to the policy-makers and opinion-formers who steered us into this. If we do we’ll leave

them in place to manage the crisis as confidently and ineptly as its prelude. They will seek to reconstruct a system on the same disastrous lines, they will fail, and they will, with every appearance of regret, resort to ever more desperate measures. You probably found this article online, so I shall say no more.

How Not to Explain the Crisis

If you stayed still long enough in 2007 someone would start telling you about sub-prime mortgages, the growth in derivatives, and the bonus culture on Wall Street and in the City of London. Network news was full of excitable types telling us all about the problems created by the deregulation of financial markets, the unexploded munitions left lying about by credit default swaps. It was Babylon in the bond markets, by all accounts.

Before we lose ourselves in lurid anecdotes about the seamier side of the loan approvals process, we should step back for a moment and look at the various explanations for why we are now in recession. There are a number ways of getting this wrong. All of them have a certain amount of plausibility, and some of them are quite emotionally appealing. But they are all dangerous in the same way. If we fall for any one of them, or any combination of them, we'll be lulled into thinking that much the same political settlement that led to this disaster will lead us out of it. So I give you, in no particular order, *How Not to Explain a Crisis*.

First off we are urged to take the long, historically sober and sensible view. In this vein any number of people who will tell you that our troubles have their origins in the madness of crowds, the mysterious movements of markets, or in our evolved nature. Writing in *Commentary*, John Steele Gordon tells us that 'the nexus of excess speculation, political mischief, and financial disaster' that brought about the current crisis has been around for ages:

Given the recurrence of these themes over the course of three centuries, there is every reason to believe that similar calamities will beset the

system as long as human nature and human action play a role in the workings of markets.⁵

The great historian of finance, Niall Ferguson assures us that financial markets can't help but be unstable because of our 'innate inclination to veer from euphoria to despondency' and 'our perennial failure to learn from history'⁶.

Crises, in these kinds of accounts, become one with the awesome majesty of the physical world. They emerge from our nature and can never be avoided. Such claims may seem historically sober, they may be delivered in tones of donnish authority, but they depend on our historical ignorance for any plausibility they have. The global financial system did not suffer from serious disruption between the Second World War and the early seventies. Regardless of our innate qualities, we act within institutions, bounded by legal and social inhibitions. These can be changed to make financial and economic crises more or less likely. As we shall see they can be changed in ways that lead to catastrophe.

The crisis-as-extreme-weather-event also appeals to those who argue that no one in their right minds could have seen the crisis coming, given the complexity of financial systems. The commentator John Kay insists that 'we may be able to say a lot about their general properties while being unable to make specific predictions'⁷. Kay invokes the non-linearity of markets, their dynamism, and, of course, the troublesome butterfly whose antics cause so much meteorological mayhem.

It adds up to a kind of explanation by mystification, in which tolerably simple phenomena are explained away with reference to mind-bogglingly complicated ones. Besides, plenty of people made specific and accurate predictions. They tended not to have columns in the *Financial Times* but, as Kay recognises, citing the work of Philip Tetlock, 'the better known the forecaster, the less accurate the forecast'⁸.

You can also baffle yourself by keeping too tight a focus on the financial sector. Keynes's biographer, Robert Skidelsky, has argued that 'the main source of instability lies in the financial markets themselves'⁹, while Robert Reich cries 'greedy bankers beware'¹⁰. In these readings the culprit is a mixture of the moral and the technical, a mixture that appeals to journalists. Most of them have spent at least a decade in a state of supine incuriosity about those aspects of finance that bankers didn't want them to talk about. While they once filled their pages with placidly admiring profiles of various City and Wall Street rainmakers, they now heap scorn on their erstwhile heroes.

And they have started to pore over the details of the derivatives market, the operations of the hedge funds, and the excessive risks taken by banks in the last, glittering decade. Again, a fairly simple set of circumstances is 'explained' by gestures towards the mind-numbingly complex and an event in political economy is lost in the mathematical sublime. Cor, look at those equations!

There are a number of variants on the finance sector story. Some focus on sub-prime lending. Poor Americans were persuaded to take out loans they couldn't afford; banks then bundled up these shaky debts and sold them on to investors; as rates of default began to rise, a neurosis of distrust seized the credit markets. Suddenly all hell broke loose. This is sometimes called the 'yanks and banks' account and it was pushed hard by the British government in 2008. It is emotionally appealing because it lays the blame at the feet of a coalition of shiftless rednecks and shifty Wall Street operators. As an attempt to deflect the blame from the UK government it looks a little shaky, since New Labour had built its electoral ascendancy on its submission to yanks and banks, in one way or another. More plausibly some cite the wider real estate boom and the cheap credit that fuelled it from 2001 onwards. But, as we shall see, the real estate boom itself was the flower on a plant with much deeper roots.

Apologists for the free market also tend to narrow their focus to the credit markets but they blame the state, not the banks, for the seizure that began in 2007. According to Eamonn Butler, the director of the Adam Smith Institute, the

crisis 'was caused by politicians forcing the banks to give out bad loans, monetary authorities flooding the West with cheap credit and regulators being asleep at the wheel'¹¹. Butler goes on to claim that 'one can date its origin precisely, to 12 October 1977, when US President Jimmy Carter signed the "anti-redlining" law'. How so, Mammon? Sorry, Eamonn. Well, he explains,

Before then, lenders generally denied loans to people in poor neighborhoods, believing that the local mix of low incomes and a weak housing market would lead to many people defaulting. But the politicians - with good intent - wanted to make home ownership available to all Americans. So lenders were forced into giving out risky mortgages: what we now call "sub-prime" loans'.¹²

Butler is referring to the Community Reinvestment Act. The act sought to stop regulated financial institutions from withholding credit from individuals and businesses in (poor, often black) areas. Many market-friendly commentators have, like Butler, claimed that it 'forced' lenders to make shaky loans. In fact the CRA requires that federal agencies encourage them 'to help meet the credit needs of local communities in which they are chartered *consistent with the safe and sound operation of such institutions*.'¹³ On the face of it, this doesn't sound like a charter to lend recklessly. And, given that the explosion in sub-prime lending is only part of a much wider expansion of credit, this explanation starts to look shaky to the point of being flaky.

That is not to say that a President from the 1970s couldn't have had a hand in the current crisis. It's just that Eamonn has picked the wrong one (it isn't Gerald Ford, either, by the way).

It is difficult to know what to make of this and similar attempts to exonerate private capital. The bright sparks at the Adam Smith Institute in Britain and the Heritage Foundation in the United States are right to recognise that government action directly contributed to the current car crash. But they ignore how private investors welcomed British and American moves to deregulate finance with

something approaching ecstasy. The markets could have priced in the dangers of regulatory paralysis and cheap money, and intimidated policy-makers into taking steps to make the system less crisis-prone. If the markets were as all-seeing and as efficient as their admirers claimed they would have done so.

But they didn't, because they aren't.

It is tempting to blame Alan Greenspan, the Chairman of the Federal Reserve from 1987 to 2006, for the crisis. With Robert Rubin and others Greenspan certainly worked hard to minimise regulation on Wall Street and so permitted some reckless behaviour with financial derivatives on the part of the banks.¹⁴ Greenspan also provided on the cheap money that fuelled the property boom in the United States in the early years of the century. Indeed Greenspan's laissez-faire attitude to asset price bubbles had contributed to the boom and bust in stocks driven by dot.com mania. The cheap money policy after 2000 allowed the Americans to blow a new bubble in real estate and probably headed off a severe recession in the early years of the century.

Greenspan embodied the wishes and assumptions of the free market right. He took the view that central bankers had no business second-guessing the markets as to the value of assets. His job, as he saw it, was to clean up the mess after the bubbles burst, not to intervene beforehand.

Greenspan himself has, in his usual forthright manner, come to admit that he was 'partially' wrong to resist regulation of derivatives. Talking more generally about his free market principles he acknowledges that he has found a 'flaw':

I don't know how significant or permanent it is. But I have been very distressed by that fact ... I made a mistake in presuming that the self-interests of organisations, specifically banks and others, were such that they were best capable of protecting their own shareholders and their equity in the firms.¹⁵

We should pause perhaps and ask ourselves how any adult could imagine that self-interest would prevent banks from acting in ways that posed systemic risks, given the widely reported tendency of self-interested actors to act in ways that, you know, pose systemic risks.

Whatever Greenspan's deficiencies, the policies that led to the crash long pre-date his tenure at the Federal Reserve. Besides, his philosophy, flawed as it turned out to be, was the conventional wisdom on Wall Street and in recent US administrations. Greenspan himself served under Presidents Reagan, Bush, Clinton and Bush. His insouciance about the dangers posed by unregulated financial engineering, his refusal to intervene to prevent bubbles, and his accommodating attitude to Wall Street interests, were unremarkable in the circles in which he operated. Put it another way, if his economic philosophy had been less flawed, he never would have been appointed.

In the final family of bullshit explanations, responsibility settles on us all in a fine, even dust. All of us are to blame, and so none of us can be singled out. We all borrowed too much and brought the crisis on ourselves. This is a line that is very popular with those who are otherwise very happy to take a leadership role. Again, what pretends to be explanation induces a kind of vertigo. Instead of distinguishing between causes, and identifying the ones that matter, we are invited to lose ourselves in the sublime of a million and one decisions of indeterminate importance.

I'd say that that is bullshit, too.

Maybe we were all at the party, but hardly any of us could have known what was in the punch. We were encouraged to leave supposedly complicated and technical matters like the management of the economy to experts. A community of experts was on hand to dismiss anyone who presumed to express doubts. When we had an opportunity to vote, the main parties in Britain and the United States unanimously offered the policies that have brought us to disaster.

We can do without any faux-wise posturing about our genetic inheritance, and we should pass up the temptation to blame ourselves for our addiction to credit. This has nothing to do with the mystery of being human and everything to do with a finite number of decisions made by a finite number of human beings whose identities are very far from being mysterious. And though the recklessness of bankers has played its part in making things much, much worse, we aren't in the predicament we're in simply because of the ingenuity of hedge fund managers and associated financial high-wire artists.

The Origins of the Crisis

So we can't adequately explain what happened with either the long view of human nature or with a close-up on the finance sector in recent years. Nor should we overstate the importance of a handful of now retired operators. The crisis we now face begins to form in outline in the early seventies. Two related developments introduced growing instability into financial markets and the wider economy – the growth of debt and the deregulation of finance.

After a long period of expansion between 1945 and 1970, in which real wages grew steadily throughout the developed world, workers' compensation levelled off. Average earnings per hour in private non-agricultural industries in the United States reached \$8.99 in 1972 (calculated in 1982 dollars). By 2007 they had risen to \$8.30. Sorry, no, they had *fallen* to \$8.30 (again, calculated in 1982 dollars).¹⁶ More widely, in the rich, industrialised world, the percentage of GDP captured by all workers in the form of wages fell from 75% in the mid-seventies to 66% in the middle years of this decade.¹⁷

Output per hour continued to rise – workers still produced more goods and delivered more services, helped in part by information technology. But they weren't being paid more in real terms for the time and effort.

So who benefited from the weakening share of income secured by labour? Profits and rents have increased by a full third over the last generation, so the first group to benefit from the shift was the very, very rich. The result has been a new Gilded Age, reminiscent of the late nineteenth and early twentieth centuries, with all the exquisite good taste, state of the art sycophancy, and imperial violence that characterised the earlier era.

But the share of GDP paid to workers was also distributed far more unevenly. Managers who successfully drove down wages for the rest of the workforce themselves enjoyed massive increases in wealth. According to Paul Krugman, in 1970 American CEOs made \$1.3 million a year - 39 times as much as the average worker. By 1999 their pay had increased to \$37.5 million - a staggering 1000 times the average.¹⁸

Much of the extra money came in the form of share options. The idea was that the interest of senior management would be aligned with the interests of owners by giving them the right to buy shares at an agreed price. So senior managers focussed obsessively on the share price of their companies. The long term prospects for the company, the interests of workers, anything that didn't feature in the quarterly numbers was left the public relations and human resources departments. Senior management wanted, with a passion that can only be imagined by those who make do with the more pedestrian pleasures of a weekly or monthly paycheck, to hit the strike price on their options and so join the ranks of the astonishingly wealthy. Wall Street and the City were on hand to press the 'products' (usually a euphemism for debt) that would help them. Arguably senior executives and their financiers colluded to achieve their own short-term goals at the expense of inattentive or too-trusting owners. So, the financial sector also did extremely well in the period after 1970, in part because of the new reliance on debt-funded expansion in the corporate sector, in part for reasons we will come to later.

And what were these heroic CEOs up to that made them so much more valuable than previous generations of business managers?

Well, consider the head of Bear Stearns. In July of 2007, as defaults in the sub-prime mortgage market caused two hedge funds controlled by the company to collapse, James Cayne was out of the office for a full ten days, due to pressing bridge-playing commitments. According to reports in the *Wall Street Journal* Cayne spent a good part of the month in Nashville, Tennessee at a tournament. His long-time colleague at the firm, Warren Spector, joined him there for at least some of the time. Spector was directly responsible for Bear Stearns Asset Management, the division with the imploding hedge funds.

On his return to New York Cayne exercised the swift and sure judgment to be expected of a man whose annual pay in 2006 had reached \$33.9 million and whose stake in the company had peaked in value at around \$1 billion. On August 5th he fired Spector. But Cayne's willingness to jettison his old friend came too late to save him. He left a few months later and JP Morgan bought the company in a fire sale in March 2008.

At Lehman Brothers the CEO, Dick Fuld, made around \$45 million in the last full year before his company collapsed. At American Insurance Group the CEO, Martin Sullivan took home \$26.7 million in 2006 and \$13.9 million in the following year. In 2008 the company collapsed.

And the problem wasn't confined to the banks that collapsed outright or were saved by the government or by larger competitors. Throughout the financial services sector managers and senior staff were making vast sums on profits that would later turn out to be a fantasy. Companies that were taking disastrous bets in the markets for mortgage and other forms of debt were paying handsomely for the opportunity to do so.

It wasn't only Wall Street where huge rewards found their way to a favoured few. The CEOs of America's biggest car manufacturers, who appeared before the US congress to plead for a government subsidy in 2008, had done pretty well from the last days of Rome.

The head of General Motors, Rick Wagoner, took home a total of \$14.4 million in 2007, up 40% from the previous year. As part of his pay he received \$700,000 in 'other compensation', which paid, among other things, for corporate jets. While its CEO was gadding about in non-automotive forms of transport the company posted losses of just over \$38 billion in 2007. The head of Ford, Alan Mulally, also did well from 'other compensation', receiving \$1.4 million of it as part of a package worth more than \$22 million in total. Ford only lost \$2.6 billion in 2007, so, compared with Wagoner, Mulally looks like excellent value.

These corporate high flyers scored something of a public relations own goal when they flew to Washington in their private jets to ask for a bailout. Second time round they realised that it might make more sense for the heads of car companies to drive. Paying these men tens of millions of dollars for their good judgment turns out to be a highly effective way of undermining their capacity to avoid farcically inappropriate behaviour.

There were some other big winners in the workforce in the years after 1970. Professionals who made themselves useful to the business elite made good money in the years of the debt-fuelled upswing –lawyers, management consultants, tax accountants.

And a few favoured niche providers also did well. Those who told camp-fire stories of the sort that sets the blood of financiers racing could make out like, well, like bandits. So, for example, the very highly rated and incredibly bright historian of finance Niall Ferguson took his share of the goodies by lecturing hedge fund managers about the ascent of money. At the height of the mania now past, in what he now wistfully calls 'the glory days of 2006', the appetite for Ferguson's historical musings grew so keen that he found it possible to bill as much as \$100,000 for 'a one-hour speech at some extravagant hedge-fund manager conference in an exotic location'¹⁹ - you have to love that 'exotic'. History does not record whether Ferguson's wisdom extended to a warning that the glory days were fast coming to an end.

So by 2008 the majority of the workforce had seen little or no real increase in hourly pay after nearly thirty years. A number of things helped to distract these same workers from what was happening. For one thing a vibrant industry grew up that insisted that inequality wasn't growing, and dismissed any attempt to describe reality as a kind of political extremism.

As the economist Richard Wolff explains, workers also worked more.²⁰ The single income household, which had been more or less the norm after 1945, became increasingly unusual. Where one (usually male) wage earner had been able to provide for a family of four and to increase consumption year on year, now a more affluent style of life would only be affordable with two incomes coming in. So women went back into the workforce in growing numbers and children entered the workforce earlier.

The working week also grew longer - more hours were needed to achieve any increase in real buying power. In some cases one or both adults in a household took a second job, extending hours spent working even longer. Each of these moves helped offset the reckoning. As industry and the economy expanded, longer hours enabled workers to consume more. Indeed longer hours encouraged them to consume more, even forced them to do so. Women and children who went out to work needed cars and clothes, parents needed child-minders. And all the while an ever-higher percentage of the value created was flowing to a favoured minority of workers and to the owners of capital.

There were only so many hours in a day and so many wage-earners in a household. Workers would only be able to afford to buy the goods they were making in ever greater abundance if they could find more money from somewhere. But where? The solution was obvious. Those who had secured a higher share of output in the form of profits and executive pay would lend the money they couldn't spend themselves to the workers who wanted to enjoy higher living standards. In other words the people in the system who liked to call themselves winners would lend the people they liked to call losers the money

that they could no longer command as wages. From 1970 onwards levels of debt began to rise in the United States, quite slowly at first. In 1985 total household debt in the US reached 70% of disposable income. After 2000 debt grew at more than 5% per year and had reached nearly 122% of disposable income by 2006.²¹

As in the United States British workers bridged the gap between incomes and aspirations with borrowing. By 2005 household debt had reached a staggering 159% of disposable income.²² And by the summer of 2007 total household debt exceeded GDP for the first time, at £1.35 trillion.²³ As in the United States the debt greatly boosted the 'retail, entertainment and recreation' sectors – or 'shopping, gambling and drinking', in Christopher Harvie's mordant translation – as well as that most potent narcotic of them all, a housing bubble.²⁴

While it lasted the whole thing worked beautifully. Workers had more money to spend, investors had somewhere to put their surpluses, retailers could continue to increase imports to meet growing demand. Ambitious young politicians like David Cameron could make some useful extra income on the boards of companies selling 'recreation' to the increasingly befuddled and violent masses.²⁵ House prices rose, consumption increased, and everyone was an entrepreneur, a winner. Companies too took advantage of the opportunities afforded by credit and borrowed to grow market share. Managers who acted prudently attracted the attention of competitors and private equity partnerships and either changed their ways or found themselves pushed aside.

And the bankers loved it, too. All the lending had to be channelled into the pockets of borrowers and all the repayments had to be channelled back into the pockets of investors. The financial sector's share of total corporate profits grew until it was double what it had been in the 1950s.²⁶ These profits rested on dizzying levels of debt, of course, far more than had ever been taken on by financial institutions in the past. But the bankers thought they didn't have to worry. They had solved that particular problem. They could aggregate large amounts of debt from credit cards, personal loans or mortgages and sell them to investors in the form of bonds.

The banks were usually obliged to take the bonds back in the event of a default, it's true, but they could insure themselves against this eventuality with a new form of insurance called the Credit Default Swap. They paid another institution a premium and would receive compensation from that institution in the event of a bond failure. The cost of insuring against default barely dented the fees the banks were taking from investors in these debt-backed bonds – the bonds were rock solid, after all, and ratings agencies were on hand to give them a clean bill of health. It looked as though the banks had found a sure-fire way to make money forever. Bankers stopped being merely smug, they began to move about in a state of dazed beatification. Bankers this happy are, like stories about broom cupboards in Knightsbridge selling for vast sums, a Sure Sign of Trouble.

Politicians liked the brand new money machine, too. They had no great appetite for telling their electorates that the system that had delivered improved public services and higher levels of private consumption since World War 2 had started to fall apart.

It was as though the engine of post-war prosperity was still moving down the track, but the rolling stock was being broken up and used as fuel. Yes, the engine was beginning to belch black smoke. At every station a few more passengers had to disembark and economy class grew a little more crowded. But so what? First class was ever more roomy and opulent, and the bar was still serving drinks.

No one wanted to hear about problems. Lenders and investors wanted more opportunities to speculate with their capital. Corporations wanted customers for the cornucopia of goods and services their workers around the world were producing. Working people in Britain and the United States wanted these same goods and services and they wanted to believe that they were rich enough to afford them. They wanted, above all, to own their own home. True they wouldn't actually own the home for most of their life, but they wanted something like security of tenure, at least.

Financiers wanted to step in to make the magic happen, bringing lenders and borrowers together for their usual, immodest fee. Advertisers had fun telling everyone that they were worth it, that life was for the living, and that consumption, when seen in the right light, was really a kind of investment – after all, wouldn't the right dress, the right car, or the right deodorant bring us all we longed for? Didn't self-restraint amount to a kind of self-harm, by depriving us of the chance to be really and truly, finally happy? And this is not about berating the feckless poor for their appetite for ghastly trinkets and noisy electronics. The educated middle classes reliably fell for the sales pitches intended for them – all that reclaimed and sustainably produced *stuff*.

It felt like boom time for everyone. The cruel unfairness of life at last seemed to have been set aside. Debt had made us all equal, no matter what we earned. We all could afford the good life, all of us could live like we were famous, or at least like we were well paid.

Houses became a source of buying power on an unprecedented scale. In Britain 'housing equity withdrawal' funded the acquisition of high cost items like cars. But the money didn't only go to on luxuries. According to Susan Smith, a housing expert at Durham University this borrowing became 'a form of self-administered welfare payment'. Homeowners used the money 'to support children, smooth over a fall in income or meet the costs of a relationship breakdown'. Long hours were taking their toll.

Stocks, real estate and all kinds of property rocketed in value between 1980 and 2007. As we have already noted, those who started out owning these assets needed only to hold on them to see their wealth explode. The most energetic, the most ruthless and the most skilled joined the party, seizing an ever-larger slice of income. A few people got lucky; lotteries and talent shows fed on, and made more potent, the dream of sudden, life-changing wealth and fame. They worked a profound transformation on a culture where real opportunities were contracting for many, to be replaced by spectacular repetitions of fairy tale narratives.

It's true that global growth wasn't exactly spectacular, averaging only 0.7% in the period after 1980. But since the rich secured a vastly disproportionate share of that growth, why would they want to complain?

Unfortunately there was a bigger problem than sluggish growth. It was obvious to anyone who managed to think clearly for a second in the midst of the noisy calls to borrow and spend more. It is so obvious in retrospect that the reporting classes must now use every ounce of their ingenuity and skill to keep it under wraps with talk about derivatives and market failure. At a certain point – it was never clear exactly when – the levels of indebtedness would become unsustainable. That is, at a certain point the borrowers and the lenders would blink, since the levels of debt could not rise indefinitely.

But if the levels of debt stabilised then economic growth wouldn't simply level off with it. Opportunities to invest would disappear. Without fresh transfusions of credit consumers would start to wonder how they were going to pay off what they already owed. The tensions built up by growing income inequality would no longer be eased by the wonders of novel consumption. Large numbers of jobs in retail and leisure depended on debt-funded consumption. The end of credit expansion would lead to steeply higher unemployment. Workers would wonder why, in a world transformed by modern technology, they had to work such long hours and why they could afford so little.

The debt problem became even more acute in the context of the speculative bubble in housing. Wage earners were taking out ever-larger mortgages in the expectation that house prices would continue to rise. And that seemed fine as long as they did continue to rise. But they couldn't rise forever. Once house prices stalled the lure of higher prices vanished. Without rising prices few in their right minds wanted – or were able - to pay the going rate and house prices started to fall steeply.

Lenders and borrowers moved to reduce the levels of debt further and

as they did so, demand was sucked out of the economy. In the final quarter of 2006 British homeowners had borrowed £14.5 billion against the supposedly higher values of their homes. In the full year housing equity withdrawal was worth more than £49 billion.²⁷ But in 2007 it fell to £41 billion²⁸ and in 2008 it collapsed into negative figures as homeowners moved at last to reduce their debts and lenders stopped giving them more money.²⁹ Without the wealth effect of higher notional house prices, and the readies made available by secured borrowing, demand slumped.

In Britain the result is a sharp contraction in economic output, compounded by the problems in the financial sector. The banks have handed out huge sums secured against property that is falling in value. As more businesses and individuals default the banks face ever higher losses from their conventional lending and from their entanglement in the derivatives markets. The unwinding of the credit boom in the United States is threatening to derail a global economy dangerously reliant on the Americans' willingness to borrow and spend. Interest rates have been cut steeply in both countries, but the debt burden remains.

This then was the accident waiting to happen – debt was deployed as the solution to flat buying power. Debt counteracted the effects of stagnant real wages for as long as it expanded. As a result economies could continue to grow even as they grew more unequal. Notional gains in asset wealth encouraged workers to borrow ever more money.

So there was only one problem with the organization of political economy in the period after 1970; it was always, eventually, going to end in disaster. Other than that it was a great idea.

Is it really that simple? Isn't it something to do with the unfathomable complexity of modern finance? At best all that stuff adds some useful detail, and explains how bankers contrived to make the upswing of credit expansion more lucrative for themselves. But at worse it is the patter of a close-up magician, something to take mind and eye off the really key part of the trick. God knows

the banking sector will have to be reformed, but a narrow emphasis on misplaced ingenuity will leave us unable to avert another crisis brought about by the flat buying power of the majority.

Borrowers and lenders both played their part in the farce that is now becoming a tragedy. But it won't do to wax all philosophical about the vagaries of human nature. Our political and economic leaders assured us at every step that all was well. At times of national emergency they went so far as to encourage back into the shops. I know that Bush is yesterday's man and that ding dong the witch is dead, but it remains the case that the President of the United States responded to the terrorist attacks of September 2001 by insisting that 'we cannot let the terrorists achieve the objective of frightening our nation to the point where we don't conduct business, where people don't shop'. It wasn't the prudent acquisition of life's necessities that concerned Bush, but the orgy of unreflecting acquisition on which his country's economy increasingly relied.

As the housing boom picked up families that wanted even a modicum of security had little choice but to take on vast mortgages. And again the lenders – and the political leadership - were on hand to assure them that there was no danger. Things are going to get bad enough without the heavily indebted majority shouldering a disproportionate share of the blame.

Alright, the Deeper Cause of the Crisis

So between 1945 and 1970 in the United States and Britain output, profits and wages grew at a broadly similar rate. And after 1970 output and profits continued to grow but real wages flattened out. But why did the link between workers' pay and output break down?

Downward pressure on wages came from a number of directions. Reconstruction in Western Europe and Japan brought increasing competition. A liberal

international trade regime sharpened the effects of this competition. And new sources of labour were being found outside the core industrial countries. South Korea and Taiwan followed Japan on an export-oriented development path and would in turn be followed by many others, including the two most populous nations on earth, China and India.

The new technology that made workers more productive also reduced the total numbers of workers needed in industry after industry. And the new jobs created in retail and recreation paid less than the jobs lost in manufacturing. After 1980 the power of labour unions was directly challenged by changes in the legal system in the United States and Britain. Taxation heightened the impact, by shifting the burden away from the rich and on to the middle and working classes.

But there is one over-arching reason why labour began to lose ground after 1970 (which led to the rising levels of debt, which led to the current collapse in credit markets and the wider economy). The reason we're now in such deep trouble is Richard Nixon, pretty much. Which is awkward.

Oh, Nixon!

Who took money from drug dealers and declared a War on Drugs. Who couldn't remember where he was on the day that John Kennedy was shot and was, of course, in Dallas.

Nixon!

The enthusiastic amateur in the world of covert operations, the war criminal, of course, the drunken paranoid and surveillance freak, the first great beneficiary of the Republican Party's southern strategy, that rough country melody made up of racism, resentment and moonshine that Karl Rove would later turn in choral symphony for his man George W. Bush. I'd rather we could sensibly pin this on some properly structural cause, some demographic or geopolitical change. At the

very least I 'd rather we could finger someone a little less obvious and the truth didn't sound like the kind of nonsense Eamonn Butler would come up with.

Among his many achievements Nixon did more than any other individual to destroy the post-war economic system created at the Bretton Woods conference. Now there was a good deal going on at Bretton Woods. It wasn't a meeting of entirely disinterested and benevolent minds. Maynard Keynes was trying to salvage what he could of British power, his American counterpart, Dexter White, was doing his best to stop him. But aside from the matter of imperial parricide, the economists gathered at a ski resort in New Hampshire were driven by the desire to avoid a re-run of two recent events; the Great Depression and the Second World War.

This once broadly welcomed project, to put an end to financial turbulence and the miseries it brings with it, you know, unemployment, political extremism and global war, became increasingly controversial in intellectual circles in the decades that followed. Some felt that the maintenance of peace and prosperity came at too high a price in terms of freedom for capital. What good was peace and prosperity, if capitalists had to make do with less than a license to do what the fuck they wanted all the time, everywhere?

But the authors of the Bretton Woods system recognised that unregulated capital had caused the American stock market and real estate booms of the 1920s. These had collapsed in 1929, leading to the Depression. They thought that protectionism had made things worse by reducing the volumes of international trade in the decade that followed.

So how would the free movement of goods be secured? Countries would peg their currencies against one another and strive to avoid running persistent deficits or surpluses. In the event that a country imported more than it sold abroad it would be obliged to raise interest rates to reduce domestic demand and restore its trading position, with short-term help from the International Monetary Fund. If it wasn't possible to maintain a given exchange rate,

governments would arrange an orderly devaluation, a resetting of the terms of trade that would promote mutually beneficial and sustainable international trade. Private capital would be closely regulated at home and its movement across frontiers would be restricted as and when necessary.

The United States underpinned this new system by pegging its currency to gold. As long as American money was sound the global financial architecture was sound too.

I said earlier that our current travails are all Nixon's fault. They aren't of course. They are also the fault of the Vietnamese. Beginning in the mid-fifties, for reasons that remain obscure to most people, and were obscure to many high level planners at the time, the Americans had sought to frustrate national self-determination in Vietnam. Rather than accept the doubtless well-meaning, albeit insensitive and violent, leadership of the United States, the Vietnamese responded with a wave of political organization and public debate. The Americans felt they had no alternative but to drop very expensive bombs on the country for more than a decade.

These bombs didn't pay for themselves. The US government borrowed the money and paid its industrial corporations to make them, the planes from which to drop them, and everything else a modern superpower needs for an Asian land war (which turned out to be a lot). Busy assembling things that could be dropped on, or crashed into, Vietnam, US industry couldn't meet demand at home for consumer goods. So imports from the reviving economies of Western Europe and Japan increased. The Americans even bought some British cars, which shows you what a good thing Bretton Woods was, but I digress.

Under the terms of the Bretton Woods agreements the government needed to raise domestic interest rates and taxes to curb demand. Devaluation wasn't possible while the peg was in place. The British could devalue, that was a psychological shock but it meant little in the wider world. The dollar was

different. Pegged to gold it was the fixed point around which the world's trading system revolved.

The dollar's peg to gold had underpinned its claim to hard currency status in the period after World War II and it had therefore helped restore confidence in the global economy. But now the French were insisting on actually being paid in the gold that the US Treasury assured everyone the dollar was worth. On April 15th 1971 Nixon broke the peg. From now on a dollar would be worth as much gold as it could buy on the open market. The dollar was no longer a fixed point. A few years later the Americans removed controls on capital, further undermining the ability of central banks to manage exchange rates. By 1976 the world's currencies were in most instances no longer being set by multilateral government agreement. Financial markets were pricing them against each other. The floating world in which we now live was born and Bretton Woods was dead.

Under Bretton Woods persistent imbalances between countries were not permitted. Everyone had to play fair and only buy from abroad roughly the same amount as they could sell there. In the floating world this order and restraint went out of the window. From now on the financial markets would decide the rates of exchange. Countries could run chronic deficits in trade for as long as foreign investors were willing to buy their assets or lend them money. Two countries with a long tradition of endemic corruption and financial chicanery leapt to take advantage of this liberation from the discipline of Bretton Woods.

Britain and the United States.

Both countries ran up huge deficits, dispensed with large chunks of their manufacturing base and paid for foreign goods with cheap foreign credit. Meanwhile the removal of controls on private finance opened up a new world of opportunities at home and abroad. According to Peter Gowan the new global system created by Nixon was intended to 'liberate the American state from succumbing to its own economic weaknesses and would strengthen the political power of the American state'. He quotes Eric Helleiner's claim that 'the basis of

American power was being shifted from one of direct power over other states to a more market-based or “structural” form of power’. Wall Street’s speculative financiers worked with the American state to maintain the country’s global pre-eminence. And it is in the context of this alliance between the financial interest and the state that the careers of Alan Greenspan, Robert Rubin, Larry Summers and the rest should be understood.

So the brief, statist hiccup of Bretton Woods was out the way. Now we had something called the information standard. The former chairman of Citibank, Walter Wriston, explained:

The gold standard, replaced by the gold exchange standard, which was replaced by the gold exchange standard, which was replaced by the Bretton Woods arrangements, has now been replaced by the information standard. Unlike the other standards, the information standard is in place, operating, will never go away, and has substantially changed the world. What it means, very simply, is that bad monetary and fiscal policies anywhere in the world are reflected within minutes on the Reuters screens in the trading rooms of the world. Money only goes where it’s wanted, and only stays where it’s well treated, and once you tie the world together with telecommunications and information, the ball game is over. It’s a new world, and the fact is, the information standard is more draconian than any gold standard ... For the first time in history the politicians can’t stop it.³⁰

The mixture of bombast, bullshit and historical myopia is characteristic of the financial mandarin style. But Wriston was right in the essentials; the world was to be run by a parliament of financiers, albeit one reliant on more or less covert support from the US state.

So foreign capital could flow into a country and blow bubbles in its asset markets. Investors could spin yarns about the glittering prospects for growth, the accommodating labour laws, and they could even believe them. If they

changed their minds they could leave in the blink of a Reuters screen. True, the currency would then collapse and the country pumped and dumped in this way would suddenly be facing years of hardship as bubbles in its asset markets unwound. But, that's the information standard for you.

Foreign investors, Anglo-American investors, to put it less coyly, could even *in theory* create a bubble, and sell out at the point of maximum profitability. Still, let's leave to one side the possibility that the most brilliant and ruthless financiers in the world might have known what they were doing, for fear that we will be dismissed as conspiracy theorists.³¹

Incidentally, the Helleiner/Gowan thesis, that what came to be known as globalization was the deliberate and conscious creation of state planners working with financiers, finds corroboration in an unexpected place, the acknowledgments of Tom Friedman's love letter to the emerging world order, *The Lexus and the Olive Tree*. Friedman thanks a whole bunch of people for their help with the book, including former Treasury Secretary Robert Rubin and Federal Reserve Chairman Alan Greenspan. Among those he thanks are a hedge fund manager and a bond trader. Not that surprising, you might think. But Friedman then goes on to thank a whole other bunch of people 'from the private sector'. The bond trader and the hedge fund manager are public servants of some sort, as far as Friedman is concerned.³²

The information standard took its pound of flesh from Thailand and other Asian countries in the late nineties. At the time plenty of British and American commentators were on hand to pontificate about the crony capitalism and moral hazard that had grown so lushly in the tropical heat. The naïve natives had obviously gone mad in a speculative property market. Foreign capital had done no more than restore sanity, albeit at a regrettable price in terms of job losses and recession. And what about the domestic banks who presided over the mess? Well one influential writer on finance took a very dim view indeed. The British journalist Martin Wolf wrote, in tones of Olympian disdain:

The management of any systematically important bank that has to be rescued by the state should be disbarred, as a matter of course, from further work in the financial industry. As substantial fine should also be levied ... Managers are, in an important sense, public servants. If they abuse that trust, they should be treated accordingly.³³

So the deputy editor of the *Financial Times* will doubtless be calling loudly for the British and American managers of systematically important banks to be disbarred and fined, although he hasn't started to do so yet. Perhaps he is waiting for the right moment.

This problem – a global economy disrupted to suit the short-term interests of the finance sector – was what Keynes and the other architects of Bretton Woods had tried to avoid. As the Indian economist Prabhat Patnaik explains:

John Maynard Keynes [...] had located the fundamental defect of the free market system in its incapacity to distinguish between 'speculation' and 'enterprise.' Hence, it had a tendency to be dominated by speculators, interested not in the long-term yield on assets but only in the short-term appreciation in asset values. Their whims and caprices, causing sharp swings in asset prices, determined the magnitude of productive investment and, therefore, the level of aggregate demand, employment and output in the economy. The real lives of millions of people were determined by the whims of 'a bunch of speculators' under the free market system.³⁴

Under the terms of the information standard bankers were roaming the earth telling each other tall stories about the growth potential and likely prospects of one country after another. Time and again they would forego the workaday rigours of successful investing and indulge instead in the short-term high of the speculative rush.

Nixon left the White House in disgrace after a scandal involving an absurd burglary at Democratic Party headquarters in the Watergate building. His bombing of Vietnam and Cambodia went unpunished. His corrupt dealings with organised crime went unpunished. He was indeed a statesman of world historical significance, and never more so than in his decision to destroy Bretton Woods.

Nixon found a world ordered through a concert of national governments exerting sovereign control over their own economies. It was a world managed imperfectly by men who were not the equals of the system's great authors. It had its fair share of villainy, to be sure, and more as it began to fall away, but it was ordered nonetheless. He left a world that would be subject to ever more frequent and severe financial crises. Implicit in Nixon's reforms of the financial system was the world in which we now live; a ruin presided over by bankers.

The current crisis has not emerged blamelessly from the rhythms of man's folly. It has an immediate cause in the build-up of debt in Britain and, more significantly, the United States. This build-up of debt was caused in turn by a breakdown in the link between economic expansion and wages in the industrialised West. Workers who had dutifully spent their wages on all manner of gadgets and goods now no longer had the means to do their patriotic duty as consumers without external assistance.

And why did the link break down? America could run chronic trade deficits once it did away with Bretton Woods. If workers in the United States and elsewhere tried to claim higher wages their jobs could be shifted offshore. In a floating world investment could go where it was welcome, where the climate was congenial. Any attempts by governments to act in ways that capitalists didn't like could be vetoed by the threat of capital flight; the bond market became the preferred reincarnation of the power hungry, because it could intimidate everyone.

The information standard was a harsh mistress, albeit one prone to change her mind – or reveal her true intentions - at less than a moment's notice (remember, the financial markets approved of the way the American and British economies were being run right up until they changed their minds). International investors took advantage of the low rates of tax and the cheap labour, and they were happy to see populations take on ever-higher levels of debt. They had taken control of the world and were happy to exchange any claim to legitimacy they might have had for a quick killing.

The dollar (and sterling with it) could stave off collapse as long as foreign capital poured in from Europe, the Middle East and Asia. Consumers could buy goods with borrowed money, with the right inducements. It turns out that consumer demands could be sustained against a background of sluggish growth in real incomes if the population *thought* that they were getting richer. The dot.com and real estate bubbles encouraged people to borrow money and run down their savings. After all their shares, and later their houses, were worth more money every month. Until they weren't.

The arrangements of the last decade had nothing to recommend them, except to those who through them retained control of the world. The rising levels of drug addiction, of social breakdown caused by alcoholism and gambling, the long hours and the agitated consumption, all were tribute paid by the insecure majority to a calmly larcenous few.

It was all madness. It eerily echoed the mistakes of policy that had led to the depression of the 1930s. But the politicians and economists seemed intent on seeing how long they could keep the lunacy alive. It is now over, and it is time to decide what will replace it.

What Next?

I have tried to give an outline account of the cause of the crisis. It is no doubt debatable in some of its details. I have said very little about the campaigns to break the power of labour in the 70s and 80s, and there are better summaries of the Bretton Woods system out there, I am sure.

If you'd rather have your economic analysis from someone with a little more in the way of a grounding in, well, in economics, then here's Joseph Stiglitz, Nobel laureate and former Chief Economist at the World Bank:

One of the reasons why our economy is weak is that we have growing inequality in our society. That means that people who would spend the money don't have it. We sustained their consumption by lending but that lending was unsustainable and so unless we do something about the underlying inequalities both within our countries and across the world, it may be difficult to restore the global economy to the kind of prosperity that we would hope.³⁵

Alright, Stiglitz doesn't come across all snide and bitter, but he's making the same point as this article.

Readers are welcome to revise the text and forward it with changes if you feel so moved.³⁶ There is much that could be added. For example, there is much more to be said about the warnings that were made in the years before 2007. But it is impossible to deny that the problems we now face emerge from the deep structure of the global system. It follows that lasting recovery will only be possible if we reform that deep structure.

There are a number of suggestions as to how we might do that. The New Economics Foundation has worked with others to put together a Green New Deal, which combines closer regulation of finance with moves to restart the economy through investment in environmentally desirable projects.³⁷ In the United States Paul Krugman has outlined what he thinks Obama needs to do to avert a 30s style slump.³⁸ But the work of constructing a more just, and therefore

more stable, economic settlement is only just beginning. Given the record of the experts who were in charge I can't see any convincing reason why you shouldn't be part of that work.

It is certainly time for us to assert the public interest over the needs of private capital. Deregulated capital has failed and must now be returned to conditions of close supervision. This means, amongst other things, the end of the offshore system of unregulated tax havens, the imposition of controls on the international movement of capital, and a much greater emphasis on productive investment as against financial speculation and disordered and unsustainable consumption.

In Britain it now seems that the financial sector is going to be taken over by the state. We are now, as citizens, facing incalculable risks. If we come through to a recovery, then we must ensure that we are never again put in such danger by the actions of financiers and their public servants the politicians.

This is not to argue for state socialism, by the way. The choice is not simply between state control and private capitalism. The structure of companies has an important bearing on the opportunities for financial speculation. Employee ownership reduces them to zero. A system revised at the level of transnational capital flows must also be reformed at the level of the enterprise. State bailouts should be followed by employee buyouts as a matter of course.

As Richard Wolff points out, employee ownership and control, with oversight of management being seen as normal part of working life, will make a reformed global financial system more durable, by giving knowledge and economic power to those with an interest in defending it. Employee ownership ensures a more even distribution of wealth within companies and, by offering workers an alternative, it forces companies that remain privately held to pay their employees better.³⁹ Trade unions need to be given enhanced powers to ensure that workers are able to secure a greater share of the wealth that they, after all, create.

The post-war settlement collapsed because those who benefited from it were successfully estranged from it, in part by appeals by narrow self-interest, but in part because they felt unqualified to defend it. Industrial democracy has many benefits in its own terms. But by providing the means to understand the world of work more fully, it provides the means to expand and deepen political democracy.

The state needs to be more thoroughly democratised, in ways that may or may not require constitutional change. The assumption that professional civil servants and the national political classes are competent to manage the global economy has been shown to be unsafe. It is not a matter of leaving these same groups to decide on a new set of policies. Rather the public must inform them of the steps that are required.

The economic crisis has not only bankrupted large chunks of the financial sector. It has bankrupted an entire intellectual establishment. Voltaire once wrote that the aim of satire is to decapitate its victim without their becoming aware of it. Events have decapitated much of the Anglo-American commentariat in the last few months, though many of them continue to walk and talk, for all the world as if nothing untoward has happened. We have been in the past perhaps too trusting and too easily daunted. It is important now that we gently shake these apologists for the old, discredited order, until their heads fall off.

The free market right has now been thoroughly discredited. The story that they now tell – of state failure to regulate – cannot obscure the fact that this is a crisis caused by the removal of controls on private capital. Having begged that the money interest to be released from its chains, the Fay Wrays of the Adam Smith Insitute now gaze at the destruction and blame its captors for listening to them.

And it is not only the free market right that has nothing further to say. Those left-wing intellectuals who accepted that there was no alternative to a program of deregulation and privatization must now give up any claim to be taken seriously. For more than a decade they have insisted that the Left must be responsible and

work within the confines of a world where the organization of the economy was above and beyond the reach of democratic politics. Their maturity and responsibility have turned out to be childish and reckless credulity at best.

If we want to understand the scale of the intellectual collapse we will have to pay a sight more attention to our recent history, and to the remnants of the critical tradition in political economy. Dan Atkinson and Larry Elliott's *The Gods that Failed* is a good place to start, if you are interested in how the postwar system was dismantled⁴⁰. I have also learnt a good deal from Ann Pettifor's *The Coming First World Debt Crisis*, and Graham Turner's *The Credit Crunch*. In general we should pay more attention to those who were concerned about income inequality and unsustainable lending, less to those who thought everything was fine.

As I write Barack Obama seems intent on hiring many of the financial masterminds who presided over the crisis. Jonathan Weil, the man who rumbled the long con at Enron, notes that 'almost half the people on Obama's economic advisory board have held fiduciary positions at companies that, to one degree or another, either fied their financial statements, helped send the world into an economic tailspin, or both'⁴¹.

They will not jump, these people. They cannot easily accept that they are presiding over a system that must be replaced. They will not give way willingly to new ideas and a new reckoning with the problems facing the planet. The world will always be run by confident and impressionable men (mostly men), because they want power so badly. We could of old age waiting for the full enormity of what they have done to sink in.

I am not saying that we should push those responsible out of tall buildings to their deaths. I am not saying that. They will, if properly handled, do what is required.

But we do have to push them.

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- ¹ Daniel Gross, 'The Captain of the Street', *Newsweek*, 20 September, 2008.
- ² 'Goldman CEO on the Enron effect', *CNN Money*, 4 February, 2002.
- ³ The Liberal Democrats are a kind of institutionalized third candidate option in British politics. Having inadvertently found themselves with a plausible and economically literate leader, Vincent Cable, they replaced him with Clegg in order to fend off the threat of electoral success.
- ⁴ 'Interest rates cut by 0.5% as the government tries to stabilise economy', *news.scotsman.com*, 8 October, 2008.
- ⁵ John Steele Gordon, 'The Madness of Crowds', *Commentary*, November, 2008.
- ⁶ Quoted in Michiko Kakutani, 'The Ascent of Money puts today's economic crisis in a historical context', *Seattle Times*, 11 December, 2008.
- ⁷ John Kay, 'Kudos for the contrarian', *Financial Times*, 30 December, 2008.
- ⁸ John Kay, *ibid.* Are forecasters inaccurate because they are well known, or well known because they are inaccurate? Either way Tetlock's work would suggest that there is a serious problem in the economy of information in Anglo-America.
- ⁹ Robert Skidelsky, 'What Comes Next', *Prospect*, January 2008. Skidelsky argued that there was a threefold failure in the financial markets: institutional – 'banks mutated from utilities into casinos'; intellectual - regulators and policy-makers fell for the fashionable idea that free markets could not misprice assets in the medium term; and moral – 'the worship of growth for its own sake'. There is something in all three of these points, but does not explain why the crisis broke as it did, nor why its effects will be so severe.
- ¹⁰ Robert Reich quoted in 'Credit Crunch: The Blame Game', BBC Online, 4 August, 2007.
- ¹¹ Eamonn Butler, 'Don't blame the system: politics caused the crisis of capitalism', *Scotsman*, 6 October 2008.
- ¹² Eamonn Butler, *ibid.*
- ¹³ Emphasis added. The full text of the law is online at <http://www.fdic.gov/regulations/laws/rules/6500-2515.html>
- ¹⁴ See Anthony Faiola, Ellen Nakashima, Jill Drew, 'What went wrong?', *Washington Post*, 15 October, 2008.
- ¹⁵ Andrew Clark, Jill Treanor, 'Greenspan – I was wrong about the economy. Sort of', *Guardian*, 24 October, 2008.
- ¹⁶ 'Economic Report of the President, 2008', Table B-47, 'Hours and earnings in private non-agricultural industries'. Available at <http://www.gpoaccess.gov/eop/download.html>
- ¹⁷ Andrew Glyn *Capitalism Unleashed* (Oxford: Oxford University Press), p.191-192.
- ¹⁸ Paul Krugman, 'For Richer', *New York Times*, 20 October, 2002.
- ¹⁹ Jessica Bown, 'Fame and Fortune', *Sunday Times*, 16 November, 2008.
- ²⁰ See Richard Wolff's talk, 'Capitalism Hits the Fan: A Marxian View', available at <http://video.google.ca/videoplay?docid=7382297202053077236>. He offers a robust version of the credit-crisis-as-debt-crisis, which I have drawn on extensively in what follows. See also Graham Turner, *The Credit Crunch* (London: Pluto), 2007.
- ²¹ Ann Pettifor, *The Coming First World Debt Crisis* (London: Macmillan), 2006, p.100.
- ²² 'Has the Rise in Debt Made Households More Vulnerable?', Economics Department Working Paper, No. 535, OECD, 3 January, 2007. Available online at [http://www.ois.oecd.org/olis/2006doc.nsf/LinkTo/NT00007572/\\$FILE/JT03220092.PDF](http://www.ois.oecd.org/olis/2006doc.nsf/LinkTo/NT00007572/$FILE/JT03220092.PDF)
- ²³ Martin Hickman, 'For the first time, Britons' personal debt exceeds Britain's GDP', *Independent*, 24 August, 2007.
- ²⁴ Christopher Harvie, *Bronland*, introduction, p.2. Available online at <http://www.uni-tuebingen.de/intelligent-mr-toad/html/profharvie/profharvie.html>
- ²⁵ Simon Bowers, 'Tory hopeful in row over drinking hours', *Guardian*, 26 August, 2005.
- ²⁶ Ann Pettifor, *ibid.*, p.3-4.
- ²⁷ Bank of England figures, available online at <http://www.bankofengland.co.uk/statistics/mew/2006/dec/index.htm>
- ²⁸ Bank of England figures, available online at <http://www.bankofengland.co.uk/statistics/hew/2007/dec/index.htm>
- ²⁹ Bank of England figures, available online at <http://www.bankofengland.co.uk/statistics/mew/2008/dec/index.htm>
- ³⁰ Quoted in Philip Bobbitt, *The Shield of Achilles* (London: Allen Lane), p.221. The prophetic Mr Bobbitt tells us that 'early in twenty-first century, it seems not unlikely that virtually all major states will accept for themselves the fundamental assumptions that Margaret Thatcher and Tony

Blair urged for Britain and that Bill Clinton and George W. Bush urged for the United States, and furthermore that they will accept that if these states do not heed those recommendations, the United States, the United Kingdom, and other states will gain a decisive advantage over them' (ibid, p.667).

³¹ See Peter Gowan, *The Global Gamble* (London: Verso), 1999, p.23.

³² Thomas Friedman, *The Lexus and the Olive Tree* (London: Harpercollins), 2000, p.478.

³³ Martin Wolf, *Why Globalization Works* (London: Yale University Press), 2005, p.298.

³⁴ Prabhat Patnaik's talk can be found online at

http://www.un.org/ga/president/63/interactive/gfc/patnaik_p.pdf

³⁵ *Today*, Radio 4, 9 January, 2009. The interview can be downloaded here:

http://news.bbc.co.uk/today/hi/today/newsid_7819000/7819543.stm

The quoted section comes in the last minute of the audio clip.

³⁶ See the license details below. You are welcome to contact the author at dcehind@hotmail.com with any comments or criticisms you have.

³⁷ The Green New Deal can be downloaded from

http://www.neweconomics.org/gen/z_sys_publicationdetail.aspx?pid=258

³⁸ Paul Krugman, 'What Obama Must Do', *Rolling Stone*, posted 14 January, 2009,

http://www.rollingstone.com/politics/story/25456948/what_obama_must_do/print

³⁹ On employee ownership, see David Erdal, *Local Heroes: How the Loch Fyne Company Embraced Employee Ownership and Business Success* (London: Viking), 2008.

⁴⁰ Dan Atkinson and Larry Elliott, *The Gods that Failed* (London: Vintage), 2009. An American edition is to be published in the spring by Nation Books.

⁴¹ Jonathan Weil, 'Obama's Bailout Bunch Brings Us More of the Same', Bloomberg,

<http://www.bloomberg.com/apps/news?pid=20601039&sid=aNCFKvAMUQ6w&refer=home>

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Please contact the author at dcehind@hotmail.com for a Word version of this document.

This article is dedicated to the protestor on Wall Street on 25 September, 2008, who said what everyone was thinking.