Germany: The international financial crisis and illusions in an enlightened capitalism

Shock and fear

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A week following the collapse of the investment bank Lehman Brothers the extent and consequences of the international financial crisis still remain incalculable. Not a single country or continent is exempt from the crisis.

In Australia, the largest investment bank Macquarie is threatened with bankruptcy, Russia is experiencing its deepest financial crisis in 10 years, the Asian stock exchanges have registered huge losses and in Europe one piece of bad news follows the next. While government spokesmen seek to spread optimism, facts provide a different picture. The losses suffered by German and French banks following the collapse of Lehman Brothers is already estimated at several billion euros.

The German weekly paper *Die Zeit* has pointed out that the complex nature of modern financial instruments means that it could take weeks for the real extent of losses to emerge. “It is likely that the worst is still to come because many loss makers only make themselves known after a period of time,” it writes.

All serious economic commentators agree that an end of the crisis is not in sight. “The most frightening aspect of the past 24 hours is that any faith that central bankers and finance ministers could get a grip on the crisis has evaporated dramatically,” wrote the daily *Die Welt* last Thursday. And the British business paper, the *Financial Time*s, wrote on the same day: “We are without question in the worst financial crisis since 1929. We still do not know how many banks and institutions will collapse.”

Last Thursday and Friday the stock markets moved upwards after the US central bank pumped $180 billion into the markets. But some analysts judged this enormous financial injection an “act of despair,” and one that says more about the extent of the crisis and the panic exerted by it than providing any sort of solution.

While the financial crisis continues to unwind its effects are making themselves increasingly felt on production, trade and consumption. Even if it does not come to a complete implosion of the financial markets, a profound recession of the entire world economy is now considered probable.

The shortage of liquidity and increase in interest rates will drive numerous companies into insolvency and in turn intensify the financial crisis. Increasing unemployment, rising prices, sinking wages and further bankruptcies will be the result—a vicious circle.

In addition, the three-figure billion sums pumped into the stock markets by governments and central banks must be financed by the taxpayer. The rapid increase in budget deficits will lead to further cuts in social and public expenditures.

The development of an enormous speculative bubble in recent years was accompanied by an unprecedented social polarisation between the wealthy and the masses of the population. Now this process will experience a further quantum leap with the collapse of this bubble.

The result will be a worldwide intensification of class struggle. The ideology of the free market, which was raised to the rank of a state religion after the collapse of the Soviet Union, has suffered irreparable damage in the wake of the collapse of major Wall Street banks. Under these conditions social opposition will invariably tend to take an anti-capitalist and left-wing form.

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It is against this background that one must understand the debate now taking place in the European media over the consequences of the financial crises. This debate is characterised on the one hand by a sense of shock at the collapse that has taken place, and on the other by fears that reaction to the crisis could assume revolutionary forms.

Even in the traditional conservative media, which has up to now praised the free market as the highest achievement of human civilisation, articles are appearing that read as if they were produced by the editorial boards of anti-globalisation movements.

Die Zeit poses the question: “Is finance-capitalism finished?” and predicts “the end of world domination by the Anglo-Saxon finance industry.”

Writing in the *Frankfurter Allgemeine,* Frank Schirrmacher declares: “There must be some madmen walking around who up until Monday had not been spotted because their madness was identical to the logic of the established system. They destroyed fortunes equivalent to entire national budgets...”

Die Welt complains: “Greed and stupidity have plunged the market into chaos—managers and financial supervisors have failed.” The paper continues: “Any economics student in his first semester could have concluded that the American economic model is not tenable.”

However, while these commentators blame responsibility for the crisis on “predatory capitalism,” “Anglo-Saxon finance capitalism” and the “greed and stupidity” of individuals, they spread the illusion that there could be a better, more regulated and reasonable form of capitalism.

Die Welt writes: “The current crisis is the product of a complete failure in many instances in the state and economy ... however to conclude that the market economy itself cannot function is mistaken. It is not the free-market economy that is responsible for the financial crisis, but rather the fact that important market players and those who supervise the market have failed to follow established economic laws or believed that such laws no longer applied.”

This form of reasoning is most clearly expressed in a commentary in the *Süddeutsche Zeitung* on Friday, titled “An enlightened capitalism.” The author, Heribert Prantl, proclaims the end of “turbo capitalism.” “The form of capitalism known as turbo capitalism has refuted, dissected and conquered itself. The turbo was greed,” he writes. “Turbo capitalism consumes its children, its clients and their share holdings.”

Prantl goes on to praise “the social market economy in the form in which it was developed in the federal republic after the Second World War” as “the most successful economic and social order in economic history.” Because he realises that the “regulating hand” of the nation state has lost its influence with the globalisation of the world economy, he proposes elevating the social market economy to an international level: “It must be regulated in such a way that the international economic and financial order is compatible with social requirements.”

And who is to undertake this “Herculean task”? According to Prantl: “the United Nations, the G-8—and thus the governments of the industrial nations.... The task is to establish a legal system that coordinates the anarchy of the markets and then to implement it step by step. Needed is a new *contrat social*.”

Prantl fails to explain to his readers why precisely those governments of leading industrial nations that made “turbo-capitalism” their programmatic and political trademark for the past 20 years should now undertake a different course. His remarks are an attempt to find a way out of the crisis that is not based on the living struggle of social forces. This, however, is an illusion, and a dangerous one at that.

In Germany the economic crisis of 1929, as is well known, led within the space of four years to the seizure of power by the Nazis. Hitler was able to succeed because of the abject failure of the workers’ parties. The SPD paralysed the working class by binding it to the impotent institutions of the Weimar Republic while supporting Brüning’s emergency laws; and the German Communist Party paralysed the working class by hiding its fatalism behind left-wing phraseology, rejecting a united front to oppose the Nazis. The bourgeois parties all capitulated to the Nazis, even agreeing to their own disempowerment by voting for Hitler’s Enabling Act.

Prantl, who is thoroughly versed in historical questions, evokes Jean-Jacques Rousseau’s *contrat social* (social contract). But he forgets that it was the French Revolution, one of the greatest revolutions in world history, which led to its realisation.

“Turbo-capitalism,” if one accepts this category, cannot be explained as a product merely of individual greed. It is based on class interests, which are embodied in the private ownership of the means of production.

Already at the beginning of the 1980s, the opening and liberalisation of the financial markets was a reaction to the economic recession and the violent class struggle of preceding years. It was bound up with an international offensive against the working class, which culminated in the smashing of the US air traffic controllers union PATCO and the defeat of the yearlong British miners’ strike. Since then wages and social benefits have stagnated while profits and fortunes have soared.

The notion that the financial oligarchy will voluntarily yield up its booty and conclude a *contrat social* is ludicrous. Prantl interprets the intervention of the US government in the financial crisis as a step in this direction. In fact the opposite is the case. It has plundered the treasury in order to cover the risks of speculators, while workers, homeowners and the socially weak will be required to foot the bill.