A revealing comment from a finance chief

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Long-time financial operator Henry Kaufman, a former senior executive at Salomon Brothers and now the president of his own firm, has written a comment in the *Financial Times* bewailing the transformation of capitalism.

"American capitalism is rapidly disappearing," he writes. "Its demise has been under way for some time and the economic devastation wrought by the COVID-19 pandemic is the latest blow to our political economy."

He maintains that capitalism is being replaced by statism, "a form of political economy in which the state exercises substantial centralised control over social and economic affairs."

In making his assessment, Kaufman harks back to the doctrines elaborated by Adam Smith in 1776 in his book *The Wealth of Nations*, in which he argues that "humans innately strive for material progress and the best way to get there is through unfettered competition, the division of labour and free trade."

Kaufman writes that this kind of capitalism has been shattered. Free trade treaties are being abrogated. The free movement of labour is being constrained by walls and edicts. The concentration of non-financial corporations is sharply increasing.

"In financial markets, concentration is even more glaring," he notes. "Today, a shrinking number of financial conglomerates hold a tight grip on investment management and the underwriting and trading of securities. The enormous underlying conflicts of interest are tolerated by the authorities."

Kaufman's assessment has clearly been influenced by the massive and open-ended intervention of the Federal Reserve into the financial markets in response to the coronavirus pandemic.

"It is buying not only government but also corporate bonds—including low-quality issues, mortgage obligations, municipal bonds and exchange traded funds," he writes. He notes that since the start of the year, the Fed's balance sheet has swollen by $3 trillion to reach $7 trillion, and that "financial markets have come to expect the Fed to intervene in response to any sharp decline in equity prices."

As a prominent representative of the US financial aristocracy, Kaufman is motivated by two concerns: the fear that ever-widening social inequality in the US is fuelling an upsurge of social and class struggles, and that statism is undermining the central ideology of the US ruling class.

After invoking the godfather of free market capitalism, he notes that Smith "cautioned" against "sharp class division that might idle rich people and exploit workers." He cites a passage from *The Wealth of Nations*: "No society can surely be flourishing and happy of which the far greater part of the members are poor and miserable."

Smith's depiction of competitive capitalism operating via the free market—a veritable Eden of the innate rights of man, as Marx put it, where all work together in accordance with a pre-established harmony or under the auspices of an omniscient providence working together for the common good—never really existed.

The initial resources for capitalist development in England, its birthplace, came not from entrepreneurial individuals saving their money and then applying it to production, but from looting and plunder internationally, inherited fortunes, and the stripping of the mass of the population of access to the means of production and their transformation into a propertyless class with nothing to sell but their labour power.

And the course of capitalist development soon swept aside the independent entrepreneur. This took place through two processes: first, the inexorable logic of competition, which is not to perpetuate competitive struggle, but rather to compel each producer to drive out his rivals, with the aim of becoming a monopoly;

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and second, the expanded scale of production, which meant it could no longer be organised by individual entrepreneurs, but required the mobilisation of capital by corporations resting on a vast credit structure.

However much his depiction of capitalist market society passed into history, through the very development of the capitalist economy itself, Smith has been continually utilised to provide the ideological justifications for the present order.

These are based on claims such as:

• Market society provides opportunity for initiative; profit, whether in the sphere of production or finance, is the reward for risk.

• Social inequality is the result not of the inexorable logic of the system itself but flows from an inherent failure of individuals to avail themselves of the opportunities that this best of all possible worlds provides.

• Capitalism is the only possible form of socio-economic organisation.

Over the past period, especially since the financial crisis of 2008, these nostrums have been shattered as the agencies of the capitalist state—governments and the central banks—have provided trillions of dollars to the banks, hedge funds and corporations, a process that has now reached new heights.

This transformation of capitalism into what he calls "statism" worries Kaufman because it reveals too clearly the real nature of social and economic relations and represents a "great departure from the vision of the founding fathers."

While Kaufman's focus is directed to ideological questions, the increasing drive to statism does have an objective economic significance as well. Both the health crisis produced by the pandemic and the resulting economic crisis have revealed the utter bankruptcy of the market system and the objective necessity for state control and organisation in order to ensure the very functioning of modern society.

At the same time, the crisis has exposed the malignant contradiction between the global character of economic life and the need for an internationally planned and coordinated response to the pandemic, on the one hand, and the virulent national antagonisms and disorganisation resulting from the nation-state system upon which capitalism is based, on the other.

The crucial question is in whose hands state power is to rest and in whose interests it is to be exercised.

This is not the first time that we have seen the state-isation of finance. In World War I, capitalist governments issued massive amounts of paper money and debt to finance their military operations. In an analysis of the consequences of this process, included in the manifesto he authored for the First Congress of the Communist International in 1919, Leon Trotsky wrote:

> The state-isation of economic life, against which capitalist liberalism used to protest so much, has become an economic fact of life. There is no turning back from this fact—it is impossible to return not only to free competition but even to the domination of trusts and other economic octopuses. Today the one and only issue is: Who shall henceforth be the bearer of state-ised production—the imperialist state or the state of the victorious proletariat?

In words that have acquired even greater relevance for today, as world economy moves into the deepest recession since the Great Depression, Trotsky added that the task of the working class was "to take in hand the disrupted and ruined economy to assure its regeneration upon socialist principles," through the establishment of workers' states that do not look back to the past and respect neither inherited privileges or property rights, but mobilise all the resources of society to meet the needs of the masses.

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