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Introduction

The three interlocking crises looming over the planet – the ecological, the economic and the political -- like Edgar Allen Poe's pendulum inexorably come closer every day.

If the focus of the entire world immediately turned to building renewable energy grids and renewable fuels, we would still not be able to stave off all the climate change that is happening. We might be able to stave off the worst.

If we put everyone involved in the financial collapse in jail and expropriated their ill-gotten gains, there would still be millions of people unemployed and millions whose homes have been foreclosed. There are billions of marginalized, unemployed desperate people around the world who risk slaughter if they bring attention to their plight.

If our elected representatives complied with the wishes of the voters rather than the corporations, the ethos of disgust, discouragement and despair would still infect the body politic.

Regardless, we try. In what follows, I explain clearly and concisely what has happened in the U.S. and the global economy over the last 65 years and why we are facing austerity. We are facing austerity because the top 1% -- the international financial capitalist elite around the world – run most of the governments, the international organizations, the international financial organizations and they want the rest of the world to continue paying tribute – giving their surplus – to them. This is the natural evolution of capitalism. Like in the game Monopoly, one player ends up owning everything. But, there is an alternative. The alternative is to make all banking and credit facilities public and force the current cast of banksters to take their losses. But first we need to understand how we got here. I explain for the non-economist how we have gotten to our present collapsing standard of living and the further enrichment of the top 1%.

By standard of living I don't mean per capita GDP and the amount of consumption we can arrogate to ourselves. I mean our deteriorating eco-system, our war-ravaged and violence-plagued societies, our miserable lives of fear, insecurity, oppression and exploitation, our collapsing hopes for collective fulfillment of human potential. This global problem is the result of conscious, government policies; it was designed and orchestrated.

Only just under half a century ago, under the administration of Lyndon B. Johnson in the 1960s, the government sponsored a "war on poverty." The national ethos was one of helping others, believing in the intrinsic equality of all humans and using government fiscal policy to compensate those not born to luxury so they could earn a good education and fulfill their own potential. This is humanity's heritage from the Enlightenment of the 18th Century. Liberty, equality and brotherhood for all. The modern project of actually

realizing this human heritage has been attacked many times, but never so viciously and successfully as now. Today's ethos is a return to the ethos of monarchies. We are no longer citizens of a republic, but we are subjects of corporations and the oligarchy that controls everything. This profound change was designed and orchestrated t wa

I was born in the United States in 1954; I entered elementary school the year John F. Kennedy ran for and won the Presidency of the U.S. As a sixth-grader, in 1966, I was told that as adults, due to computers and technological advances, we would work less than our parents did, and we would enjoy the pursuit of human potential and fulfillment. By the turn of the century I thought that this "progress" would translate into free, quality education; free, quality medical care for everyone; a healthy, unpolluted planet; and equality and harmony among peoples – the realization of the Enlightenment ideals. About a decade ago, the United Nations estimated that an investment of USD $80 billion per year for five years would alleviate hunger, provide basic health care and housing for everyone on the planet. That hasn't happened. Rather, the U.S. military has spent far more than $400 billion to kill people. Just since 2001, the U.S. has spent over $2.1 trillion on the wars in Iraq and Afghanistan.[1] The Defense Department budget is in addition to this. What kind of crazy world do we live in? As a young Italian friend of mine said a little over ten years ago: "La vita non e bella." Life isn't beautiful. Instead of progress, we have regressed virtually back to the Dark Ages.

Why do we struggle against global capitalism and the dominance of capital?[2] Because people everywhere are unhappy, miserable, living in fear, precariousness and insecurity. Unhappy, fearful people, as well as those responsible for their unhappiness and fear, sometimes do horrendous things, as we are reminded by the occasional massacre at home in the U.S. We are all "les misérables," the miserable people as Victor Hugo titled one of his works.

There is a great deal of confusion about what kind of economic system capitalism is. We are told that it is a booming economic system powered by ingenuity, innovation and competition. Because of competition and markets, there is a just and fair distribution of goods and products that justifies peoples' incomes. Economic power is spread out among all the population and no one has more political power than any other (unless elected to a government position). But actually this version of capitalism is a fairy tale. In reality, capitalism is a process of accumulation of capital by any means necessary – extortion, extraction of surplus value, dispossession, and theft.

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[1] www.costofwar.com. National Priorities Project.

[2] See William K. Tabb, "Globalization is *an* Issue, the Power of Capital is *the* Issue." *Monthly Review,* 49:2, 20-30, 1997, and István Mészáros, "The Only Viable Economy," *Monthly Review,* 58:11, 4/07, 13-33, and his *Beyond Capital,* Monthly Review Press, 1995.

Competition in a capitalist market leads to lowered profits, increased exploitation, and stagnation. This stagnation eventually leads to the creation of a temporary solution to the crisis in the capitalist system, the crisis in the process of accumulation, and ultimately that solution is monopolization or oligopolization of both economic and political power. Another way to explain this is the following:

> The economic defense of capitalism is premised on the ubiquity of competitive markets, providing for the rational allocation of scarce resources and justifying the existing distribution of incomes. The political defense of capitalism is that economic power is diffuse and cannot be aggregated in such a manner as to have undue influence over the democratic state. Both of these core claims for capitalism are demolished if monopoly, rather than competition, is the rule. [3]

But how did we end up with *this* kind of capitalism? International, financial, monopoly capitalism with a collapsing standard of living in the global north? How did globalization come home to the U.S. and Europe?

Part I: Setting the Stage for U.S. Dominance

End of WWII, Establishment of the Bretton Woods Institutions

Towards the close of WWII, State Department personnel were planning the post-war period and the economic recovery of all the players in the war – winners and losers. Given the economic crises of the 1920s and 1930s in both Europe and the U.S., and the role the German economic crisis played in the rise of Nazism, the U.S. wanted to design an economic system that would be more stable. Of course the goals of the U.S. were not only altruistic; the major players within the U.S. State Department also wanted the recovery of Europe, Russia and Japan to be a springboard for U.S. industry to become dominant in the world and for the U.S. to be the global hegemon. U.S. plans for hegemony had another goal, one that was less proclaimed, but just as important as recovery. The U.S. had 5% of the world's population and consumed 25% of the world's resources. George F. Kennan, a State Department insider, observed that: "It is this disparity that has to be maintained."[4] By 1950, the U.S. also owned 80% of the world's gold. U.S.

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[3] John Bellamy Foster, Robert W. McChesney, and R. Jamil Jonna, "Monopoly and Competition in Twenty-First Century Capitalism," *Monthly Review,* 4/11, 62: 11, 1.

[4] George F. Kennan

dollars were 25% backed by gold and could be exchanged for gold at the rate of $35 dollars per Troy ounce.[5] The circumstances were propitious for the US, and the U.S. did not miss its chance.

Government representatives from the Allies met at Bretton Woods, NH, in July, 1944 to design the post-war global economic system. The International Monetary Fund (IMF) and the World Bank (WB) were established. The was founded to secure international monetary cooperation, to stabilize currency exchange rates and to expand international liquidity in the form of access to hard currencies. The was founded to finance development projects, provide technical assistance and implement free market reforms on behalf of international banks. The GATT General Agreement on Trade and Tariffs talks began. The gold standard for the U.S. dollar anchored the entire financial and economic system to something stable and real: gold. What followed is called "The Golden Age" when U.S. prestige, power and wealth just kept growing. The U.S. economy expanded by an average of 4% per year from 1947 to 1973,[6] a growth rate and span of years never again to be repeated. "The period 1945-circa 1970 was one of great economic expansion in the world-economy. ...The period 1945 to circa 1970 was also the period of full U.S. hegemony in the world system."[7]

The .[8] Until the U.S. massively increased its war spending, it had enjoyed a stable balance of payments, i.e. there was no significant trade deficit. There was also no significant U.S. debt. From the beginning of the Republic to 1980, the entire U.S. debt only amounted to $1 trillion dollars. Formerly, during WWII, U.S. citizens saved to pay military and other expenses. Based on inflation adjusted dollars, WWII cost $3.6 trillion dollars, but it was not paid for entirely with debt. Conservatives used to loathe debt -- debt of any kind. But today they seem to love U.S. government debt to pay for wars and tax givebacks to the wealthy, but not for the general welfare of the U.S. citizens.

The Overthrow of the Mossadegh Government in Iran

Rarely are there events that influence decades, if not centuries, of history. The U.S. Revolution, the French Revolution, the Russian Revolution,

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[5] Michael Hudson, "Predatory Finance: The New Mode of Global Warfare," Global Research, Oct. 20, 2010, www.globalresearch.ca/index.php?xonrwzr=c&is=21415

[6] Simon Johnson and James Kwak, *13 Bankers: The Wall Street Takeover and the Next Financial Meltdown*, Pantheon, 2010, 64.

[7] Immanuel Wallerstein, "Structural Crisis in the World System," *Monthly Review*, 62:10, 3/11, 33.

[8] Michael Hudson, "Predatory Finance," www.globalresearch.ca

WWI and WWII are obviously such events. The CIA overthrow of Mohammad Mossadegh, the elected secular leader of Iran in 1953 is also one of those events. *Time Magazine* had named him "Person of the Year" in 1951. The Iranian government under his leadership nationalized the Anglo-Iranian Oil Company (today known as British Petroleum). The previous monarch had allowed the British to benefit from the Iranian oil. But Mossadegh wanted Iran and the Iranians to benefit from their oil. He knew a modernization program for Iran – building schools, hospitals, etc. – needed lots of funding. But the British and the U.S. decided that this was intolerable and sent Kermit Roosevelt to stage a coup, overthrow Mossadegh's government, and install Mohammad Reza Shah Pahlevi on the Peacock Throne.[9] With the Shah in power, the British and the U.S. continued to benefit from Iran's oil. The blow-back from this CIA coup reverberates today as the U.S. blocks attempts by Arab countries to secularize and modernize. The U.S. prefers to support religious extremist leaders who allow the U.S. to arrogate much of the profit of the oil business. This CIA coup led directly to the 1979 Iranian revolution and the taking of the U.S. Embassy employees as hostages.

In 1980, the Reagan Election Committee negotiated with the Iranian Revolutionary government to hold the hostages until after the 1980 election. Had the hostages been freed before the Nov. 1980 election, then President Jimmy Carter probably would have won re-election. The 1986 tax cuts pushed by the second Reagan Administration might not have been passed. Those tax cuts – more correctly referred to as tax -- were the beginning of the inexorable slide of the U.S. into third world debtor status.

1971 and the End of the Gold Standard and the Creation of the U.S. Tribute System

Normally ,to increase the overall wealth or surplus in a capitalist society, i.e. to improve the standard of living, there needs to be more exported than imported. Hudson explains: "Countries had to obtain gold by running trade and payments' surpluses in order to increase their money supply to facilitate general economic expansion. And when they ran trade deficits or undertook military campaigns, central banks restricted the supply of domestic credit to raise interest rates and attract foreign financial inflows."[10] In a capitalist system, wealth or surplus is created by manufacturing, making, growing, imagining something – a product -- and then selling it. Hence

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[9] Stephen Kinzer, *All the Shah's Men: An American Coup and the Roots of Middle East Terror,* Wiley, 2003, 2008.

[10] Michael Hudson, "Predatory Finance," www.globalresearch.ca

exporting goods and services increases the surplus. Some of this surplus can be exchanged for imports. Normally importing more than what is exported creates a net drain on the economy. So the U.S. government and business had a problem: how could they import more than they export, and continue doing so? How can they continue spending without earning?

The gold standard essentially limited the number of U.S. dollars in the world to some finite amount – an amount in relation to the amount of gold that the U.S. owned. Theoretically, if the U.S. continued to export more than it imported, it would run out of gold if those who exported to the U.S. converted their U.S. dollars into gold. The U.S. dollar was and is the world's reserve currency.[11] International trade and international loans are made in U.S. dollars. Oil is sold and bought in U.S. dollars. Consequently the convertibility of U.S. dollars into a finite amount of gold put a limit on the amount of expansion and growth of the global economy.

On Aug 15, 1971, then President Richard M. Nixon took the U.S. dollar off the gold standard and prohibited the convertibility of U.S. dollars into gold. Everyone held their breath: what would happen? The gold guaranteed the value of the U.S. dollar. All of a sudden, the U.S. dollar really was no more than a piece of paper and faith in the U.S. government that it could some day, theoretically, pay its debts. It could always tax the U.S. citizens to raise money to pay its debts. The world had faith in the productive capacity of the U.S. and its citizens and in the U.S. government's willingness to actually turn over the money if asked.

What happened? Nothing happened. Everything went on as before. International trade continued to be done in U.S. dollars; oil was sold and bought in U.S. dollars. Everyone maintained faith in the U.S. government's willingness to tax and repay its debts. However, then President Nixon took the precaution of having a young, then unknown economist, Dr. Michael Hudson, do a study on the consequences of taking the U.S. dollar off the gold standard. In 1968, Hudson published his study under the title: *Super Imperialism: The Economic Strategy of American Empire*. It was republished in 1969, 1970, 1971, 1972 and in a new edition in 2003[12] Hudson knew that the ultimate consequence, the logical conclusion, was insolvency for the U.S. and a debt-induced financial and economic crisis of such proportions as to threaten the very foundation of capitalism itself. Nixon and friends – the Trilateralists and the Bilderberg Group[13] -- did it anyway, and

[11] Research Unit for Political Economy, *Behind the Invasion of Iraq*, New York: Monthly Review Press, 2003, 16.

[12] With a new subtitle: *The Origin and Fundamentals of U.S. World Dominance.*

[13] See Daniel Estulin, *The True Story of the Bilderberg Group*, Trineday, 2007, and Holly Sklar, *Trilateralism: The Trilateral Commission and Elite*

lots of people in the elite made gobs of money in the subsequent 40 years.

Because the U.S. imports more than it exports, other countries have lots of U.S. dollars. The wealth of the U.S. is trickling out of the U.S. and indeed the U.S. has been a debtor nation since 1960. It holds the largest debt of any country in the world. In essence, the U.S. is insolvent. With their excess dollars, other countries buy U.S. Treasury bonds, or IOUs. The Federal Reserve then turns around and loans these dollars to U.S. financial institutions. Due to the gargantuan trade imbalance and the gargantuan amount of U.S. dollars earned by foreign countries that are invested in U.S. Treasury bonds, the U.S. Federal Reserve has a virtually unlimited capacity for lending these dollars back to U.S. financial institutions. U.S. financial institutions then loan dollars to people and businesses to buy houses, go to college, whatever. Its sort of like spending the same money twice!! We will return to assess the U.S. Federal Reserve system.

Because the U.S. sends so many dollars to other countries, and other countries use them to buy U.S. Treasury bills, this return of dollars closes the fiscal gap in the U.S. government's budget. The shortfall is due primarily to U.S. military expansion. With almost 800 military bases in about 140 countries around the world, those who export to us are in effect paying for their own occupation or encirclement by the U.S. military. Everyone in Europe understands this. Most in Russia and the FSU do as well. Michael Hudson explains this very succinctly[14].

In 1973, in retaliation against the U.S. for its support of Israel in the Yom Kippur War, Arab oil-producing countries stopped shipping oil to the U.S. Oil prices went through the roof. Inflation in the U.S. spiraled out of hand. The U.S. was ready to invade Saudi Arabia, but instead they made a deal. The U.S. agreed not to invade Saudi Arabia if the petrodollars flooding into Saudi Arabia and other oil exporters would be recycled through U.S. financial institutions and oil would be sold in U.S. dollars. That was a good deal for both sides. This was not common knowledge at the time. The U.S. also pledged to support the House of Saud come what may. So the U.S. dollars used to buy petroleum, and all the other currencies used to buy petroleum, became petrodollars that flowed back into U.S. Treasury bonds, that were then used to stabilize the U.S. balance of payments. Recycling money in an economy is a good thing unless it is recycled as debt.

After the Arab oil embargo, on Aug. 9, 1974, Richard M. Nixon resigned

Planning for World Management, South End Press, 1980.

[14] Michael Hudson, "The 'Dollar Glut' Finances America's Global Military Build-Up" in eds. Michel Chossudovsky and Andrew Gavin Marshall, *The Global Economic Crisis: The Great Depression of the XXI Century,* Global Research, 2010, 212-218.

from the U.S. Presidency, taking much of the impetus of the anti-war movement out of it. The 1960s rolled to a stop. The anti-capitalist and anti-war movements went home. We thought things would get better -- computers, less work, nuclear electricity too cheap to meter, more free time and more education. But the ideological onslaught against the anti-capitalist and anti-war movements was already in motion. We will return to this point.

The tribute system is an economic system in which a dominant power coaxes or compels neighbors far and wide to give it money, wealth, surplus or whatever it has. The U.S. can do this because its currency is the reserve currency, i.e. the currency that most countries use for savings and trade, and keep in their central banks. The U.S. is also the only country with enough "money" or "credit" to be in this position. Other countries run a trade surplus with the U.S. and end up with extra U.S. dollars. They return these to the U.S. via its Federal Reserve by buying U.S. Treasury bills. Then the U.S. Federal Reserve loans these dollars to the U.S. government to finance its debt or cover its trade deficit. How did the U.S. succeed in doing this and succeed in siphoning most of the world's wealth into the pockets of the top 1% or 2%? Almost the entire world gives its surplus to the top 1% in the U.S. How did this come about?

Michael Hudson, in his book *SuperImperialism,* explains how the rest of the world is paying for the U.S. trade and budget deficits. Hudson discovered and exposed the U.S. tribute system. As the U.S. buys more than it exports, U.S. dollars are accumulated by central banks. Central banks then can invest these dollars by buying products sold in dollars such as U.S. assets or U.S. Treasury bills. As they buy U.S. bonds, they return U.S. currency. The U.S. then uses that money that they have received in exchange for a piece of paper that is a promise to pay back in the future; it's an IOU. Or the returned dollars are used to buy more stuff from abroad or give tax givebacks to the wealthy or finance wars and defense spending. People in other countries are aware of this though U.S.ians are not.

The Federal Reserve System and the Volcker Shock of 1979

The high inflation during the 1970s and the stagnation in the job market came to be called stagflation. Interest rates for houses reached 18%. But money was pouring into the oil exporting countries that were pouring it into U.S. financial institutions that were then lending it to third world governments thus setting up the third world debt crisis of the 1980s.

Mature capitalism is characterized by the tendency toward slow growth and stagnation punctuated by asset price bubbles followed by financial crisis. The economic history of the 20th century is the history of attempts to re-ignite capital accumulation and shake off stagnation. Today it is a common place to

observe that the Great Depression of the 1930s wasn't "over" until the post war period.[15] We're riding waves of stagnation followed by bubbles and crashes. I suppose this could be considered adequate performance for the world's economy, except for the hundreds of millions – indeed billions – of people who are adversely affected by the stagnation, bubbles and crashes. As Wallerstein explains: "Predictably, capitalists since the 1970s have shifted their focus from the production arena to the financial arena. The world-system then entered the most extensive continuous series of speculative bubbles in the history of the modern world-system, with the greatest level of multiple indebtednesses."[16]

At the heart of the banking system as we know it is the Federal Reserve system and the creation of money as debt.

Virtually everyone takes it for granted that interest is charged on money that is loaned. But who creates the money? Ellen Brown, in her book *Web of Debt* [17] and in dozens of articles,[18] explains how money is created out of thin air through debt. However, the interest payments are not created out of thin air.

The first central bank, the Bank of England, was founded in 1694. Gold smiths would hold gold for safekeeping for others; the safe-keepers then loaned this money to other people and businesses. It was quickly discovered that one could loan more "money" than one had stashed away. The likelihood of everyone coming at the same time to take out their deposited gold was virtually nil.

The U.S. Federal Reserve parades as a public institution, but in reality it is a privately-owned bank. It is owned by most of the big banks in the U.S. And its only clients are banks.[19] It is a two-tiered structure with one central "U.S." Federal Reserve and secondary federal reserves around the country. Secretary of the Treasury Timothy Geitner for example used to be head of the NY Federal Reserve. The U.S. Treasury actually mints the coins that are in circulation, the quarters, dimes, nickels, pennies and half dollars or silver dollars. And they print the paper with the likeness of a U.S. dollar, but the U.S. Treasury does not create the dollars. Banks do. They create dollars by

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[15] John Bellamy Foster and Fred Magdoff, *The Great Financial Crisis: Causes and Consequences*, Monthly Review Press, 2009, 22.

[16] Immanuel Wallerstein, "Structural Crisis in the World-System," *Monthly Review*, 3/11, 62:10, 33.

[17] Ellen Hodgson Brown, *Web of Debt: The Shocking Truth Abut Our Money System And How WE Can Break Free,* Third Millenium Press, 2007, 2008.

[18] See www.webofdebt.com

[19] For more information on the Federal Reserve, see: G. Edward Griffon, *The Creature from Jekyll Island: A Second Look at the Federal Reserve*, American Media, 2007.

giving out loans. Thus all money is based on having started life as a loan, as credit. If the U.S. Treasury created money, we wouldn't have to pay interest on the U.S. debt. That fact suggests some ideas about how to deal with the U.S. government debt service problem. In fact the U.S. didn't have a central bank that we call the Federal Reserve until 1913.[20] Much of the history of the U.S. is the struggle between those who wanted a central bank giving banks the power to create money and those who wanted the government to be the only entity empowered with the ability to create money. Jefferson vs. Hamilton.

In fact, it is arguable that it is unconstitutional for banks to create national money. The U.S. Constitution gives Congress the right "to mint" money. This has been interpreted as the U.S. government having the right to mint coins, but not dollar bills. [21] Ellen Brown has established the Public Banking Institute[22] to investigate and promote legislation establishing public banks in the 49 U.S. states which do not have them. Only North Dakota has a public bank, and it survived the economic collapse of 2008-9 very well. Peter Gowan argues for a public-utility credit and banking system[23] and Michael Hudson argues for "outright nationalization of credit as a basic public utility."[24]

Banks have reserve requirements. Just as the guys keeping the neighbors' gold didn't loan out more than a certain multiple of what they were holding, banks (and insurance companies) usually have to have on hand cash that is a certain percentage of the value of the loans they have made. Traditionally it's about 10%. So it's fairly easy to see that after 100 years of making loans and after taking the U.S. dollar off the gold standard that had put some limit on the amount of money that could be created, today there seems to be an infinitely limitless amount of dollars that can be created as debt Hence the astronomical value of all derivatives which today is "somewhere in the realm of $600 trillion.[25].

In 1979, Paul A. Volcker was appointed to be Chairman of the Federal

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[20]On the creation of the Federal Reserve, see Ellen Brown, *Web of Debt*, and Andrew Gavin Marshall, www.globalresearch.ca and ed. Michel Chossudovsky and Anderew Gavin Marshall, *The Global Economic Crisis: The Great Depression of the XXI Century, Global Research Publishers, 2011.*

[21] See also Stephen Lendman, *How Wall Street Fleeces America: Privatized Banking, Government Collusion and Class War*. C larity Press, Inc. 2011

[22] www.publicbankinginstitute.org

[23] Peter Gowan, "Crisis in the Heartland," 21.

[24] Michael Hudson, *Global Economic Crisis*, 216.

[25]Global Research, "The Greatest Depression Has Only Begun," June 2, 2011. www.globalresearch.ca See below for a discussion of derivatives and also Matt Taibbi, *Griftopia: Bubble Machines, Vampire Squids, and the Long Con That Is Breaking America*, Spiegel and Grau, 2010.

Reserve. He had one mandate: lower inflation. Interest rates around the world zoomed up. Loans had their interest rates readjusted to reflect the new rates. Many people, businesses, institutions and even countries could no longer make their interest payments. Thus was born the third world debt crisis.

Part II: The Crisis in the Accumulation Process

The Ideological Onslaught Preaching the Free Market

Among the intellectual elites in the U.S, several groups stand out as contributors to the ideological ethos of the U.S. today: think tanks and foundations, the Trilateral Commission, business people, the Project for a New American Century, the Bilderberg Group, and of course the Council on Foreign Relations.

Many in the U.S. are familiar with Holly Sklar's book *Trilaterialism: The Trilateral Commission and Elite Planning for World Management* which was first published in 1980. This group, which was active from 1973 to 1981, headed by Zbigniew Brzezinski and David Rockefeller,[26] published a total of 24 reports, among them a very influential "study" entitled *The Crisis of Democracy*, Trilateral Task Force on the Governability of Democracies. This study argues that there is too much democracy.

Also during the 1970's, businessmen via the Chambers of Commerce, began to orchestrate and coordinate steps to promote a "better business climate" in the U.S. David Harvey reports in his book *A Brief History of Neoliberalism*, that Lewis Powell, then soon to be confirmed to the Supreme Court by Richard Nixon, in Aug. 1971 wrote a letter to the U.S. Chamber of Commerce arguing that;

> ... criticism of and opposition to the U.S. free enterprise system had gone too far and that 'the time had come . . . for the wisdom, ingenuity and resources of American business to be marshaled against those who would destroy it. Strength lies in organization, in careful long-range planning and implementation, in consistency of action over an indefinite period of years, in the scale of financing available only through joint effort, and in the political power available only through united action and national organizations'. The National Chamber of Commerce, he argues, should lead an assault upon the major institutions – universities, schools, the media, publishing, the courts – in order to change how

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[26] Holly Sklar, *Trilaterialism: The Trilateral Commission and Elite Planning for World Management* South End Press, 1980. Other U.S. members are Jimmy Carter, Richard Holbrooke, Samuel P. Huntington, Walter Mondale, Elliot L. Richardson, Andrew Young, Cyrus R. Vance, Paul A. Volcker.

individuals think 'about the corporation, the law, culture, and the individual.[27]

Such a straightforward and unambiguous call to arms of the wealthy elites against the workers is unusual. During the 1970s, corporations, accounting for about one half of the GDP of the U.S., spent close to $900 million annually on think-tanks (Heritage Foundation, the Hoover Institute, the Center for the Study of American Business, the American Enterprise Institute, Olin Foundation, Scaife, Pew Charitable Trust) and of course lobbyists. U.S. businesses had chosen a policy of collective pressure to enact policies and laws and regulations that would benefit corporations in general and not just their individual corporation. These think-tanks issued a mountain of reports and books promoting ideas that favor policies agreeable to the wealthy – cutting personal and corporate taxes, dismantling the welfare state, privatizing education, health care, and the results of government funded research and development, changing so-called costly regulations to protect consumers and the environment so as to "externalize" costs, etc. etc. Jack Rasmus, in his book *The War at Home*, details the steps taken, the policies instituted, etc.[28]

The Council on Foreign Relations has long published the influential monthly *Foreign Affairs*. The ruling elite lays out its ideas in this journal. It was here, for example, where I first read Condolezza Rice before Bush's 2000 ascendancy to the U.S. Presidency. Other countries have comparable institutions.[29]

What started as an attack on liberals and big government in the 1970s evolved into the preaching of a new religion: the free market will most efficiently allocate resources to their best use if everyone follows his/her own self-interest.[30] The Chicago School of economics won out. Keynesianism was thrown into the trashcan. Welfare as we knew it was ended. Government subsidies are now given to the wealthy; the 856 or so military bases the U.S. has in 140 or so countries around the world does not constitute big

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[27] David Harvey, *A Brief History of Neoliberalism*, Oxford, 2005, 43. See also Chris Hedges, *The Death of the Liberal Class,* Nation Books, 2010, 176-182.

[28] Jack Rasmus, *The War at Home: The Corporate Offensive From Ronald Reagan to George W. Bush,* Kyklos Productions, 2006.

[29] Andrew Gavin Marshall, "From Global Depression to Global Governance: The Role of the Corporate Elites' Secretive Global Think Tanks," Global Research, Oct. 19, 2010, www.globalresearch.ca/PrintArticle.php?articleId=21504

[30] For a critique of the standard reading of Adam Smith's *The Wealth of Nations*, see Giovanni Arrighi, *Adam Smith in Beijing: Lineages Of The Twenty-First Century*, Verso, 2007.

government.[31] The role of the Federal Reserve morphed from supporting full employment to fighting inflation at whatever cost.

This religion of free markets preaches the idea that all markets are the same and all are free in the sense of voluntary, not coerced. But there are primarily three different markets, and they are markets in: human labor, commodities, and capital. Neo-liberalism has compelled the opening of all capital markets to all capital. But the labor market is strictly disciplined by universally high unemployment. Markets in commodities such as the Chicago commodities' market can be manipulated. And whether food is bought at Bodega Aurera, Walmart, or Sam's Club, it is all bought from a giant oligopoly that controls almost half of the world's food at the point of sale.

During the 1970s and the stagflation period, the U.S. growth rate and profit rate was starting to slow. The compromise between business and labor over sharing the fruits of the capitalistic system began to break down as labor demanded salary increases commensurate with inflation in the 1970s. Business and capital fought back. This crisis in the accumulation process was a real crisis for the wealthy. The slowing growth rate -- which is the normal characteristic of mature capitalism -- can be easily understood as stagnation caused by competition.[32] But the underlying issue is that under capitalism, competition reduces the rate of profit as cost-cutting measures spread throughout an industry, pushing prices down and also profits. The easy solution is to lower the wages paid in order to increase the rate of profit, i.e. increase exploitation. And that is the story of the 1980s as factory after factory moved offshore from the U.S. to low wage areas of the world, laying off thousands and thousands of workers in the U.S. At the same time, agribusiness and huge mechanized farms pushed thousands of farmers and dairy farmers out of business. Family farms went the same way as dinosaurs. As the process of accumulation stalled, solutions were found, i.e. outsourcing and mechanizing, creating huge unemployment and underemployment. The much touted "new economy" of the 1990s actually was the creation of the Walmart economy – low wage jobs for most with no benefits of any kind.

As businesses and production moved out of the U.S., the problem of the repatriation of profits rose. The various trade treaties and policies of the IMF and World Bank promoted throughout the 1990s and 2000s that we call globalization were intended to solve the crisis in the accumulation process and the related repatriation of the profits problem. Instead of individual countries being able to regulate the amount of local inputs required or the

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[31] Chalmers Johnson, *Dismantling the Empire: America's Last Best Hope*, Metropolitan Books, 2010.

[32] Paul A. Baran and Paul M. Sweezy, *Monopoly Capital: An Essay on the American Economic and Social Order*, Modern Reader, 1966 and many essays in *Monthly Review*.

percentage of profits that could be taken out of the country, or other measures to keep some of the wealth generated by its citizens' labor in the country, the religion of free trade was preached. So corporate globalization, after all was said and done, was a strategy to kick-start the capital accumulation process and keep big profits flowing to the transnational capitalist class. Apparently the increase in hunger world wide didn't matter to those who were reaping the capital benefits -- nor did the soaring unemployment rates, nor the deindustrialization of many of the industrialized countries, nor the falling life expectancy of the Russians, nor any of the other ill effects. Just stay the course and the free market will take care of everything. It sounds like a cruel and cynical joke today.

Third World Debt Crisis

The , World Bank and big financial institutions based in the U.S. and Europe loaned tons of money to third world countries in the 1970s and early 1980s. By 1982, the Third World debt crisis erupted. Just at the time when elites were looking for ways to expatriate the surplus or wealth produced in a given area, the debt crisis provided a means to do so. The debtor countries who needed to borrow more U.S. dollars from the IMF or big banks to pay the interest on their previous loans were held hostage to the demands of the elites and capital, what we now call the transnational capitalist class. The IMF and the big banks used this opportunity to restructure the world's economy and chains of production.

We normally think of the U.S. and the elites of the U.S. as the perpetrators and benefactors of this global system of extraction of surplus or tribute. But capital – really huge amounts of wealth destined for reinvestment for the purpose of making yet more surplus or profit – capital knows no borders nor nationality. – the 1% -- run corporations tae tra~~nsnational ~~chains of pr~~oduction ~~and distribution spread around the globe. They have management and stock sh~~a~~r~~e~~ holders from around the globe as well. There are of course conflicting bloco regard for the environment or the workers wherever they might be – at .

Neo-liberalism was a radical change, indeed reversal, of previous "development" policies. "poor" countries were encouraged to adopt "import substitution" policies. Foreign "aid" was intended to promote local production for local consumption. But this model was thrown out, and the free trade model of "comparative advantage" – building upon and expanding whatever "natural" advantages such as cheap labor, climate, raw materials, etc. were located in any given country. Because international trade is done in U.S. dollars, countries could earn U.S. dollars to repay their loans by exporting goods and services. That was the core idea.

Structural Adjustment Programs (SAPs)

Structural adjustment programs were imposed on debtor countries around the world. They all had the same recipe for improving the individual country's economy by promoting international trade and the earning of U.S. dollars to repay their debts. These measures included:

1) reducing its fiscal budget deficit, cutting social spending;
2) raising interest rates, pushing individuals and small businesses into bankruptcy;
3) eliminating tariffs, in effect allowing multinationals to come into a country and wipe out the corresponding domestic industries;
4) eliminating limits on repatriating profit and any requirements to use local in-puts and to re-invest;
5) eliminating any central bank support for the currency, subjecting it to wild swings and crises;
6) most importantly, privatizing <u>all</u> government-owned productive enterprises and public goods like water and electricity.

In practice SAPs were allowing transnational corporations (TNCs) to go into countries, set up production, employ people at very low wages, and take out all the profit. If a country's government imposed workplace safety or environmental standards, or its workers set up unions, the TNCs could just move to another country. IMF/World Bank reforms essentially opened formerly regulated national economies so that powerful TNCs (many U.S.-based) could come in, wipe out local competition, and park profits in off-shore tax havens. This was good for the TNCs but not for the people. In Russia, Mexico, and Argentina, for example, results have been extremely harmful. China, given all the same advice by the IMF/World Bank, <u>implemented none of it</u>. Today it owns about $3 trillion in U.S. Treasury bonds.

Trade Treaties and Globalization

Following IMF/World Bank imposition of these policies on debtor nations, many countries felt obliged (or were actually compelled) to sign trade treaties. These treaties establish international structures for enforcing neo-liberal trade policies. While "freely" signed by governments, such treaties are rarely discussed among the home population. A case in point is NAFTA – the North American Free Trade Agreement – which took effect January 1, 1994. On that day the Zapatistas announced to the world the first serious opposition to "neo-liberal" policies. A majority in the U.S. was opposed to NAFTA.

In the late 1980's, trade representatives from around the world met at

what was called the Uruguay round of the GATT, the General Agreement on Trade and Tariffs. GATT was created in 1947; the Uruguay Round of talks lasted from 1986 to 1994. The result was a treaty creating the World Trade Organization or WTO. The WTO was to supervise and "liberalize" (liberalize in the sense of eliminating restrictions or regulations designed to protect people, customers, the environment, etc.) world trade. It began operation on January 1, 1995. By the late 1990's, other treaties were in place:

GATS, the General Agreement on Trade in Services. This treaty aims to open markets to service industries such as banking, education, health care and communications.

TRIP or Trade Related Intellectual Property Agreement enforces patent protection. Many seed, fertilizer, and pharmaceutical corporations have taken out patents on living organisms. TRIP assures their profits by patent protection. If some genetically modified corn seed blows onto a neighbor's land, the neighbor can be sued for patent infringement for not paying for the use of the patented corn. Intellectual property is one of the few areas of the economy where a healthy profit is still being made.[33]

TRIM, or Trade Related Investment Measures, forbids sovereign nations from prohibiting unwanted imports such as genetically-modified food, livestock fed with hormones and antibiotics, and toxic or nuclear waste. Here in Mexico a Canadian company wanted to build a toxic waste treatment plant. Mexico refused; the Canadian company sued and won. Mexico must accept the plant.

These trade treaties are alleged to improve countries' economies. But they don't, and they didn't. The world economy has slowed under neo-liberalism. The world's average annual GDP growth rate declined from 4.9% between 1950 and 1973, to 3.0% between 1973 and 1992, and 2.7% between 1990 and 2001. From 1980 to 1998, half of all "developing countries" suffered <u>falling</u> real per capita GDP.

These reforms, SAPs, and treaties constitute globalization or the spreading of capitalist relations of production and exchange around the world. Corporations, frequently huge U.S. based TNCs, can now move in and out of countries looking for the highest return on investment. Globalization facilitates accumulation of capital by the owners of large TNC's. This enhances their power within the U.S. and with the political parties of the U.S. government. It also enhances the global power of the U.S. Several years ago in a lecture in Scotland, Henry Kissenger said: "Globalization is another word for U.S. domination."

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[33] Harriet A. Washington, *Deadly Monopolies: The Shocking Corporate Takeover of Life Itself--And the Consequences for Your Health and Our Medical Future*. Doubleday, 2011.

Part III: The Second Gilded Age and Austerity

U.S.ians' Debt Crisis

U.S. workers have had a wage freeze since 1975. The years 1974-6 were the years of the highest earning power of workers. In 1974, the minimum wage was still $1.60 per hour. In those days, one could buy about six gallons of gas for one hour of work. Today with the minimum wage of $7.50 per hour, one can buy 2 1/2 gallons of gas. If we take into consideration that things made in those days were made of metal and were well made, we realize we've lost much more than purchasing power. Today, 90% of stuff made is thrown into the trash within six months. This degree of quick disposability makes planned obsolescence look good. We have to replace our stuff far more often than before. We have to get new computers every three or four years. Wages have not kept up with the world of disposable consumer goods. The most recent statistics show that today the U.S. worker earns 18% LESS than in 1975![34]

Yet the U.S. worker has managed to continue consuming. In the 1970s and 1980s, women entered the labor force in substantial numbers. Families were thus able to maintain their 1960s standard of living. In the 1980s, people worked longer hours and teenagers entered the work force. In the 1990s, consumers discovered the credit card, or rather banks started pushing credit cards on anyone 18 or over, regardless of whether or not they had a job, a credit rating, etc. During the 1990s and since 2000, people have bought homes, taken out home equity loans, second mortgages and have maintained their 1980s standard of living. Debt became the "American way of life." As Rick Wolff has observed, since 1980, capital has given workers debt instead of wages.[35]

Crisis of Over-accumulation, Overproduction and the Financial Crisis

U.S. businesses didn't simply choose to go into finance. It was the only solution to the crisis in the accumulation process, that is to say, the capitalists or the transnational capitalist class was not making enough profit on their operations. As competition to lower prices reduces profit margins, and as investment in added capacity actually further reduces profits, capitalism, as a system of concentration and accumulation of capital shows its inner contradictions. Too much stuff is produced; there is a crisis of

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[35] Rick Wolff, *Capitalism Hits the Fan*: *The Global Economic Meltdown and What to Do About It*. Olive Branch Press, 2010.

overproduction. Wages are held down and as people don't have money to buy all the stuff, there is more and more excess capacity in production. Businesses then are in the paradoxical situation of having too much money without a good place to invest it. That is the crisis of over-accumulation. So the only solution to the slow-down in accumulating yet more and more capital, is to bid up prices of assets (real estate, stock, bonds) and speculate in the various markets – the real estate market, the stock market, the bond market, the commodities market. Thus finance – creating more money and expanding the money supply by loaning money to everyone to buy things is always the last phase of what Giovanni Arrighi calls a systemic cycle of accumulation, a playing out to its logical conclusion of a particular historically and geographically specific site of capitalist production.

During the U.S.'s period of hegemony, its systemic cycle of accumulation saw at least two major depressions – the one from l873 to the end of the century and the one during the 1930's that only ended with WWII. That is to say the depression of the 1930's only ended with a massive destruction of productive capacity world wide. In each successive phase, as capitalists or the transnational capitalist class tries to lower prices by cutting wages, shipping production to lower wage areas, by making things with poorer and poorer quality inputs, the margin of profit falls. The fall in the profit margin is a crisis for the capitalist class and there has to be found a solution. Neo-liberalism was the solution to the crisis of accumulation in the 1970s. Finance – whose flip side is debt – is the solution to the falling rate of profit.

Throughout the history of capitalism, there have been three successive centers of capital accumulation: first the Genoese systemic cycle of accumulation in the 15th century; the second was the Dutch or the United Provinces ascendancy from the late 16th Century and into the 18th Century; the third was the British hegemony in the 19th Century, and the fourth the U.S. in the 20th Century. Each of these systemic cycles of accumulation ended in the dominance of finance over manufacturing or trade. Finance – creating and lending money – speculating on whatever markets existed at the time – inevitably leads to a crisis and a crash and eventually another geographical location becomes ascendant.[36]

It is patently clear today that U.S. hegemony is being surpassed by China.[37] No matter how much capital is pumped into the system by the U.S. Treasury and Federal Reserve, U.S. dominance is doomed. It could easily take another 40 years for a new system to develop. In the meantime, the U.S.

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[36] Giovanni Arright, *The Long Twentieth Century: Money, Ppower and the Origins of our Times*, Verso, 1994 and 2010.

[37] See Giovanni Arrighi, *Adam Smith in Beijing: Lineages of the Twenty-first Century*, Verso, 2007.

will continue fighting a losing battle. The current effort to re-inflate asset prices will only end in another even larger crisis. The Federal Reserve's policy of "quantitative easing," for buying long-term Treasury notes, is a vain effort to pump up asset prices so that banks and financial institutions do not have to actually take losses. This effort to avoid taking losses is doomed. Meanwhile, billions of people around the world will suffer deprivation, starvation and misery while the world's elites have so much capital they don't know what to do with it; and they refuse to take their losses the way normal people do.

What is a capitalist? Many people think that they are capitalists. But only those who own enough of the means of production do not have to have a waged job to survive and meet their needs with things bought by money are capitalists. Those who work for wages are workers, not capitalists. One might "believe" in capitalism, or markets, but it's a "belief," like believing in Santa Claus or the Tooth Fairy.

Let's go back to the 1990s and the much hyped "new economy" which ended the booms and busts of the business cycle and sliced and diced risk to the point of non-existence. Over the last quarter century, since the mid 1980s (since Ronald Reagan), the structure and dynamics of Wall Street banking have changed.

I remember Ronald Reagan for several reasons. First, for the stealing of the 1980 election when the Reagan Election Committee negotiated with the revolutionary government of Iran to hold the U.S. Embassy employees hostage until after the election (I think this is called treason). Secondly, for the crack cocaine epidemic that decimated black America, gave impetus to the cancerous growth of the prison industrial complex, and financed the fascist paramilitaries in Honduras destroying the Nicaraguan revolution of 1979. Thirdly, for the 1986 tax breaks which created the "greed is good" ethos of the age that set the U.S. of A on its inexorable path towards the impoverishment and misery of the U.S. and of the world.

The tax legislation of George W. Bush's first administration was also essential to what later unfolded. Under Richard M. Nixon, tax rates were as high as 90%. This level of tax rate discourages risky bets. But under George W. Bush, taxes on capital gains were lowered even more. The late Senator Robert Byrd in 2004 commented on the proposed legislation:

> For the Fiscal Years 2001 - 2010, this Administration's policies have transformed a ten-year, $5.6 trillion surplus into a $4 trillion deficit. And it just keeps getting worse. The President's budget includes record deficit projections that will push our national debt to extreme limits never before seen in our nation's history.
>
> President Bush's budget is a wake up call for working America. Under the guise of inviting middle-class workers to sit at the table and share in the tax cuts, this Administration has run up a tab that won't be paid for by those with the golden parachutes. It will be the working man

who gets stuck with the bill.

Instead of ensuring the Social Security benefits promised to workers, the President's budget would spend the entire Social Security surplus over the next five years - all $1.1 trillion of it - to pay for the Administration's tax cuts for the affluent and corporate elite. Not one dime would be allocated to save Social Security.

But even the enormous surpluses in the Social Security accounts can't cover the colossal cost of the Administration's tax cuts. President Bush's budget would also cut the funding for those federal programs that most benefit working families - federal student aid, unemployment and job training programs, health care initiatives for veterans and the poor and elderly - by a whopping $50 billion to pay for the Administration's tax cuts.

And still it is not enough. After draconian spending cuts and the loss of the entire Social Security surplus, the President's budget proposes to borrow an additional $1.4 trillion - much of it from countries like China and entities like OPEC - to pay for its tax cuts.

When you look at the promises versus the performance of this Administration, and the massive increases in the national debt necessary to finance their ill-conceived fiscal policies, our nation will be left with a "Bush Debt Gap" of $4.5 trillion.[38]

But probably even more important thn those consequences was the profound restructuring of the world of finance and investment. Previously investment banks had stockbrokers who bought and sold stocks and bonds --pieces of paper showing ownership --for their clients. But for the last 20-30 or so years, brokers in investment banks have been buying and selling financial instruments for the benefit of the investment banks themselves. This is called the "**lender-trader**" model. Peter Gowan,[39] has explained what he calls the New Wall Street System. That's how Henry Paulson, the former CEO of Goldman Sachs and formerly the Treasury Secretary made $500 million in his years at Goldman Sachs. John Paulson, (no relation to Henry Paulson)

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[38] Senator Robert Byrd, "A Budget of Gimmicks, False Promises, And Unrealistic Expectations," remarks delivered to the Senate Budget Committee prepares to debate and vote on the federal budget for Fiscal Year 2005. http://www.senate.gov/~byrd/byrd_speeches/byrd_speeches_2004_february/byrd_speeches_2004_february_li/byrd_speeches_2004_february_li_1.html

[39] Peter Gowan, "Crisis in the Heartland" in *New Left Review*, 55, Jan/Feb '09, ~~pp.~~ 5-29. See also his *The Global Gamble*: *Washington's Faustian Bid for World Dominance*, Verso, 1999.

CEO of a hedge fund, "earned" $3.7 billion in 2007 alone.[40]

New financial instruments were invented. They have nothing to do with creating more value; they are simply more ways of shuffling pieces of paper that indicate ownership that is attached to an income stream of interest payments. We've heard these names before – mortgage backed securities and derivatives such as collateralized debt obligations and credit default swaps.

These new forms of engineered debt – touted as financial innovation – have transformed the process through which banks supply credit. In the old days, banks issued credits that created both a liability on their own accounts and an illiquid interest-bearing asset held in the bank's own portfolio. Under the New Wall Street System, banks issue loans and then sell these assets into the secondary loan market or capital markets where they are aggregated into large pools and are used to create new classes of yield-bearing financial assets.[41] "Securitization" refers to this process of transforming formerly illiquid loans held in the banks' own portfolios into marketable/negotiable assets traded on secondary bond markets.

Retail banks – there are five main banks which hold primary responsibility for pushing millions of mortgages and subprime mortgages on consumers – HSBC, JPMorgan Chase, Citigroup, Wachovia and Bank of America. These banks were actively involved in advertising home equity loans, mortgages and second mortgages. Citigroup in the 1990s had a billion dollar advertising campaign promoting "Live Richly" trying to seduce people into borrowing money.

When a retail bank makes a loan, instead of holding it in its own portfolio, the bank sells the loan to Freddie Mac, Fannie Mae or Wall Street investment banks. There used to be five major Wall St. investment banks before the crisis: Bear Stearns, Lehman Brothers, Wachovia, Merrill Lynch and Goldman Sachs. They bought these loans and put them together into large pools to "…issue a type of bond known as a mortgage-back security (MBS) whose yield is supported by the pass-through of payments of interest and principal from the underlying pool of mortgage debt."[42]

This might seem like alchemy, but as Karl Beitel explains:

> Only a few years prior these exotic financial products were being touted for their ability to hedge risk and achieve a more efficient allocation of credit. Buoyed by an exuberant sense that the wizards of Wall Street had so thoroughly transformed the nature of risk that the rules of the game had been fundamentally altered, investor demand for these securities exploded, and the

[40] David Schweickart, "After the Bailout Fails."

[41] Peter Gowan, "Crisis in the Heartland."

[42] Peter Gowan, "Crisis in the Heartland."

underwriting and trading of these new forms of engineered debt underwent an extraordinary period of growth.[43]

Managers of money-market funds, pension funds insurance companies, hedge funds and other financial entities buy these mortgage-back securities in the secondary capital markets.

Beitel further explains:

> Banks make profits in the fees they charge for services provided in underwriting this type of debt – e.g. the purchase and aggregation of loans, creation and sale of securities on the secondary market, and the management of the pass-through of the underlying mortgage payments to final purchasers. MBSs -- mortgage backed securities -- are highly liquid instruments traded on deep secondary markets, and are one of the largest financial asset classes by outstanding volume currently bought and sold on U.S. capital markets. These instruments are today the major conduits of funding new mortgage loans, the vast majority of which are issued under the expectation that they will be sold into the secondary mortgage market. . . . Securitization has spanned the creation of a plethora of exotic and increasingly complex financial instruments 'engineered' from the payment streams thrown off by MBSs. The most prevalent of these new classes of engineered financial assets are known as collateralized debt obligations (CDOs) whose rapid growth between 2000 and 2006 lies at the root of the current subprime crisis.

And banks in Europe also bought them. And then huge corporations bought them as a place to stash cash. So we have to conceptualize that investment banks are involved in packaging and selling huge pools of debt. They lean on the retail banks to write more and more mortgages. They buy them, repackage them and sell them on the secondary mortgage markets. They also borrow money to buy securities. We're probably all familiar with margin trading, e.g. borrowing up to twice the value of ones portfolio to buy more securities. But investment banks can borrow (or leverage) up to ten times or twenty-five times the value of their assets. Lehman Brothers had a leverage ratio of 25.

Investment banks also engage in risky arbitrage; arbitrage means buying a security at a lower price in one market and selling it at a higher price in another market. Because the five biggest investment banks on Wall St. hold $4 trillion worth of assets, they can mobilize gigantic sums of money. With these gigantic sums, they can actually generate price differences between markets and exploit them. They can also generate asset-price bubbles, as they did in the 1990s. And this can be done not just in the U.S.,

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[43] Karl Beitel, *Monthly Review*, 5/08, 60:1, 27-44.

but around the world. Thanks to the erasure of capital regulations, capital can move in and out of stock markets in countries around the world creating bubbles and bursting them.

This is how Peter Gowan describes this:

> Time and time again, Wall Street could enter a particular market, generate a price bubble within it, make big speculative profits, then withdraw, bursting the bubble. Such activity was very easy in so-called emerging market economies with small stock or bond markets. The Wall Street banks gained a wealth of experience in blowing such bubbles in the Polish, Czech or Russian stock markets in the 1990s and then bursting them to great profit. The dot.com bubble in the U.S. then showed how the same operation could be carried through here in the U.S. without any significant loss to the Wall Street banks.[44]

What we have to keep in mind are two things: first, some investment bankers made gobs of money by several means including taking financial reserves from central banks from countries around the world. Second, when an asset bubble is burst, the people pumping up the bubble don't lose, you and I lose. And it's not just you and I. Let's take the case of Russia. Between the fall of the Berlin Wall in 1989 and the economic crisis in 1997-8, production in Russia fell by 50%; investment fell even more; and the life expectancy of people *decreased*. People pumping up asset bubbles know that millions of average people are going to get hurt when an asset bubble bursts. *This is the crowning achievement of neoliberal globalization and its removal of banking regulations.*

How did this happen? It's what Peter Gowan calls the Greenspan-Rubin-Paulson strategy.[45] First, in 2001, after the dot.com bubble burst and about $7 trillion was wiped off the NYSE, the Federal Reserve lowered the interest rate by 550 basis points from 6.5% to 1.0%. This didn't help the stock market slide, but it did help banks lend money for mortgages, car loans, student loans, and credit card loans. With the banks pushing mortgages, the investment banks buying them and securitizing them and selling them to huge fund managers, an expansion of the economy financed by debt seemed endless. But that's not all.

The banks and investment banks had yet more help, help from the government. Banks and investment banks have certain ratios of equity to debt that is established by government regulation. The banks of course wanted to increase the ratio so that they could borrow more, leverage their positions and make more money. In 2004 Henry Paulson led a Wall Street

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[44] Peter Gowan, "Crisis in the Heartland," 9.

[45]45Peter Gowan, "Crisis in the Heartland," 10.

campaign to get the SEC to agree to relax the so-called 'net capital rule' that restricted leverage for large investment banks. Henceforth, firms were effectively allowed to decide their own leverage on the basis of their own risk models. Paulson was well rewarded for this; he was named Secretary of the Treasury. Then he rewarded his friends in the investment banks with a $700 billion at a time bailout from the U.S. taxpayers. We have since learned that this bailout was actually higher than the investment banks' market value.

Another part of the New Wall Street System is the expansion of balance sheets, increasing their assets and liabilities. So the more they borrowed and bought, the better. Citigroup's turn to maximum balance-sheet and leverage expansion for trading activities happened after the arrival of Robert Rubin, U.S. Treasury Secretary under Bill Clinton.

Credit default swaps are another financial innovation; a sort of insurance on credit. Derivatives specialists at JP Morgan Chase persuaded AIG to start writing CDSs (credit default swaps) on CDOs (collateralized debt obligations) in 1998. Its subsequent collapse and bailout in 2008 was no doubt linked to the CDSs.

The official, "regulated" investment banks worked in tandem with the shadow banking system – hedge funds and private equity groups. These engaged in trading but without capital regulations nor transparency.

If this all is starting to sound like a plan, it is. Philip Augar, in his detailed study of the Wall Street investment banks, *The Greed Merchants,* argues that the big Wall Street investment banks have actually operated in large part as a conscious cartel.[46]

Again, who loses when bubbles are burst? Alan Greenspan wrote in 2007:

> A recent financial innovation of major importance has been the credit default swap. The CDS, as it is called, is a derivative that transfers the credit risk, usually of a debt instrument, to a third party, at a price. Being able to profit from the loan transaction but transfer credit risk is a boon to banks and other financial intermediaries, which, in order to make an adequate rate of return on equity, have to heavily leverage their balance sheets by accepting deposit obligations and/or incurring debt. Most of the time, such institutions lend money and prosper. But in periods of adversity, they typically run into bad-debt problems, which in the past had forced them to sharply curtail lending. This in turn undermined economic activity more generally. A market vehicle for transferring risk away from these highly leveraged loan originators can be critical for economic stability, especially in a global environment. In response to this need, the CDS was invented and took the market by

[46] Philip Augar, *The Greed Merchants: How the Investment Banks Played the Free Market Game*, Portfolio/Penguin, 2005.

> storm. The Bank for International Settlements tabulated a worldwide notional value of more than $20 trillion equivalent in credit default swaps in mid-2006, up from $6 trillion at the end of 2004. The buffering power of these instruments was vividly demonstrated between 1998 and 2001, when CDSs were used to spread the risk of $1 trillion in loans to rapidly expanding telecommunications networks. Though a large proportion of these ventures defaulted in the tech bust, not a single major lending institution ran into trouble as a consequence. The losses were ultimately borne by highly capitalized institutions – insurers, pension funds, and the like – that had been the major suppliers of the credit default protection. They were well able to absorb the hit. Thus there was no repetition of the cascading defaults of an earlier era. [47]

In case it is thought astonishing that the former head of the U.S. Federal Reserve can casually say that it's OK for pension funds for workers to take the hit but not the banks, well it is astonishing. This fact only highlights the criminal conspiracy between Wall Street bankers and the U.S. government to collude in robbing average workers. So once again, make the old folks pay.

In 2007, two of Bear Stearns' hedge funds collapsed (the rest of the firm collapsed on March 16, 2008). By June of 2007, the New York *Times* reported that Bear Stearns declared that their funds were almost worthless. These funds had held lots of CDOs and other MBSs. At their peak (the older having been founded three years previously), the funds were estimated at $16 billion dollars. By June 2007, they were virtually worthless.

"How did you go from reporting very high returns to suddenly now saying the collateral is worth nothing?" asked Janet Tavakoli, president of Tavakoli Structured Finance, as quoted in the NY *Times* July 18, 2007.[48] These two hedge funds, like so many others, were highly leveraged. That is to say they borrowed money to buy the securities on which they were to make impressive returns. But when the lenders to the hedge funds became concerned and required more collateral, then the hedge funds had to come up with more collateral ie.-more capital. If they sold their own shares to raise capital, that looks bad. So they had to borrow more money to put up as needed collateral. But borrow from whom? When a bad investment is made with borrowed money, the borrower ends of losing twice – the investment and the money borrowed to throw away on the investment.

When we mere mortals borrow money, we can only borrow slightly less than the collateral we own. Banks and investment houses however could borrow up to 25 or 30 times the amount of collateral they have. And they can

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[47] Alan Greenspan, *The Age of Turbulence, Adventure in a New World*, London, Penguin, 2007, 371-2. My emphasis.

[48] www.nytimes.com/2007/07/18/bUSiness/18bond.html?_r=1

borrow it very cheaply from the Federal Reserve. Imagine! My net value is $1,000 and I borrow $25,000 and use it to buy "securities" that then end up being worthless! I'm in trouble.

For those paying attention back in the summer of 2007, this was the canary in the coal mine. By August 2008, a year later, the entire sand castle of CDOs and MBSs built on sub-prime mortgages was in jeopardy of losing value as foreclosures mounted.

Here I digress to describe how this sand castle of CDOs and CDSs built on sub-prime mortgages was made. This description is a paraphrase of several pages from Matt Taibbi's new book *Griftopia: Bubble Machines, Vampire Squids, and the Long Con That is Breaking America*.[49]

First the professional con man is combing poor neighborhoods or middle class ones looking for suckers who can be swindled. When the con man finds his client, he might doctor the paper work and make the homebuyer's credit rating look better than it is. Or he'll just ignore the documentation part of the mortgage loan application. No identification, no address, no job, no income, no savings, no problem. Then he'll sell the sucker not the cheapest mortgage with the lowest interest rate possible, but he'll sell the mortgage that gets him the con man working for a mortgage lender the highest possible fees. Those were of course the sub-prime mortgages with higher interest rates and/or ARMs, adjustable rate mortgages. The homebuyer could get a mortgage for 100% of the purchase price of the house; or sometimes 110% or 120% or even 140%. Then the homebuyer could make only interest payments, or actually only 1% interest payments, adding the unpaid interest onto the mortgage amount. So say I buy a $500,000 house with no money down at 5%. I owe $2,500 per month. But say I just pay 1% interest or $500 per month. Even wait staff at diners and people who do yard work can pay $500 per month.

Then the mortgage lender sells thousands of these sub-prime mortgages to an investment firm like Goldman Sachs. The investment firm securitizes them and pools them, turning mortgages into a CDO. The top level of these CDOs were rated AAA and could be sold to pension funds and other banks. AAA rated bonds were considered almost as safe as cash and fulfilled the reserve requirements for the banks and paid a higher rate of return than traditional AAA rated bonds such as municipal bonds or Treasury bills. The bottom level or toxic waste part of the pool was fairly easy to sell. Hedge funds would buy them for their high yield and plan to sell them off quickly. That leaves the middle section or mezzanine which is BBB rated to sell. This part of the package is the hardest to sell. What to do with the mezzanine level? Take several groups of mezzanine level, BBB rated bonds and re-label them as AAA and put them into what was called a "CDO squared."

Whomever buys these CDOs and CDOs squared full of AAA rated paper

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[49] Matt Taibbi, *Griftopia*, 88-123.

buys a CDS credit default swap to insure them and hedge themselves against default. But since there were no regulations for these derivatives, no bank or other financial institution selling them had to actually have any money in their reserves to pay any claims in case of default. AIG sold billions and billions of credit default swaps.

A credit default swap is really just a bet on whether or not a homeowner is going to default on his/her loan.

"Banker A betting against the homeowner, offers to pay Banker B $1,000 a month for five years on one condition: if the home owner defaults, Banker B will pay Banker A the full value of the home loan." Taibbi describes this transaction as: "…gambling, pure and simple…"[50]

As it turned out, Goldman Sachs and other financial institutions were holding billions of dollars' worth of these AAA-rated mortgage deals. They all bought credit default swaps from AIG. And everyone, from Henry Paulson down to the con man pushing sub prime mortgages in poor neighborhoods knew that these mortgages were lies. The entire scheme involving trillions of dollars was a fraud. But who is going to jail? Anyone? And what did all of this financial innovation and borrowing produce? Nothing – except massive unemployment and trillions in savings that evaporated.

The main events of the financial crisis started unfolding Sept. 12, 2008. On that day Lehman Brothers faced collapse. *The New Yorker* magazine chronicles what happened behind closed doors from Sept. 12 to Sept. 19 in an amazing article entitled "Eight Days," in its Sept. 21, 2009 issue.[51]

Monday Sept. 15, Lehman Brothers filed for bankruptcy and the Dow Jones industrial average dropped by 504 points or 4.4%. Sept. 16, 2008, AIG American Insurance Group got an $85 billion loan from the Bush administration in exchange for 80% equity.

And on the eighth day (after Sept. 12) with a free-falling stock market, on Sept. 20, 2008, Bush and Paulson announced their blackmail plan. Bush and then Secretary of the Treasury, former CEO of Goldman Sachs, Henry Paulson announced the administration's so-called $700 billion "bail-out" of the banks scheme, a three page document which is available on the NY *Times* web site.

This is just a side note on Henry Paulson. Why would the CEO of Goldman Sachs take a government job that paid $183,500 per year when he was making millions at Goldman Sachs? Nomi Prins comments, within the context of discussing Bush's dividend tax cut:

> Paulson, of course, would have been a private-sector advocate of Bush's dividend tax cut in 2003. With it, he saved about $2 million per year in taxes on the Goldman stock he owned at the time. But the best tax coup

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[50] Matt Taibbi, *Griftopia*, 97.

[51] James B. Stewart, "Eight Days: The Battle to Save the American Financial System," *The New Yorker*, Sept. 21, 2009, 59-81.

> came from his new job [as Secretary of the Treasury] and left every other Wall Street executive's sign-on bonus in the dust. There is a little loophole in the tax code that enables government officers to defer capital gains taxes on assets they had to sell based on divestiture requirements for the post, as long as the money received from the sale of those assets was put directly into U.S. Treasury securities or a list of acceptable mutual funds within sixty days. The intent is to prevent the anointed from not taking a public post, for fear of suffering a tax hit.
>
> By leaving Goldman for the Treasury position, Paulson saved himself about $100 million in immediate tax payments, a handsome chunk of change for taking a job that pays only $183,500 per year in salary. All that he needed to bank the money was a 'certificate of divestiture' from the Office of Government Ethics, which he got just before he sold 3.23 million shares of Goldman stock on June 29, 2006, worth nearly half a billion dollars. The sale remains completely tax-free until the day the U.S. securities get resold.[52]

Anyway, Bush and Paulson pulled off an amazing heist. The $700 billion-at-a-time TARP legislation has now amounted to about $24 trillion.[53] Bush's administration began in 2000 with a political *coup d'état* as the Bush election committee stole the 2000 elections. It ended with an economic *coup d'état* – the greatest transfer of wealth from the middle and lower classes -- the U.S. taxpayers -- to the wealthy in all of history. The oil and financial elites in the U.S. have now bankrupted the U.S. government (by the wars in Iraq, Afghanistan, Pakistan and now Libya, and the bail-out) and have stolen most present and future wealth of the middle and lower classes of the U.S. (due to wind-fall profits resulting from market manipulation and foreclosures on mortgages).

The fall in stock values continued throughout September and October, 2008. The $700 billion-at-a-time TARP Troubled Assets Relief Plan was announced on Sat Sept. 20, 2008, and was rejected by the House of Representatives on Fri Sept. 26, 2008. On Monday Sept. 29, 2008, the Dow fell by 778, its largest one-day drop ever. This drop represented 1.2 trillion dollars that just "evaporated."

This is how Michel Chossudovsky, with 20-20 hindsight in 2010, describes this:

> There was something disturbing about the Black Monday, September 29, 2008, collapse of Wall Street, following the decision of the U.S. House of Representatives. Did this paper money 'vanish into thin air' as claimed by financial analysts, or was it 'appropriated' by institutional speculators in one of the

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[52] Nomi Prins, *It Takes a Pillage,* 19.

[53] Prins, Ibid.

largest transfers of money wealth in American history?

There was prior knowledge on how the Congressional vote would proceed. President Bush's speeches had intimated that a collapse would occur. There was also an expectation that the market would crumble if the proposed 700 billion dollar bailout were to be rejected by the U.S. Congress.

Speculators, including major financial institutions, had already positioned themselves. Powerful financial actors with prior knowledge and access to privileged information prior to the House's rejection of the bill made billions in speculative trade on Black Monday when the market crumbled. And then on Tuesday, September 30, they made billions when the market rebounded, with the Dow jumping up by 485 points, a 4.68 percent increase, compensating in part for Monday's decline. Those financial actors who had foreknowledge and/or who had the ability to influence the vote in the U.S. Congress also made billions of dollars.[54]

We've been told that the bailout cost $700 billion and we've also been told that most of this money has been paid back. Isn't that reassuring? Actually, Prins tells us:

By the summer of 2009 the price tag for the federal government's bailout of the banks (including all federal loans, capital injections, and government loan guarantees) stood at approximately $13.3 trillion, roughly divided into $7.5 trillion from the Federal Reserve, $2.5 trillion from the Treasury (not including additional interest payments), $1.5 trillion from the FDIC (Federal Deposit Insurance Corporation) (including a $1.4 trillion Temporary Liquidity Guarantee Program TLGP initiated in October 2008 to help banks continue to provide lending to consumers), a $1.4 trillion joint effort and a $300 billion housing bill.[55]

Once again we'll quote Prins:

Wait? More than $13 trillion in the bailout? If you thought this bailout was only about a $700 billion thing called the TARP, which is what the banks, the Treasury Department and the Federal Reserve want you to believe, you really need this book.[56]

Prins also estimates what the stock market collapse has cost average people:

Wealth Erased Between Sept. 07 & March 09

Between September 2007 and March 2009 (stock market low), $50 trillion in global wealth was erased including $7 trillion in the U.S. stock

[54] Eds. Chossudovsky and Marshall, *The Global Economic Crisis,* 5.
[55] Prins, *Pillage,* 13-14.
[56] Prins, *Pillage,* 5

market and $6 trillion in the housing market.

Additional amount of retirement and household wealth erased

Additionally the total amount of retirement and household wealth erased was $7.5 trillion in pension plans and household portfolios, $2 trillion in lost income in 401(k)s and individual retirement accounts (IRAs), $1.9 trillion in traditional defined-benefit plans, and $3.6 trillion in non-pension assets.

Unemployment

Unemployed people in the U.S. jumped from 7.5 million to 14.7 million between Jan 2008 and June 2009.

So reckless banking practices cost the world $65 trillion in losses, plus $13 trillion in various forms of bailout, a total of $78 trillion – and we still have no clue what losses continue to fester in the industry.[57]

In order for all of this to have happened – and never mind that the banks used their bail-out money to buy smaller banks and concentrate financial power in ever fewer hands, and never mind that the bailout figure is now closer to $24 trillion -- several things had to have happened first.

First, the repeal of Glass-Steagall in 1999;

second, the rise of the lender-trader model;

third, the move to voluntary regulation and bank/investment house self-imposed ratios of reserve collateral; and,

fourth, the new financial instruments.

****First, Repeal Of Glass-Steagall

Glass-Steagall was passed in 1933 to put an end to some of the financial abuses that brought about the stock market crash of 1929 and the Great Depression. Glass-Steagall separated banks that accept depositors' money from large investment houses that buy and sell stock on the stock exchanges. The reason for separating these two categories of financial institutions – in effect separating savings from venture capital – is so that when lower and middle-income people put their money in a bank it would NOT be used as collateral upon which the investment bank can then borrow money and speculate in the stock market. The savings of regular folk won't be risked in speculation.

The repeal of Glass-Steagall made it possible for insurance companies, retail banks and investment banks to merge thus making regular folks' savings and life insurance payments collateral for gamblers (investment bankers) to borrow more money with. Remember Citigroup's merger with

[57] Prins, *Pillage*, 14.

Traveler's Insurance?

Nomi Prins says of the repeal of Glass Steagall: "If it had not been repealed a decade ago, our current banking system meltdown would not have occurred. **Deposits and loans would not have been used as collateral** for an upside-down pyramid of risky securities. The competitive corporate drive to become bigger combined with unconstrained financials plays wouldn't have spawned a tornado of toxic assets and mega-leverage. And bank execs wouldn't have scooped up immense rewards before the economy became a total mess.[58]

****Second: Rise Of The Lender-Trader Model

Over the last quarter century, since the mid 1980s (since Ronald Reagan), the structure and dynamics of Wall Street banking have changed. These changes are nothing short of a take-over of business and government by finance capital. Michel Chossudovsky explains it this way:

> We are dealing with a long-term process of economic and financial restructuring. In its earlier phase, starting in the 1980s during the Reagan-Thatcher era, local and regional level enterprises, family farms and small businesses were displaced and destroyed. In turn, the mergers and acquisitions' boom of the 1990s led to the concurrent consolidation of large corporate entities both in the real economy as well as in banking and financial services.[59]

Investment banks used to have stockbrokers who bought and sold stocks and bonds for their clients. But for the last 20 or so years, brokers in investment banks have been buying and selling financial instruments for the benefit of the investment bank itself. This is called the "Lender-trader" model.

****Third: Voluntary Regulation Of Reserve Collateral

Banks and investment banks hate the government telling them what their ratio of debt to collateral should be; all banks and investment banks used to have certain ratios of equity to debt that was established by government regulation. The banks of course wanted to increase the ratio so that they could borrow more, leverage their positions and make more money. Henry Paulson, before becoming Treasury Secretary, led the Wall St. attack to get the Federal Reserve (itself a private bank owned by large private banks) to allow investment firms to regulate themselves and establish their own risk levels rather than government regulations doing so. Thus the Fed relaxed the so-called 'net capital rule.' The banks can borrow money cheaply from the Federal Reserve as collateral on loans. Then the banks lend out nine times or

[58] Prins, *Pillage*, 141.

[59] Eds. Chossudovsky and Marshall, *The Global Economic Crisis,* 3-4.

25 times the amount of borrowed money. They securitize the loans, package them and sell them in huge quantities on capital markets i.e to pension funds, university endowments and institutions with really deep pockets. These MBSs, CDOs etc. are backed by the income stream from the mortgages. Then they are also insured by big insurers like AIG. And then lender-traders sell bets on whether these securities will go up or down – those are derivatives.

****Fourth: New Financial Instruments
Mortgage backed securities; collateralized debt obligations; credit default swaps; derivatives.

The Second Gilded Age for Some of U.S. . . . and Austerity and a Lower Standard of Living for Most of Us

Fact: in 1929, the top 1% of U.S. households took in 22.5% of income. Fact: by 1975-6, the top 1% took in only 9% of all income. Fact: today, the top 1% again rakes in 22.5% of all income. Fact: this same top 1% controls 95% of wealth in the U.S.[60] This concentration of wealth and power was not an accident. From the mid 1970s, business groups banded together to fund right-wing think tanks, lobbyists and other institutions (Trilateral Commission) who led an ideological assault to promote a pro-capitalist, pro-business, pro-greed ethos in the U.S. Since Ronald Reagan, it has become acceptable to blame the victims of the economic system for their poverty.

During the period of "third world" globalization, from the 80s until 2008, austerity programs were imposed on third world countries so that they could repay their loans. Astonishingly it worked. Apparently "democratically" elected governments implemented "reforms" that would clearly destroy the meager standard of living of the citizens, but these reforms would generate imports and the ability of the country to pay back its loans. Many countries such as Venezuela and Argentina have paid off their loans in full and closed their doors to the IMF. China never implemented any IMF suggestions. Cuba has never done so either though it still suffers under a 50 year old embargo imposed by the U.S. Neoliberal reforms always were about jump-starting and sustaining the process of accumulation of the wealthy elites. It never had any intent to address world poverty regardless of its pretense to do so.

But now the austerity programs are coming home – home to the first world countries.

The Bond Markets Set Governments' Fiscal Policy of Austerity

[60] Jack Rasmus, *The War at Home*.

Rating agencies such as Standard and Poor's and Moody's have a huge amount of power because they can upgrade or downgrade debt -- all kinds of debt from companies' debt to cities' debt to countries' debt. Just the threat of a downgrade can cause politicians and business people to make decisions that are controversial, contested and go against the interests of the citizens and their will. And bond markets themselves can price in risk if a business, or city, or country is considered insolvent or illiquid. In effect bond markets can impose fiscal policies on debtors. What we see happening in Greece now is a struggle over whether or not the government will impose austerity measures – fire public workers, cut public pensions, cut public medical care, sell off ports, water and sewage systems, national heritage sites, etc. Of course the bond markets and European Central Bank could give Greece easy payment terms, but they are rather imposing a draconian austerity program. If Greece gives in, then Italy, Spain, Portugal and other countries are at risk of suffering an imposed austerity program. The British have already implemented one. The U.S. is undergoing an austerity program now. And it will get worse. The Chinese government may someday ask the U.S. to repay the $3 trillion dollars that China has loaned the U.S.

Part IV: Capital's and the Transnational Capitalist Class's Tribute System

A debt led economic expansion that does NOT build increased productive infrastructure but only increases asset prices CANNOT repay its debts. Debt that increases production or improves conditions for increasing production can repay itself. Debt that only serves to pump up prices of already existing assets will not produce any new wealth to pay off the debt. Michael Hudson compares the post WWII reconstruction with post Soviet Union reconstruction.

> The Bretton Woods order after World War II was part of a more workable system for reconstruction lending and capital transfers between war-torn Europe and the United States. Marshall Plan aid, accompanied by capital controls and government investment to encourage economic development and monetary independence, enabled Western Europe's national economies to buy imports from the United States while building up their own export capacity and raising their living standards. The system was not without fault, but the desire to avoid the previous half-century cycle of economic depression and war (and mounting Cold War concerns) led Western Europe's economies to develop and pave the way for subsequent continental integration.

> The post-Cold War period since 1991 reflects similar patterns of underdevelopment in the relationship between rich Western Europe and its poorer East and Southern European counterparts. In contrast to what was done after World War II, sustainable structures were not put in place to make the latter economies self-sustaining. Just the opposite outcome was structured in: foreign currency debt, especially for domestic mortgage loans, without putting in place the means to pay it off.

Again, as Michael Hudson shows, without increasing foreign-exchange earning power, debts cannot be repaid and the collapse of this house of cards is inevitable. Elsewhere Hudson reminds us that debts that cannot be repaid won't be repaid. Furthermore, what he describes here for Eastern and Southern European countries is also true for the U.S. All but the financial elites in the U.S. are being compelled to pay back the debts incurred to bail out the bankers. Losses are socialized, i.e. made payable by society at large; gains are privatized, appropriated by the elites. In the U.S. we are also suffering internal devaluation. Hudson explains:

> The basic problem is whether it is desirable for economies to sacrifice their growth and impose depression – and lower living standards – to benefit creditors. Rarely in history has this been the case – except in a context of intensifying class warfare. So what will Latvians, Greeks, Irish, Spaniards and other Europeans do as their labor is crucified by "internal devaluation" to shift purchasing power to pay foreign creditors?
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> There is an alternative, of course. It is for creditors at the top of the economic pyramid to take a loss. That would restore the intensifying GINI income and wealth coefficients back to their lower levels of a decade or two ago. Failure to do this would lock in a new kind of international financial class extracting tribute much like Europe's Viking invaders did a thousand years ago in seizing its land and imposing tribute in the form of land. Today, they impose financial charges as a post-modern neoserfdom that threatens to return Europe to its pre-modern state.[61]

CONCLUSION

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[61] Michael Hudson and Jeffrey Sommers, "The Spectre Haunting Europe: Debt Defaults, Austerity, and Death of the 'Social Europe'Model, Global Research , Jan. 18, 2011, www.globalresearch.ca/index.php?context=va&aid=22846

This is the system of tribute being paid to the transnational capitalist class primarily in the form of interest on debt. This alone should be enough to get everyone thinking. This combined with the ecological catastrophe that is leading the human race to extinction and the planet to its death should also propel everyone to action. In addition to the creditors' taking a loss, we need to build economies based on local production, local consumption with distribution based on need not money.

goal is to be content with the fiction of general well-being achieved through the "free market," can sit back and wait until capitalism plays out its logical consequences and devolves into an even meaner Malthusian world of dog-eat-dog in which the vast majority of the planet's population is pitted against one another and against the forces of repression built up to keep the rabble in line while the wealthy few – maybe 6% or 7% of the world's population – enjoy consumption. Soon – I don't know if it will be in five or ten or twenty years – we the comfortable few will have to decide if we are content to maintain our precarious grasp on a life of consumption while letting the rest of the world literally die of war, famine, disease, pestilence, or not.

When the protesters protesting austerity measures say: "We won't pay," it would be much more accurate for them to say: "Give the money legally stolen back to the people."

EPILOGUE

The Occupy Wall Street movement which so recently burst upon the world's stage (Sept. 17, 2011) shows that finally people in the U.S. are learning and realizing what "third" world peoples have known for decades. That the banks and bankers are robbing us blind.

But it's worse than that. Since at least 1980, a conscious cabal of high U.S. government officials have colluded to create enemies of the U.S. There is a direct line from Iran-Contra to the CIA's creation of Al-Qaeda in Afghanistan in the 1980s to fight the Soviets to US/Al-Qaeda support of the KLA in Kosovo and the destruction of Yugoslavia to 9/11 to the wars in Iraq, Afghanistan, Pakistan, Yemen, Libya, Mexico, and other areas of the world. Virtually all high-ranking officials of the CIA, State Dept., Defense Dept., Homeland Security, other intelligence agencies, and the Reagan, Bush I, Clinton, Bush II and Obama administrations are guilty of perpetrating a war against the U.S. [62] This is called treason. U.S. milita

The political consequences of the transnational capitalist classs project of world domination lead to wars, death, torture for many and feudal neo-

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[62] Michel Chossudovsky, *America's "War on Terrorism,"* Global Research, 2005 and Second Edition.

selfdom or debt peonage for the lucky ones in the so-called first world. finally the fight-back has begun in earnest. There can be no fundamental change in the peripheries until there is fundamental change in the heart of the imperium, in the U.S. This period of transition could take twenty to fifty years. And there will be horrific slaughter of the victims of the system and those who are fighting back. If we can avoid a nuclear war in the Middle East and Central Asia,[63] we have a chance – a small chance – of building a better world.

15,20 words

[63] Michel Chossudovsky, *America's "War on Terrorism"* "...the nuclear bomb is categorized by the Pentagon as 'safe for civilians' . . . In 2005, U.S. Strategic Command drew up 'a contingency plan' . . . that includes air raids on Iran using both conventional as well as tactical nuclear weapons."