

The financial crisis

Part IV

The triumph – and costs – of greed (Part I)*

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Problems of cause and consequence

The events of summer and fall 2008 have shown with stark clarity that the modes of accumulation pursued across the banking industries—not only, but particularly those of the US and UK—were so deeply flawed, so toxic in their consequences, that they call into question the fundamentals of the economics on which they were based. Yet to date there is precious little evidence of any fundamental rethinking, either in the industry or by the economics profession,—much of which still seems in denial about the character and gravity of the present crisis. With few exceptions, the argument from all sides—and from most in politics too—is for a return to business as usual as quickly as possible.

It is not difficult to see why this should be so. Crises of this scale, in opening severe uncertainty, call forth two contradictory impulses. The first is towards action. What was unthinkable may suddenly become, in heat of the moment, the applauded, bold and essential action of government. Such was, briefly, the response last September to the threat of a complete collapse of the banking system.¹ But hard on the heels of the impulse to act comes reaction, the adamant re-assertion that everything must, in the end—and preferably as quickly as possible—be just as it was before.

This was the surely the sentiment that lay behind the open letter sent to Congress by 166 economists in late September. Labeling the crisis as merely a ‘short-run’ disruption, the impulse to preserve what-is *at all costs* was captured in its central premise, that “for all their recent troubles, America's dynamic and innovative private capital markets have brought the nation un-paralleled prosperity. Fundamentally weakening those markets in order to calm short-run disruptions is desperately short-sighted.”² What was sharply evident in this letter, as well as in the series of statements by a number of economists across the fall that followed this line, was that denial of the depth of the crisis was not based on an analysis of what was occurring but was rather introduced a priori as defense against change—on the obvious grounds that if you can deny that there is anything rotten in the state of Denmark then you obviate the need for action.

This desire for the earliest possible return to the status quo has significant implications for policy. Take how we are dealing (or failing adequately to deal) with the bank “bail-outs”.

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Lack of acceptance of the true state of the financial sector,³ which is one side of the premature desire for restoration of what-was, goes along with its other—i.e. the policy failure to develop the necessary strategies to re-structure their operations (e.g., to address counter-productive incentive structures,⁴ and more fundamentally to *compel* banks to withdraw from speculative trading in areas where they cannot assess risk)⁵ is creating the conditions for a perpetuation of unacknowledged insolvency which has grave dangers for the revival of the economy as a whole. In this case the desire for continuity is overwhelming the necessity for structural action.⁶ Are we then surprised that the policy of pumping money into the banks is taking on the character of pouring resources into a bottomless pit?⁷

The desire for the axiomatic restoration of what-is bears also on explanation. It is already clear that the kind of stories that we are beginning to tell ourselves concerning the causes and nature of the crisis are in fact centrally concerned to account for what occurred in ways that make possible a smooth return to the status quo. Even among liberal economists the preferred mode is to locate “cause” in the operations of the market, i.e. to have the faults be operational rather than fundamental.⁸ On one level this is not surprising. If cause can be identified in an operational failure it can be rectified. Since it is essential that, whatever else happens, such failures *are* rectified there is a point to this. No surprise then that there is an impulse to seek cause in what can be quickly (and relatively painlessly) transformed. It was telling in this respect that Jeff Madrick concluded a recent analysis of the crisis by noting: ‘Financial market participants created a financial bubble of tragic proportions in pursuit of personal gain. But the deeper cause was a determination among people with political and economic power to minimize the use of government to oversee the financial markets and to guard against natural excess.’⁹

Madrick is surely correct in his observation as to the importance of abdication of responsibility for oversight of these markets. The absence of regulation (and more the deliberate creation of that absence) is a significant aspect of the irresponsibility that ran through the operations of the financial markets, though it is by no means the only factor. But is it causal? Lax or non-existent regulation *enables* a market to operate in ways that are structurally irresponsible, but can it *alone* be causal with respect of the depth of the crisis we are now facing?

This is not an idle question, and on several grounds. Without adequacy in explanation—that is without facing up to the factors producing the crisis—policy will likely remain a band-aid at best. At worst it will not only contribute little to solving the crisis, it may even ensure inadvertent translation of the situation into a longer-term social and political as well as economic disaster.¹⁰ The problem of the reparative instinct in this respect—both in policy and in intellectual terms—is that it cuts off questioning too soon and does not get to the generative heart of the matter. The analytical issue here is to distinguish levels and types of cause. A simple example: the absence of sufficient lifeboats and the absence of a common-practice of 24hr-manned radio facilities in ships crossing the Atlantic in 1912 were both major *contributing* factors to the death-toll in the sinking of the Titanic. But they were not *causal* in respect of the initial impact with the iceberg, nor do they bear on the insufficiently understood vulnerability of the Titanic to certain types of flooding of its hull. In other words, all these moments were causal in respect of the scale of disaster, but not in the same way. Of course the line between what we might call contributing or enabling causes (‘conditions of existence’

for the crisis) and what we might call direct or generative causes (active cause) is a fine one and never in practice easily differentiated.

Nonetheless with respect to this crisis we can talk of enabling and generative causes. The first are those conditions which must to be in place for the markets to operate in the way they did. Lack of regulation is one of them; permission to leverage deposits in relation to loans is another; liquidity and the easy availability of capital is obviously essential, as is (in my view of central importance) the political tolerance and even encouragement of unprecedented levels of debt in, both in total (for the US 350% of GDP, or c\$42bn, equal to not far short of 85% of pre-crisis world GDP) and particularly in household debt (100% GDP) and—even more telling—financial sector debt (c.117% GDP in 2007 up from c.20% of GDP in 1980) is yet another.¹¹

The second group, 'generative causes,' can be described less as conditions and more as forces. But this is where we run into a problem, for as one looks at the explanations given for the collapse one senses not only the desire to latch onto a "fault," or an identifiable single cause ("Greenspan!"; "Regulations!") but avoidance, a marked reluctance to consider the *active* causes of the crisis. It is telling in this respect that as successive ways of naming the crisis and of offering explanations have been given—it was a housing crisis; it was a crisis caused by defaulting sub-prime mortgage owners; a crisis of the sub-prime mortgage sector; a crisis of operational failures in the shadow-banking and mortgage industries; a crisis induced by lax or non-existent regulation in the financial sector, a crisis of market hubris, even a crisis of inept government¹²—realization has come that the crisis-inducing potential of the named factor could not possibly match the depth of what has transpired. No housing crisis induces a credit-crunch; defaulting mortgagees could not possibly bring down a banking sector; a market collapse equal to 1/6th of US GDP does not itself create a global recession.

This touches on a general rule: attributed cause has to have the capacity—singly or in conjunction—to induce consequence. In the case of this crisis we know that the primary *trigger* was the successive and eventually almost complete failure of the shadow-banking mortgage brokers and debt-encumbered banks beginning from December 2006. The underlying *enabling conditions* have to do with the circumstances and mores that let those markets come into being, and which allowed the banks to operate in the distinctive ways that eventually induced disaster. These are the circumstances we can identify with some ease. The trick is giving them the correct weight and placing them in the pattern of conditions and circumstances that underlay the collapse.

But these circumstances and conditions are scarcely dynamic. They are taken up, they become significant in their *use by* forces. We move towards the *active causes* then when we begin to think about the axioms and forces that drove the market. For example, the erroneous belief that a market driven wholly by and working as a force for short-term accumulation can (and should) be self-regulating and will naturally reproduce that ideal of competitive equilibrium. As a motivation and a legitimation for action this is not insignificant in the crisis.

But even belief pulls back before force. If we want to know the active force in the markets, and thus the forces behind the collapse—the forces therefore with which we have to contend in long-term policy terms— we have to look at what drove these markets. What drove them was unleashed financial accumulation based on the effective privatization and private organization of the banking sector and the credit- and debt-systems.¹³ Such accumulation

cannot but be blind to consequence and cost, and it cannot be other than systemically unstable.¹⁴ This means that *irresponsibility is a determining and structural characteristic of the modes of accumulation we have now sanctioned.*

It is not easy to deal with this. It means giving *systemic* weight to Madrick's first point, that 'Financial market participants created a financial bubble of tragic proportions in pursuit of personal gain.' The difficulty of doing this, of translating subjective drive into objective structures and mechanisms of accumulation and collapse is not easy. The question of 'personal gain' sits uncomfortably in modern economic discourse. That it does so is surely not unconnected with the difficulty of accepting over the last decades that the processes of financial wealth-creation have been transposed to become primarily structures of wealth-diversion, dispossession and extraction. It is the implications of this that are now in question.

This paper tries to address this question of active cause. It looks at the structure of accumulation that developed on Wall St and in the City and it analyses the problems of the operative logic of this 'temporary growth regime' and its costs and consequences—cognitive one might add, and moral, as well as economic. In particular it tries to look at this (disastrous) mode of accumulation not in terms of universal 'laws' but in terms of forces, of the dynamics of accumulation, coming out of and responding to particular economic and political conditions and resulting in a 'growth regime' that is un-precedented in certain of its features and by no means understood, even by its principal actors (and let alone by economists).

The paper begins this analysis from the issue of continuity, from the question of whether continuity in the operation of markets is what we want, need or *can afford*. The motif through which this is approached is the question of crime. This issue of what we can afford gives the paper its second thrust, which is to ask about the true costs of doing business. I am taking it that this question—raised acutely by this crisis but by no means confined to it—is perhaps *the* economic question for our time. It moves center stage in its wide form in terms of the *absolute* requirement for us to pursue this question in view of the rank un-sustainability, in "ecological" terms, of our current modes of our economic activity.¹⁵ In terms of this crisis the question takes on a less overarching but scarcely less significant role. To ask whether the costs of 'doing business' in terms of privatized financial accumulation as we have done it over the last decade or so—and the moral and social costs as well as the financial costs—are more than we should be asked to bear is to open up the question of the *value* that we obtain from the economy. To ask about *cost* in relation to *cause* is to try to establish a broader understanding of how (and who) an economy benefits.

The argument proceeds in five steps. Beginning with the question of crime in the contemporary economy, i.e., of what is done in order to secure wealth—crime here taken in a wide extractive sense (sections I-IV), the paper looks at the nature of the modes of (extractive) financial accumulation created from the 1980s onwards and specifically at the modes and models of accumulation dominant in the current crisis (sections IV-VII). The third section then examines accumulation as a force and what I have called the "structures of irresponsibility" characteristic of the modes of accumulation that were dominant in the run up to the crisis. It looks particularly at debt, regulation, risk, responsibility for consequence and privatization and finishes with the question of greed (Sections VIII-X). Finally, the fourth aspect of the paper looks at the costs of greed, cognitive as well as economic, and considers how we might begin to think of the economy outside of the current *a priori* definition of the economy as, in effect,

only a vehicle for private accumulation (Sections X-XV). Because of the complexity of the argument, I have divided the paper in two. Part I, that takes in sections I-IV, essentially acts as a long introduction to the main argument, which focuses, as is noted above on the structures of irresponsibility internal to this mode of accumulation and on the multifarious—and unacceptable—costs it imposes.

The question of a charity

Consider, as a starting point to the double question of the causes of the crisis and its costs, this story. It concerns the collapse and subsequent nationalization, of Northern Rock, a British bank and mortgage lender and one of the UK leaders in the sub-prime market. First uncovered by the financial analyst Richard Murphy¹⁶ the point of the tale lies in what the British government found as it opened the books. Here is Iain Macwhirter's summary from the UK *New Statesman* of 20th October 2008: "The Treasury minister Yvette Cooper discovered to her dismay that Northern Rock didn't own half its own mortgages: £50bn (\$75bn)¹⁷ had been hived off to a Jersey-based company, Granite,¹⁸ registered as a charity benefiting Down's syndrome children in the north-east of England."¹⁹

The smile of incredulity that half-forms at the sheer audacity of the act—how could they conceive of doing that?—fades as the implications of this appropriation (an act of identity theft at the very least) sink in.²⁰ Even Brecht, one thinks, might have hesitated to ascribe such a tactic—though *The Threepenny Opera* provides perhaps the only suitable fictional parallel that come close to what is afoot here.²¹

Sanctioned at the highest levels in the company, and underwritten by some of the major US and UK banks,²² Granite was not essentially different—save in its theft of DSNE — from many other (highly profitable) "structured" synthetic investment vehicles and valuation models developed, in the last decade or so, across the banking sector.²³ Located off-shore, in a schema of ownership that made it extremely difficult to discern by whom it was controlled, it was, in effect, all but impervious to taxation and, equally importantly, given what it held, detailed scrutiny.²⁴

Even by the standards of the City, Northern Rock's appropriation of Down's Syndrome North East should have been an acute embarrassment to a financial industry that only three months before had been lauded, in an annual ritual, by the British Prime Minister—who congratulated them on 'remarkable achievements' that 'history will record as the beginning of a new golden age.'²⁵ Yet the story is more than an embarrassment. It is pathetic of course—there is no great financial acumen in hiding liabilities or in setting up what is essentially a fake charity; *The Producers* were more inventive, the stock-exchange games of the 1920s more complex—but it is revealing.²⁶ Whether technically illegal or not, most of us would say that what happened at Northern Rock was, at minimum, a serious moral crime. Instinctively (and surely correctly) we feel there is something fundamentally unforgivable in using a charity for Down's syndrome children as a tax-evasive parking lot for (ultimately distressed) mortgages just as there is something deeply shameful about making the "new economics" dependent on such gambits..²⁷

But it is not only a moral problem—even though in the end this is a more significant dimension of the issue than we might think. Part of our reaction to this story is that if *this*, then there is no boundary, no limit; no place where it is possible to say, *here* legitimate business ends, *there* criminality begins.²⁸ Instead, we are faced with the opposite, a steady slide towards criminality becoming an internalized norm of business. But this is exactly what is revealed here.²⁹ Like Madoff, Enron—and today Stanford—and many others before it, a litany that is getting much too long for comfort, Northern Rock's act is in danger of blurring the line between business and crime.³⁰

This is a line which is crossed with increasing frequency in the "new" economy: criminality, and near-criminality, runs throughout the financial system. Corporate scandals of the past few years have involved many, if not most, of the world's major global accounting firms as well as a goodly spread of major corporations and financial institutions.³¹ Caribbean, British and European tax havens run on tax evasion and criminal money-laundering, a fact that the governments concerned no longer bother to deny. (Obama pointed out in his campaign that a single office building in Cayman Islands was the headquarters of 18,000 US companies—that's either, he said, 'the biggest building or the biggest tax scam on record. And I think we know which one it is').³² In Europe, crime now constitutes one of the largest single sectors of business. The Mafia alone controls, through "legitimate" companies, something of the order of 20 per cent of Italian business or 15% of GNP worth (in 2000) around \$800bn with a (then) annual turnover of \$133bn.³³

All of this—and more—is well known. Yet we tend to pretend—along with government—that the institutionalization of crime within the "mainstream" economy is not a matter of concern; that it doesn't come with acute political, social, moral and—in the end economic—costs. This is an unsupportable supposition. To put it bluntly, it is nonsense. Not only is there a danger of a moral vacuity (into which genuine criminality steps with ease—one thinks of the trade in body organs run so profitably by the Italian mafia—hence their investments in medical care facilities)³⁴ but crime costs—socially and politically and (in the not so long-run) economically. The global cost of corporate crime coupled with tax evasion and avoidance is estimated, conservatively, at around \$400-500bn a year.³⁵ When more than 40 per cent of the value of African bank accounts is in Swiss banks, we know that looting and corruption—the 'politics of spoil', as Oswald Spengler named it nearly 80 years ago³⁶—has taken place on a huge scale.³⁷ The (failed) reconstruction of Iraq, which has remarkably little new infrastructure or working institutions to show for investments that have topped \$100bn, will be noted, when its history is finally recorded, as perhaps the largest site of embezzlement in history.³⁸

One could go on. The list simply reminds that crime is indeed a redistribution of wealth, but there is nothing of Robin Hood about it. It is the most regressive form of "taxation" and the one most debilitating, in all its consequences, to social well-being.³⁹ (For the wider social—and economic—costs of crime, it should suffice to look, for example, at southern Italy, where criminality at this level has been in operation for generations and little or nothing escapes its take.).⁴⁰

Crime in the new economy

We tend to turn our back on these issues; to romanticize crime as part of entertainment, while denying the wider cost of the slippage of the boundary between “legitimate” and criminal business. One result is that we scarcely understand the full consequences of what happens when crime and business begin to slide together at this scale. This is a particular problem for us in that it is increasingly difficult, if not impossible, to disengage crime from the mainstream economy.

Take the issue of corporate tax evasion. Why, we might ask, when states are losing colossal revenues to evasion and avoidance⁴¹ is there an effective refusal by those governments who have at least nominal oversight over the centers of money-laundering and tax evasion (the US, the UK, Switzerland, Luxembourg, Lichtenstein) to do anything meaningful to regulate the movement of capital? Why have neither the World Bank nor the IMF tried to investigate or quantify capital flight and tax evasion?⁴² One answer is that although we tend to assume that tax evasion occurs at it were after or post- legitimate business activity, in fact something of the order of half of all world trade is conducted, for accounting purposes, through tax havens. In other words, tax-havens are not merely for evading the social costs of doing business they are weapon of competitiveness. John Christensen of the London-based Tax Justice Network explains:

The ability of multinational businesses to structure their trade and investment flows through tax-haven subsidiaries provides them with a massive financial advantage over nationally based competitors. Local firms, regardless of whether they are technically more efficient or more innovative, find themselves competing on an uneven basis. In practice this market distortion favors the large business over the small, the international business over the national, and the long-established business over the start-up. The outcome has been that both in theory and in practice the use of tax havens by virtually every major global bank and multinational business has nullified David Ricardo’s doctrine of comparative advantage. Fundamentalist advocates of a no-holds-barred approach to free trade have persistently turned a blind eye to this problem. For those like Baker – and myself – who believe that free and fair trade can generate viable economic growth and spread its benefits across society, the blatant unwillingness of key players like the IMF, the World Bank and the UK government to tackle these global market failures says a lot about their real intentions.⁴³

Christensen is surely correct on this point. But one wonders too if this increased acceptance of the fluid or porous border between mainstream economy and crime—and this is a global phenomena, visible in every major geographic center of accumulation—is only an accidental by-product of the process? There seem to be two aspects at work here. Once you not only allow but *insist* as the IMF began to from the 1980s onwards, that ‘the world’ be opened up to the operation of ‘free-markets financial services’ (meaning also the free flow of capital) there is no effective way of policing what occurs. You thus by necessity create an economy that is remarkably hospitable to organized criminality⁴⁴

At the same time, by setting in place a mentality in which it becomes *de rigueur* that any and all opportunities for accumulation should be seized, almost no matter what the

implications, you create an ethos in which, in effect, in terms of financial accumulation, there are few or no limits. What all this means is that while criminality in the operations of markets is not officially sanctioned, in practice much is permitted. After all, the nature of dis-possessive, diversionary and extractive accumulation operating at very high levels of short-term profits lends itself to operations disinclined to restraint and responsibility.⁴⁵

All this suggests—and this is surely accurate—that the structures of (particularly) short-term privatized financial accumulation are permeable with respect to quasi-criminality. To put it in a more picturesque manner, the piratical seizing of opportunity for profit is not as dissimilar as some in business would like to pretend.⁴⁶ Of course capitalism has never been overly concerned about its source of profits. Results (i.e. returns) have always trumped scruples. The problem however, although we tend to forget this, is that crime is not only socially regressive, it is economically incompetent. There is nothing surprising about this. Crime is by definition *nothing but* theft. It does not *make*, it *takes*; it is not wealth-creative, but wealth-destructive—or at best wealth-diversionary. It leaches monies out of economies that it in no way constructively contributes and it destroys the structures of trust that are the conditions for real economic life.⁴⁷ It is, to put it simply, extractive; a using-up of what is;⁴⁸ the diversion, or dispossession, of wealth earned elsewhere; in effect, it is a tax (and often a very large one) on the body politic. It is cost.⁴⁹

But crime is not only economically incompetent as theft. The vanity and narcissism that fuel it—both qualities, note, massively evident in the banks and institutions that have collapsed⁵⁰—is the same as that which demands realization *in the moment*. The question of time is fundamental here. The conditions for the generation of genuine wealth, i.e., increase in long-term sustainable productive *capacity*, are antithetical to modes of accumulation, like crime, that eschew time, that live for the moment and which are essentially extractive in their attitude to wealth creation. It is worth recalling that it was for just these reasons that Keynes was particularly impatient of arguments in favor of short-term financial accumulation. Duncan Foley offers a useful summary:

“In Keynes’ view the widespread use of money and the development of sophisticated financial markets and assets are in part a defensive reaction against the ‘dark forces of time and uncertainty’” on the part of wealth holders. Real investment requires commitment of the investor to the long-term, illiquid and risky prospect. Financial assets, on the other hand, represent more liquid wealth than can be sold at any moment, and allow the wealth holder to defer the decision as to the ultimate use of the funds involved. But Keynes believes that this is exactly why money and financial assets are potentially dangerous. In times of uncertainty,^[51] wealth-holders will tend to flee from real investment into financial havens and money, thus lengthening the time lag between the sale and purchase of real goods and services, and creating a gap between aggregate supply and aggregate demand.⁵² While laissez-faire reasoning argues for making available as wide a spectrum of financial assets as possible, and reducing costs of transaction as much as possible, in order to increase the liquidity of the economy, Keynes sees a case for restricting investors choices, and forcing them to commit themselves to some real investment. He goes so far as to suggest that investment of wealth should be something like a marriage: an investor should be forced to choose

whichever real investment he or she thought had the best long-term prospects, and stick with it for the life of the project.⁵³

The remarkable contrast between what Keynes advocates and the ethos on Wall St or in the City of London over the last decade could hardly be exceeded—no wonder the discomfort that the “re-discovery” of the Keynes causes in some quarters.⁵⁴

But there is clearly another level at which the denial of time and capacity works and that has to do with the economics of institutions and modes of regulation and the ways in which the extractive is erosive of institutions. While it maintains its own (at least in myth—this is part of the illusory romance of the Mafia) crime, and more generally the extractive, is profoundly destructive of the institutions that it makes use of (as is, as we are seeing in the crisis, debt-fueled and leverage-induced financial accumulation which in this respect behaves with the same consequence.

One way to look at the financial crisis that we are now in is to see the system of privatized accumulation on Wall St and in the City as un-intentionally erosive of its own institutional base. All productive economies are dependent upon particular and complementary patterns of formal and substantive institutions and modes of regulation. Financial operations are particularly dependent on structures of trust embodied in institutions. Accumulation, in the modes we have seen it work on Wall St and the City is no exception, it was equally dependent on such trust. The proof of this dependency is given in the timing of the most serious moment of the collapse which occurred not when the markets began to fail but only when one of the institutions that marked that trust was (mistakenly as it turned out) allowed to fail. Mohamed El-Erian comments: “The manner in which Lehman Brothers failed disrupted the trust that underpins the smooth functioning of market economies. What was less well understood [in allowing it to fail] was that it matters a great deal how an institution’s failure affects the capital structure. The way Lehman failed disrupted payments and settlements. Around the world, *market participants stepped back in mass from what, up to then, were standardized, routine, predictable transactions.*”⁵⁵

It was not, note, simply that Lehman’s possessed symbolic value—though clearly, too a degree, it did, hence the shock of its collapse. But it is more accurate to say that it represented what even accumulation in its most rampant form required, and that was the ability, at the simplest, to have transactions occur under a routine of trust and regulation. The problem, of course, is that this same mode of accumulation, which for even the possibility of the transactions on which it depended for its revenue required trust (and which also was dependent, wholly, on institutional identity to give its products a price —*there was after all in the end nothing else on which to base price*)⁵⁶ could not but also work to erode regulation (this was Madrick’s point of course) and therefore could not but also erode the institutions and the basis of trust on which transactions could happen.

Put this another way and we can say that the move from what Peter Gowan calls the public-utility side of banking and financial services into a ‘private capitalist credit system(s)’⁵⁷ focused on accumulation-through-speculation underwritten by individual incentives—was bound to give operational emphasis not to stewardship but to short-term maximization of returns, not matter what the institutional context. Bonuses at the operational level, profits at the supervisory (board) level provided sufficient lure for this emphasis. Not that in practice it

mattered, but this was in any case supported “theoretically” by the premise of the maximization of notional-net-worth-at-market-prices—no matter how illusory or, to put it a little more charitably “uncertain” these prices and profits might be (whether as prices paid for “assets” (loans), the ‘profits’ booked or the assessed market value of the institution).

This would not be the only moment in economics when the pursuit of short-term *notional* net worth proved catastrophic.⁵⁸ From the perspective of pure market theory even concern for something as *apparently* indirectly related to value as institutional worth (i.e., in the financial sector, trust in the institution on which all else depends) can be read as ‘interference’ with the realization of value, a hindrance to the ‘spontaneity’ of the market. The problem is that in the case of the sub-prime mortgage and other speculative “markets” the pursuit of short-term returns come what may, i.e., without reflection on costs or consequences, simultaneously hollows out the asset-base of the institution. Just as the Mafia extracts until the source is emptied, in Wall St and the City the lode—let us say, sub-prime mortgages and their related “asset-backed” securities—is mined for value (through leveraging and debt) irrespective of consequences for the institution *through which the wealth-creation depended*.⁵⁹ Hollowing out the asset base of the institution cannot but lead however to a hollowing out of trust.⁶⁰ But when trust goes, then the institution goes. One scarcely needs to add that once the requisite collective level of trust in the market is breached then the contagion—i.e., the seizing up of credit transactions—spreads with the speed of a bush-fire.

A new mode of accumulation?

Two conclusions can now be borne forward from these last sections. The first is obvious: it is that criminality, in the wide sense, is far more present (i.e., is far more structurally internalized) in the accumulative economy than, in general, we would like to concede. We said above that ‘the structures of (particularly) short-term privatized financial accumulation are permeable with respect to quasi-criminality’ (and more dramatically that ‘the piratical seizing of opportunity for profit is not as dissimilar as some in business would like to pretend). But although this is not inaccurate, the last observations around the erosion of trust suggest that this way of seeing at once over-dramatizes, *but underplays*, the real consequences here. For while criminality is more present (i.e. is more structurally internalized) in the accumulative economy than, in general, we would like to concede, much of the reluctance to admit the relation comes from the fact that it is not simply a matter of criminal modes of extraction co-existing *within* the economy (which they do, and to massive extent); it is rather that the extractive model of wealth “creation” permeates the accumulative economy. In other words, to admit the real relation with criminality is also to have to concede that many of our current modes of so-called “wealth creation” are in truth less creative than extractive. The real problem therefore is not only criminality per se, but our effective shift into a mainstream economy dominated by models of wealth extraction and not wealth-creation and characterized by the pursuit of modes of accumulation focused on dispossession, diversion and extraction.⁶¹

Evidence for this is all around us in the debris of the crisis. It is now perfectly clear, for example, that for all their apparent sophistication, a significant percentage of what was sold in the sub-prime markets was considerably closer to the pyramid-selling or Ponzi rackets of door-to-door salesman than the industry would like to admit. In a telling instance that can stand for a raft of similar practices, the *New York Times* reported (January 20, 2009) on the attempt by one

small Connecticut-based US bank to sue Deutsche Bank. At issue was the latter's sale to it of \$80m worth of Gemstone VII, a Cayman Islands based offshore "collateralized debt obligation," which contained such toxic and unreliable asset backed securities *that at the same time Deutsche Bank were selling it to the Connecticut bank they were 'encouraging others to bet against' it.*⁶²

The issue here, again, is less the specific instance (which doubtless could be reproduced *ad nauseum*—the whole process after all lends itself to these maneuvers) than it is the extractive slide between the accumulative and the criminal; the creation of structures of accumulation (and lack of regulation) which allow—and to a degree encourage—practices that are sometimes criminal in the individual case, often borderline criminal, but widely accepted, and in all cases markedly deeply erosive of both institutions and markets.⁶³ It is this slippage—this slide into what we can call "structurally irresponsible accumulation"—that is so consequential for the debacle and hence for the collapse of the banking sector as a whole.

The second point that arises from the Deutsche Bank story is that such practices, or those close to them, will necessarily occur *whenever returns are demanded from models of "wealth-creation" that cannot supply the level of return demanded.* Packing and bundling sub-prime mortgages could never create the *additional* billions of value attributed to these "innovations" by the industry.⁶⁴ That they appeared for a time to do so derived from a cocktail of financial euphoria, debt-fuelled liquidity, crony capitalism and the pressure of huge incentives (i.e., individual and collective profit) to make-believe that this was possible.⁶⁵

But this tells us, as we now know, that the extractable-value⁶⁶ supposedly won from these transactions—let us say some \$400 billion on Wall St at the height of the bubble⁶⁷—has proved largely illusory.⁶⁸ This should not surprise. The much vaunted "creativity" and innovation in the financial markets⁶⁹ post 2000- lay not in the production of wealth (for no increase in real wealth-producing *capacity* was in fact produced) but in the ability to generate *flows* of capital from which revenue could be extracted.

This suggests, as on reflection we might expect, that in the absence of real wealth-creation accumulation finds a *substitute*. For the banks and financial houses of Wall St. and the City what mattered was not the creation of wealth (a process infinitely too long-term to contemplate, even as their own project matured over a considerable period of time—for one should really see this crisis as 25 years in the making)⁷⁰ but the extraction of realizable value from capital that could be made to flow through the institution. This explains the 'relentless' drive for expanded balance sheets 'at all costs'—and for expansion on *both* sides of the balance sheet, assets and liabilities alike.⁷¹ Value is here a cull. Innovation is creating the conditions under which, and from which, immediate⁷² surplus can be won from flows of capital.

All of this suggests that we are dealing with a *distinct mode of accumulation*, a new 'growth regime' as Aglietta might call it⁷³ (though he of course uses it to refer to the economies he sees emerging in China/India—the economies that will now dominate the C21st—and we are by contrast talking here merely about some rather sordid trading in markets that probably should not have existed but which unfortunately have had the capacity, in their unfolding, to do untold damage).

Nonetheless his point, and especially his rider— ‘*whose rules we have yet to find out*’— is perhaps a useful pointer, and in two ways. First, it is clear that across the boom years a relatively new pattern of accumulation did in fact emerge. Desired behavior (increased short-term returns with the most rapid possible rate of return between (deferred) debt and bookable profit shifted the correlation of factors, and, second, did so in ways that were not immediately transparent, either to players or to (most) watching economists and politicians. In other words what occurred was nowhere near as “known” as was thought; the rules that players thought they were playing with, and certainly the ones that economists thought were being played to, turn out to be largely illusory. Another pattern was at work. As Paul Krugman recently put it, echoing Keynes, in this situation the “scarcity is understanding.”⁷⁴

Take for example the issue of the rate of return desired in relation to the basic proposition that revenue can be won by essentially offering (originating) products that allow institutions to skim a percentile take from flows of capital. Post-2000 the ‘natural’ flows of capital, through trade, pension funds and the like, although massive by historic standards and intensified by a large order through globalization, are still inadequate to what is required to meet what is now felt as both possible *and* necessary, i.e., considerably higher ratio’s of return than those previously available or expected. To make possible these levels of returns additional flows of capital are required. The agency of this additional flow is debt.⁷⁵ Debt enables vast increases in the flows of capital through the institution. In so doing it *directly* secures accumulation.⁷⁶ But it brings in train two questions at some point which take us back to the underlying issue of whether, in all of this, wealth was ever created at all? The first question is whether the immediate profits won in such a situation are “created”—or merely *purchased*.⁷⁷ The second is whether the surplus extracted from the throughput is greater than the *real* costs of borrowing—and whether the cycle of short-term borrowing to finance long-term liabilities could be sustainable.⁷⁸

Post-crisis, we know the answer to both questions. Profits were essentially “bought”— at the price of debt and a tranche of liabilities that are not at this point resolved as to their value. The cycle was clearly unsustainable—but *only*, we should note, when it became finally clear that the value of what was traded was wholly opaque, even to the creators of the structured investment vehicles themselves. The questions that we now have to ask are two-fold: what are the structures that underlay this mode of accumulation, and why do they take on the form of what I’ve called structural irresponsibility—an objective irresponsibility if you like, which condemns this mode of accumulation to collapse? And second, what are the costs and consequences of unbridled (financial accumulation)? What does this do to the economy? What does it do to society? And what are its cognitive consequences? What does accumulation obscure? In a certain, but deep, sense, how does accumulation in this form make us stupid, economically speaking? How does it become the opposite of what we fondly wish to think it is?

Notes

¹ Such was also the case in Sweden in the early 1990s when a similar, though more limited, collapse of the banking sector had the government step-in and boldly (if temporarily) nationalize the banks. In the Swedish case this allowed a rapid recovery--and the taxpayers to recover their investment.

² In the same vein a month later 16 UK economists also felt confident enough to deny that this was a crisis at all: "Occasional Economic slowdowns are natural and necessary features of a market economy" they wrote. (*Sunday Telegraph*, 26th October 2008). There is little to be alarmed about—and no need at all for any change in policy. "Insofar as [slowdowns] are to be managed at all, the best tool is monetary." Any 'additional state spending' would only "stunt the private sector's recovery once recession is past." In reality the signatories fears of disruption coming to the markets through government action seem as overblown as was their obtuseness towards what was startling evident to everyone else.

³ As is well known, current estimates are that the loan and securities losses for US originated assets will total anywhere between \$2 trillion and \$3.6 trillion—of which the US banking sector is exposed to around half. At the high end of the estimates this is roughly equal to the current market capitalization of the sector. Since capital has evaporated, and the asset base of many still cannot be reliably priced or brought to market, 'restoration' seems to be a strategy in denial.

⁴ Succinctly and sharply analyzed by Nassim Nicholas Taleb in "How bank bonuses let us all down," *Financial Times*, 25 February 2008, p. 9.

⁵ It would be the height of folly to execute the bank-bail-outs at colossal cost merely to re-instate a *temporary* mode of accumulation? Should it not be rather argued that "originate and distribute" or "transaction based" models of banking have failed in practice and are in any case, late and aberrant models. Should not the point be to restore the public-utility dimension of banking?

⁶ A deep problem with how we understand the current situation is that while the words "greed" "fraud" and "irresponsibility" are now used in conjunction with Wall St and its part in the crisis with a frequency unthinkable even a year-ago—itsself an indicative sign in sea change in public attitudes—nonetheless there is a huge gap between this sentiment (and anger this induces) and changing policy on Wall St. Two issues seem to be interconnected here which bear on the overall thrust of this paper. The first, epitomized by the focus on the issue of bonuses, is the confusion over subjective impulse ("greed") and structural irresponsibility. The second, is the degree to which, in forgetting that the banking system is in fact a public utility, closer to the provision of telephones or water or electricity than the stock-exchange, we have not yet in mind another role for the banks. Too aware of their role in the economy (the fear of letting them go under) and not enough aware of their public function, policy focuses on "reform" but in fact structurally preserves the private "capture" of the banking system for short-term accumulation. *Nothing* that is being proposed so far adequately addresses this complex of problems. What we are not still facing up to is the degree of structural irresponsibility built into the mode of accumulation that the banking sector has now *internalized* as its modus operandi.

⁷ It is worth noting that at least one economist has smelt a rat in this respect. David K. Levine of Washington University in St. Louis commented on the occasion of the letter from the 166 economists referenced above: "I suspect that part of what we're seeing in the freezing up of lending markets is strategic behavior on the part of big financial players who stand to benefit from the bailout."

⁸ There is still a sense that "had I been in charge" none of this would have happened. .This illusion, one feels is carried through less by ego than by a refusal to admit the degree of structural un-sustainability in what is. There is clearly acute fear in admitting the degree to which extractive accumulation has become the driving force in the economies of the older and declining economies and as such constitutes *permanent* instability and potential for destructiveness. As is noted below, no one is yet prepared to admit that in the financial sector at least, the processes wealth-creation have now become structures of extraction.

⁹ "How We Were Ruined and What We Can Do," *New York Review of Books*, February 12th 2009 p.15-18.

¹⁰ The possibility of the latter was neatly summarized by Martin Wolf in early January in the *Financial Times*: 'Now think what will happen if, after two or more years of monstrous fiscal deficits, the US is still mired in unemployment and slow growth. People will ask why the country is exporting so much of its demand to sustain jobs abroad. They will want their demand back. The last time this sort of thing happened – in the 1930s – the outcome was a devastating round of beggar-my-neighbour devaluations,

plus protectionism. Can we be confident we can avoid such dangers? On the contrary, the danger is extreme. Once the integration of the world economy starts to reverse and unemployment soars, the demons of our past – above all, nationalism – will return. Achievements of decades may collapse almost overnight.’ “Choices made in 2009 will shape the globe’s destiny,” January 6th 2009.

¹¹ As is made clear below, I see, the provision of debt as the key political as well as economic agent of the crisis. Debt is an instance perhaps of where an enabling cause or an enabling condition of existence becomes active in the generation of the crisis but itself becomes the equivalent to a pressure or a force to act in relation to it. Acting in relation to allowed-debt runs across behavior, from households to Wall St to government.

¹² ‘The economic crisis should be regarded as an unavoidable consequence and hence a “just” price of we have to pay for immodest and over-confident politicians playing with the market.’ Vaclav Klaus, “Do not tie the markets —free them” *Financial Times* Jan 7th 2009

¹³ This is the shift from deposit-and-loan banking to “transactions-orientated” financial accumulation based (primarily) on inter-bank trading: “endogenous accumulation”?

¹⁴ These points are discussed extensively below in Part II of this essay.

¹⁵ A point that suggests that “accountancy”—*the ability to cost*, though scarcely not in the modes we know it today—will be an essential discipline in respect of any attempt to create a less unsustainable economy.

¹⁶ See Richard Murphy’s excellent and informative blog on these matters, *Tax Research*. For his notes on Granite see: <http://www.taxresearch.org.uk/Blog/?s=Granite&searchsubmit=Find>

¹⁷ The more usual figure quoted is £40-45bn., but the given the recent inflation in monetary figures the difference has no impact on the implication.

¹⁸ Richard Murphy accurately describes Granite as a ‘wholly artificial construction, seeking to shift liability’. Granite was in fact owned and controlled by Northern Rock but with a pretence that it did not. There was particular hypocrisy in the description of the beneficiaries of the holding company: ‘The entire issued share capital of Holdings is held on trust by a professional trust company under the terms of a discretionary trust for the benefit of one or more charities. The professional trust company is not affiliated with the seller. Any profits received by Holdings, after payment of the costs and expenses of Holdings, will be paid for the benefit of the Down’s Syndrome North East Association (UK) and for other charitable purposes selected at the discretion of the professional trust company. The payments on your notes will not be affected by this arrangement.’ However, as Richard Murphy notes, this is effectively countered by Northern Rock’s own statement that ‘The financial information of the Group incorporates the assets, liabilities, and results of Northern Rock plc and its subsidiary undertakings (including Special Purpose Entities). Entities are regarded as subsidiaries where the Group has the power to govern financial and operating policies so as to obtain benefits from their activities. Inter-company transactions and balances are eliminated upon consolidation.’

¹⁹ It goes without saying that neither the charity nor the children received any money—though the company insists that it placed collecting boxes in the entrance to its offices. The summary I have quoted is from Ian Macwhirter “The mad world of the shadow bankers”, *New Statesman* 20 October 2008.

²⁰ The charity concerned, the Down’s Syndrome Association North East (UK) is a family support group run by about 300 parent volunteers. The charities trustees issued a statement when the news of Northern Rock’s actions first broke: ‘In connection with the current problems of Northern Rock, we would like to assure our members and supporters that Down’s Syndrome North East (DSNE) has not been knowingly involved in any misuse of money. We are investigating why our charity appears to have been named as a beneficiary of a Trust without our consent. We have definitely not received any money from Northern Rock or affiliated companies, except for a one-off donation from a staff collection in 2001. Currently we have not received notification that any funds are being raised or collected by Northern Rock or affiliated companies on our behalf.’ For more on the (non-)relation between Northern Rock and the charity see Paul Murphy, ‘The (un)charitable core of Northern Rock’ *Guardian*, October 8th 2007.

²¹ Bertold Brecht, *The Threepenny Opera*. The novel, set in the context of the last great period of the dominance of financial capital, pre WWI London of the 1890s/1900s, remains perhaps the best guide to the current crisis, not least because the “primitive accumulation” it represents (amidst the sophistication of Imperial London) is far more akin than might be first imagined to what we are now encountering. The other novelist of relevance here, to be mentioned below, is the under-read Ben Traven. *The Treasure of the Sierra Madre* (famously filmed by John Huston) is an allegory of the entire crisis.

²² 'Lead underwriters on the Granite program were Lehman Brothers, Merrill Lynch, and UBS. Underwriters were Barclays Capital, Citigroup, JP Morgan and Morgan Stanley.' Paul Murphy, 2007, op. cit.

²³ How profitable were such moves? Barclays, a major British commercial bank, in 2007 took all but half its profits from "special investment vehicles."

²⁴ By placing its mortgage liabilities off-shore Northern Rock did not need to "count" them on its balance sheet. It therefore allowed the company to leverage loans at even higher levels. At the same time, both located off-shore and registered as a charity, it was all but impervious to taxation—or, equally importantly given what it held, detailed scrutiny. For a succinct note to this effect that links offshore tax-havens and the current crisis, see Richard Murphy and John Christensen 'The threat lying offshore,' *Guardian*, 10th October 2008.

²⁵ Gordon Brown, UK Prime Minister, in the annual Mansion House speech made by to the city of London on 20 June 2007: ". . . And I believe it will be said of this age, the first decades of the 21st century, that out of the greatest restructuring of the global economy, perhaps even greater than the industrial revolution, a new world order was created.' The speech in full can be accessed at <http://www.hm-treasury.gov.uk/2014.htm> . Even more egregious, in the light of what has followed, are some of the lines in the speech of the year before: see <http://www.guardian.co.uk/business/2006/jun/22/politics.-economicpolicy>

It is indicative of the transformation in the situation that on the day this paper was revised (26th January) there was serious consideration being given as to whether the attempts to bail-out the UK financial sector might result in effective bankruptcy of the UK. While this possibility was thought remote, the very fact it could be raised as a serious consequence illustrates graphically both the speed—and cost—of the collapse. Is it necessary to add that the order that may emerge from all this will likely not be the order Gordon Brown intended, and not perhaps order at all. The combination of direct costs, 'secondary fall-outs' and worrying signs of protectionism, nationalism and lack of coherence in international responses to the crisis point to disturbing potentials for longer-term social and political crises

²⁶ In the wake of the subsequent collapses on Wall Street—and particularly of the financial empire of Bernard Madoff—there may seem little special about Northern Rock's act. There might be a temptation therefore to try to place this in the same class. But despite the scale of his operations (still much less, at \$50bn, than Northern Rock) Madoff can be dismissed. He belongs simply in the long tradition of the crooked swindler. All financial scandals expose a number of these. As Sherlock Holmes might have said, apropos a particularly mundane murder, the case offers scant theoretical interest. Northern Rock is more complex, both economically and morally. It opens us to the more ambiguous capitalism of our time and its "costs" go well beyond a simple accounting of profit and loss. It is therefore of considerable interest to political economy (if an embarrassment to economics).

²⁷ This is where the question of the return to the status quo takes on a sharper bite. It should make us ask: does a return to "unparalleled prosperity" require us to buy into a model where appropriating charities for Down's Syndrome children becomes an acceptable strategy for keeping the financial economy afloat? Are we to accept that this is this what "dynamic and innovative private capital markets" now do?

²⁸ This is where the question of the return to the status quo takes on a sharper bite. Does a return to "unparalleled prosperity" require us to buy into a model where charities for Down's Syndrome children become the only means of keeping afloat the inverted pyramids of financial Ponzi-schemes? Is this what financial innovation now means? Note that the insistence that this is what it should *not* mean has no force.

Part of the intellectual problem here lies in seeing consequences (and costs) of modes of accumulation.

²⁹ What is felt as the mortal and social danger here is precisely this slippage: if *this*, then there is no boundary, no limit, no place where it is possible to say *here* legitimate business ends, *there* criminality begins. Instead, we are faced with the opposite, a steady slide towards criminality becoming an internalized norm of business. A defense will be that this has always been the case. But this neither legitimizes what is occurring nor recognizes what is structurally peculiar to the relation today.

³⁰ Collusion between the overtly criminal and the those who also profit from their activities is a particularly virulent plague. On the Bernard Madoff scandal for example, while the company appears to have deliberately employed tiny accounting firms, major accountants like PriceWaterhouseCoppers and

KPMG were involved in accessing risk. And what are we to make of Greenwich Financial, the Connecticut-based company who acted as one of Madroff's prime agents—to the tune of obtaining \$500m in fees, or the private Swiss bank UBP. Both companies, it appears, chose to ignore red flags signaled (if privately) by other companies as early as 2003.

³¹ A good example is Citibank. Since its merger with Travelers and its investment banking arm, Saloman Smith Barney the company has been (i) penalized for its practices in the dot-com bubble of 2000-2001; (ii) faced losses and lawsuits over its connection with Enron and WorldCom; (iii) had problems over its links with the criminal collapse of Parmalat in Italy; (iv) had its private banking business in Japan closed by the government; (v) has been forced to recant over its “over-zealous” actions in the European Bond market. By 2005 even the ever-lenient Federal Reserve was refusing permission to it to make further acquisitions. And what the longer-term financial results of this activity? By January of 2009 the company had produced its fifth straight quarterly loss.

³² For more on corporate tax-evasion as endemic to the economy, see Raymond Baker, *Capitalism's Achilles Heel: Dirty Money and How to Renew the Free-Market System* (Hoboken, 2005, Wiley). Baker's book was the subject of an excellent review article by John Christensen in the *London Review of Books*, 6th October 2005. The latter provides—in part through his personal experience in the industry in Jersey—a succinct overview of many of the issues around tax evasion and money laundering. Christensen directs the international secretariat of the Tax Justice Network, which is based at the New Economics Foundation in London. He is one of the authors of *Tax Us If You Can: The True Story of a Global Failure*.

³³ See BBC news, “Mafia 'gripping Italian economy'” Tuesday, 14 November, 2000
<http://news.bbc.co.uk/2/hi/europe/1023221.stm>

³⁴ There is nothing fictional about this reference. There was sufficient concern in regard to the market for global organ trafficking that University of California, Berkeley, held a conference to examine global organ trafficking, April 24th 2003. The goal was ‘to bring attention to organ trafficking as a subset of a larger global problem in human trafficking’ On shifts in Mafia organization see e.g. Jane and Peter Schneider, *Reversible Destiny: Mafia, Antimafia and the Struggle in Palermo* (Berkeley: UC Press, 2003).

³⁵ The web-site *Global Issues* has some interesting figures. Admitting that it is not at all clear how much money is held in tax havens they report that (in 2005) ‘at least US \$11.5 trillion is held offshore’ this estimate reflecting largely high-wealth individuals. But, as they report, ‘this does not include the laundered profits of businesses which operate through offshore tax havens to avoid tax. Nor does it include the financial assets of those whose wealth amounts to less than US\$1 million. The total sum of money currently held offshore is not known.’ \$11.5 trillion dollars translates into around \$255bn ‘lost each year to governments around the world because of the no or low taxation of funds in offshore centers’—but this figure too ‘does not include tax losses arising from tax competition or corporate profit-laundering.’ How much profit laundering is there? On the latter *Christian Aid* reports that the total estimated “dirty money” flowing into the global banking system is \$1 trillion, which breaks down to around \$500m siphoned from the developing world, around \$200 billion laundered by multinational companies, another \$250 laundered by individuals and criminals and \$50bn lost through corruption. None of these figures can be regarded as more than indicative. But they place the scale of the problem in some perspective. Christensen's review of Baker noted above is a useful beginning point for thinking about these issues.

³⁶ See Oswald Spengler, *The Decline of the West*, especially volume II, chapters XXII-XXIV

³⁷ Two indicative straws in the wind: it is thought that during his 5-year reign the Nigerian Dictator General Sani Abacha managed to send some \$3bn to Swiss banks—an average of \$600m per year. Another estimate says that for every \$1 in aid to Africa, \$3 is sent out of Africa as capital flight, mostly to Europe, the UK and the USA.

³⁸ An initial (unpublished) federal history of the American-led reconstruction of Iraq issued in December 2008 details spending in Iraq of around \$117 billion. Achieved reconstruction was minimal. See James Glanz and T. Christian Miller in the *New York Times* December 13th 2008 “Official History Spotlights Iraq Rebuilding Blunders.”

³⁹ One obvious instance is the “grand larceny” of the Russian sale of public assets (at rock-bottom prices) in the early 1990s. To public depredation was added the parallel rise of the Russian mafia. Applauded at the time by free-marketeers, the irresponsibility of the act carried through both symbolically and actually to the miseries of the 1990s in the former USSR. Studious avoidance of

acknowledging the human consequences of this public theft by those who were most prominent in urging “privatization” does not alter the facts.

⁴⁰ See e.g., Roberto Saviano, *Gomorra: A Personal Journey into the Violent International Empire of Naples' Organized Crime System* (New York: Picador, 2008)

⁴¹ The figures for the UK are indicative of the scale of the problem. Estimates of corporate tax evasion run as high as £13.7bn a year. ‘Between 2000 and 2007 the proportion of tax paid by top companies fell.’ ‘A third of FTSE 100 companies (including 12 of the largest) paid no tax in 2005-2006, and another third paid a minute proportion of their operating profits. Scores more claimed tax losses.’ *Guardian*, February 2nd 2009.

⁴² Christensen, *London Review of Books*, 6th October 2005, op. cit.

⁴³ op. cit.

⁴⁴ As Neal Ascherson puts it in his review of the journalist Misha Glenny’s book *McMafia: Crime without Frontiers*, is that the world becomes a perfect environment for mafias. ‘Neo-liberal free trade meant that clean or dirty money could go anywhere. Meanwhile, the exceptions to free trade – commodities such as drugs, cigarettes, weapons, prostitutes and immigrants, which governments still feel obliged to regulate – could be smuggled in previously undreamed-of quantities. See “Gazillions” *London Review of Books*, 3rd July 2008

⁴⁵ David Harvey has effectively summarized “accumulation by dispossession.” See *Spaces of Global Capitalism: Towards a Theory of Uneven Geographical Development* (London, Verso: 2006) especially pp. 41-50.

⁴⁶ At the “respectable” end of the business, few banks, and no major firms of accountants—let alone hedge-funds, or the shadow-banking sector—have been counted amongst those calling for more than nominal supervision of the centers of money-laundering.

⁴⁷ A vivid example of the economic significance of trust was given to the markets by the manner of the collapse of Lehman Brothers. As Mohamed El-Erian has noted, the suddenness—and, to the market, the seeming arbitrariness—of allowing Lehman’s collapse was more than simply disruptive of payments and settlements. As he put it, it shattered ‘a given trust and confidence’ in what had been up until then ‘standardized, routine, predictable transactions.’ Mohamed El-Erian, ‘Only new thinking will save the global economy,’ *The Guardian*, December 3rd 2008. We might add that the collapse in trust and resulting paralysis that the markets experienced in a sharp 24 hours is what is experienced as a generalized, if diffuse, condition in zones where the criminal erosion of social trust has become an embedded fact of life. On the societal implications of the destruction of trust see, e.g. Zygmunt Bauman, *Society Under Siege* (Cambridge: Polity, 2002) pp. 192-193; *Liquid Fear* (Cambridge: Polity, 2006) pp. 69-71.

⁴⁸ On “using-up” see Martin Heidegger “Overcoming Metaphysics” in *The End of Philosophy*, trans. Joan Stambaugh (Chicago: Univ. of Chicago Press, 1973) pp. 84-110. See especially pp 103-110.

⁴⁹ It is interesting that those most concerned with the “efficiency” of markets do not pay more attention to this point. The reason of course is that crime is a social tax. It is highly lucrative, on a personal basis, for those that profit from it. But then what is the measure of wealth in use here?

⁵⁰ As I write, RBS in Britain, a massive recipient of bail-out funds, is insisting it will maintain the bonus payouts even in sectors that lost billions in the past year, while the Wall St banks are reported to be ignoring the injunction to maintain loans to businesses while using their shares of the billions a cheap capital to finance acquisitions of smaller banks. The excesses of Bank of America in these respects are the current, but by no means the last, scandal in these terms.

⁵¹ One of the conditions of the current crisis is that it is precisely financial speculation that has created ‘uncertainty.’ The capacity of the financial system—5% to 8% US GDP in most years—to effect the global economy as a whole confirms the historical shift from any notion that systems of financial accumulation acting as in some manner secondary to the real economy. Spengler got this as early as 1922: ‘Only high finance is wholly free, wholly intangible. Since 1789 the banks, and with them the bourses, have developed themselves on the credit needs of an industry growing ever more enormous, as a power on their own account, and they will (as money wills in every Civilization) be the only power.’ Oswald Spengler, *The Decline of the West, Volume II* trans. C. F. Atkinson (New York: Knopf, 1928) p.505-6.

⁵² A gap that in this case had to be filled by debt: it was debt that in the short-term at least both allowed for the colossal accumulation that Wall St. manufactured in the boom years, and the maintenance of a tight connection between supply (loans) and demand (enforced consumption).

⁵³ Duncan Foley, *Adam's Fallacy* (Cambridge: Harvard University Press, 2006) p.194

⁵⁴ Cf. the full page advertisements that appeared in a number of US newspapers on January 28th 2009 the day before the House voted on Obama's economic rescue package. The Cato Institute, a right-wing Washington think-tank, funded a letter signed by some 200 US economists. The first sentence of the substantive statement read: "Notwithstanding reports that all economists are now Keynesians" It went on: "we the undersigned do not believe that that more government spending is a way to improve economic performance ... to improve the economy, policymakers should focus on reforms that remove impediments to work, saving, investment and production. Lower tax rates and a reduction in the burden of government are the ...best ways to boost growth."

⁵⁵ "Only new thinking will save the global economy," *Guardian*, December 3rd 2008.

⁵⁶ The prices of the products sold in these transactions, since they were opaque as to value, were dependent for their valuation on the rating agencies and the reputations of the issuing bank.

⁵⁷ Peter Gowan, 'Crisis in the Heartland' *New Left Review* 55 Jan/Feb 2009 pp. 5-29.

⁵⁸ The difference, and it is one that we will have to pay increasing attention to, is that between notional paper wealth, profits booked in accounts, and real increases in (sustainable) productive capacity. One of the myriad costs of un-restricted financial accumulation is, as we will see, that this distinction is dangerously obliterated—to the point of real confusion, both in the minds of agents and in society as a whole (let alone by economists) .

⁵⁹ Traders, senior executives and board members within the Wall St Banks and City institutions acted, in relation to their (own) host institutions, much as the accumulative economy acts to the (real) economy as a whole., i.e., they pretended that their own actions were the generative source of wealth and denied dependency on the institution. But the "wealth-creating" activities of agents within the banks and financial houses could occur only because they were supported institutionally. In turn the entire process of accumulation could occur because of socially- and politically tolerated levels of debt. Hegel's dictum that all culture's deny what supports them absolutely comes to mind.

⁶⁰ There is a further useful reminder of the importance of trust in a series of interviews conducted with an "Anonymous Hedge Fund Manager" and published in N+I magazine, #7, Fall 2008, pp., 21-53 see especially 51-52. See also Luke Johnson, 'A tragedy for champions of free markets' *Financial Times*, Wednesday February 4, 2009.

⁶¹ "Models" because what we are talking about here is ideology as well as reality. The comments by Gordon brown alluded to above are telling here. What Brown sees is that it is today the financial system that captures the imagination as the source of (instant) wealth. The problem is made more complex because although the financial sector is actually *not* the dominant sector of the economy, quantitatively speaking, its central role in the economy as a whole increases its ideological weight. If models of wealth-extraction ("seeking short-term treasure") dominate in this sector; if it admits and slides towards quasi-criminal extraction and practices that are both structurally irresponsible and profoundly erosive, this has incalculable effects—as we are discovering—across the economy as a whole. Part of the irresponsibility of economics over the last decade has been its seeming inability to chart these kinds of relations—but then these have dimensions that go beyond the 'main business' of economics as Edward Nell memorably characterized it some years ago, i.e., 'the *demonstration* that a well-oiled market mechanism will produce the most efficient allocation of scarce resources among competing ends.' See Nell, 'Economics: The Revival of Political Economy' in Robin Blackburn ed., *Ideology In Social Science* (new York: Vintage, 1973) p. 76.

⁶² See "After Sure-Bet Investment Fails, A Bank Contends It was Duped" *New York Times*, January 20, 2009.

⁶³ "It is classic historically that financial crises reveal criminal fraud in the system, and it is actually nothing new that when one person does a Ponzi scheme it is viewed as criminal fraud and when a lot of people collectively do exactly the same thing (passing the money around among themselves) it is regarded as market instability. This kind of crisis is latent in capitalism, just as much part of it as the developmental booms." Ducnan Foley, personal communication.

⁶⁴ A simple but succinct explanation is offered by John Kay: “How can a package of loans be worth more than the sum of their individual values? ... Securitization in lending may add value by allowing the risk characteristics of the new instrument to be precisely tailored to the risk characteristics sought by the buyer ... There is something in that argument. But could there be tens of billions of dollars a year of profit in it? Could the advantages of slightly more elaborate differentiation of an already wide range of fixed-interest products really be so large? If differences in risk appetite determined the market, you would not expect the list of institutions that bought securitized products to be so similar to the list that sold them. There was never an economic rationale for structured products on the scale on which the financial services industry created them. They were the result of a frenetic search for commissions and bonuses. See “Wind down the market in five-legged dogs,” *Financial Times*, January 20, 2009.

⁶⁵ More prosaically it was also due to the failure—but also the near-impossibility given the opacity of what was traded—of performing due diligence on what was being purchased. That failure, seemingly innocuous at the scale of issues we are now facing, is nonetheless indicative of the structural irresponsibility at the heart of the crisis and of this mode of accumulation.

⁶⁶ “Extractable value” because what was “created” here (e.g. in CDO transactions) were levels of notional profit that could be immediately booked and thus extracted. No true pricing of the costs of the debts necessary to fund such transactions occurred—nor were the risks of such transactions either understood or assessed. For a useful explanation of one part of this process, around so-called “super senior” debt, see Gillian Tett, “Misplaced bets in the carry trade,” *Financial Times*, 17 April 2008. The combination of high-levels of debt and the *difference* between the fact that profits in this situation were super-liquid but that (as the banks discovered to their surprise) the “super senior” debt was not, accounts in large part for the crisis.

⁶⁷ The figure is derived from difference between historic rates of returns on Wall St and the rates of return in the last three years or so of the boom.

⁶⁸ All of this makes nonsense of course of the claim, quoted above, that “For all their recent troubles, America’s dynamic and innovative private capital markets have brought the nation unparalleled prosperity.”

⁶⁹ Innovation that Greenspan, Summers et al would not disturb by regulation lest the latter curtail the former. The principle fails to differentiate useful from dangerous innovation: it assumes what should the question: namely, is innovation in models of accumulation *always* necessarily beneficial?

⁷⁰ There is a very interesting relation between the (relatively) slow accretion of power by Wall St over last three/four decades; an accretion thought strategically and the product of much thought and investment and the remarkable capacity of its contemporary actors to focus only on the most immediate returns. To be sure, it was, for its protagonists, a remarkable party. And one that is not over yet. But it adds further food for thought, and makes those who clamor only for return to what-was, appear both more foolish and more short-sighted than they would wish to thought.

⁷¹ There is an interesting question here as to whether there was not, in much of this situation, a perennial confusion as to what was “asset” and what “liability”—and for whom, and when?

⁷² Immediacy is key here, the most liquid possible profit, realizable within a quarter; bookable at the conclusion of a trade. Not only the culture of the bonus and the short-term is important here. As will be noted later, much of Wall St and the City behaved from the beginning as if the trading culture that offered these profits was essentially unsustainable; that profits must be “grabbed” as opportunity arose.

⁷³ Michel Aglietta, “Into a New Growth Regime” *New Left Review*, 54, Nov/Dec 2008, 61-74, p. 63.

⁷⁴ ‘The true scarcity in Keynes’ world—and ours—was therefore not of resources, or even of virtue, but of understanding.’ Paul Krugman, “What to Do” *New York Review of Books*, December 18th 2008. p.10.

⁷⁵ One telling statistic, at least for the UK banks, is that the difference between the amount on deposit and the amount on loan escalated from close to zero in 2000 to £530bn by the end of 2006. The difference is almost wholly accounted for by debt. Northern Rock was a typical example of this shift. It financed its mortgage program almost entirely by borrowing commercial money.

⁷⁶ Overall, as already noted above financial industry debt in the US escalated from c.21 per cent of GDP in 1980 to c.83 per cent in 2000 to c.116 per cent in 2007. The major increase in this debt is to facilitate of inter-bank trading.

⁷⁷ “Purchased” because this value was not created but, essentially, *bought*. In the sub-prime loan system increased debt purchased the *appearance* of profit. Repayment was of course indefinitely deferred. Monies paid under TARP are essentially the *public* repayment of this *private* debt.

⁷⁸ At one point 73% of Northern Rock’s balance sheet was due in 3 months: a debt-dependency that almost beggars belief.

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