

Lessons from the Collapse of Wall Street

By [Prof. James Petras](#)

Global Research, October 04, 2008

4 October 2008

Region: [USA](#)

Theme: [Global Economy](#)

The ongoing collapse of the stock market and the loss of hundreds of billions of dollars managed by Wall Street investment banks illustrate the pitfalls and danger of free market capitalism facing the entire working population of the United States.

1. The near bankruptcy of Social Security. The attempt by the White House and leading Republican and Democrat congresspersons as recently as 3 years ago to 'privatize' Social Security – essentially turning over the management and investment of trillions of dollars in Social Security funds to Wall Street – with the argument that private investors would earn more, would have led to the bankruptcy of the entire Social Security fund. Privatization would have allowed the major private investment banks to speculate and leverage even riskier financial instruments with the disastrous results we are witnessing today. While private pension funds go belly up – Social Security continues. It is the private pensions, which have gone bankrupt – not the publicly managed Social Security fund, contrary to the experts and critics of Social Security. Clearly the current private debacle argues for public control and management of pension programs.

2. All the major private pension funds for public and private employees, including TIAA CREF, CALPERS and labor union pensions have lost anywhere between 23% to 30% since January and show negative growth over the past 5 years. Clearly linking pension funds to the stock market has severely reduced the living standards of retirees, forcing many to remain in the labor force into their seventies and beyond or to sink into poverty. Pensions linked to publicly funded productive activity would avoid the losses and risks embedded in investing in the stock market.

3. The bipartisan strategic decisions to convert the US into a 'service' economy as opposed to an advanced and diversified manufacturing economy is the root cause of the collapse of the US financial system and the emerging long-term recession. From the 1960s onward, the political elite adopted policies that promoted finance, real estate and insurance, the so-called FIRE sectors which raised rents, redirected subsidies, provided tax concessions and subsidies, and destroyed and displaced industry. The re-conversion of the FIRE economy back to a balanced manufacturing economy and welfare state, essential for reversing the collapse of the US economy, will require a major political upheaval.

4. The massive flight of capital from productive sectors to FIRE was accompanied by the huge surge of capital overseas, making the domestic economy over dependent on 'services', particularly volatile and risky 'financial services' and highly indebted consumers.

The conversion of the US from a diversified economy to a 'FIRE' monoculture increased the probability of a general collapse if and when the financial/real estate market went under.

Recovery and sustained growth can only occur with the return of a diversified economy, the retention of capital from overseas flight and large-scale, long-term public investment and incentives for the productive and social service sectors.

5. The pursuit of military-driven empire building at the expense of joint ventures and reciprocal trade agreements with countries with expanding markets, strategic energy sources and large populations and markets, created enormous budget and trade deficits and alienated potential sources of markets and strategic commodities.

Trillion dollar military expenditures in pursuit of prolonged, costly colonial wars (without end), diverted funds from the application of technological advances and high-end manufacturing, which would have lowered costs and increased market competition. Equally important, by shifting from market-driven domestic expansion to overseas military-driven conquest, the entire axis of economic power shifted from industrial to financial capital. Finance capital essential to funding government budget deficits incurred through military expenditures, grew in influence – Wall Street replaced the steel-belt as the axes of power in Washington.

6. The ascendancy of militarism and financial capital facilitated the increase of influence of a virulent power configuration promoting the regional hegemonic interests of a colonial-militarist state specifically, a previously marginal political lobby – the pro-Israel-Zionist power configuration (ZPC).

The military-driven empire builders saw in the ZPC a strategic ally in pursuit of their global conquests; the ZPC saw an open door to high office and multiple opportunities to promote Israel's expansionist agenda through their influence in Congressional Committees, electoral campaigns and direct White House appointments. The ZPC surge to the top echelon of power was aided and abetted by the increase of financial support they received by members in strategic positions in the most lucrative financial institutions. The ZPC was an economic beneficiary of the speculative bubble: it was the massive infusion of financial contributions that allowed the ZPC to vastly expand the number of full-time functionaries, influence peddlers and electoral contributors that magnified their power – especially in promoting US Middle East wars, lopsided free trade agreements (in favor of Israel) and unquestioned backing of Israeli aggression against Lebanon, Syria and Palestine. Economic recovery is contingent on ending budget busting military imperialism. That will not happen unless there is a wholesale replacement of the political elite nurtured on the metaphysics of military-based global power.

No economic recovery is possible now or in the foreseeable future as long as the US Congress and executives provide trillion dollar bailouts to Wall Street's insolvent speculators, bankroll 700 billion dollar budgets of ever expanding war spending and while Zionist power brokers dictate US Mideast policies.

The lessons of the past tell us a great deal about what paths we should and shouldn't take.

Social Security still exists precisely because the US public rebelled and defeated its proposed handover to Wall Street and it remained a publicly run program. The financial system collapsed because the US economy 'specialized' in a single crop – finance – at the expanse of a diversified productive economy. The political system is totally discredited because it is run by a failed political elite which blatantly represents and acts on behalf of a few thousand financial oligarchs; a couple hundred militarist oligarchs and a few dozen

zealous Zionist organizations.

The 'power elite' is only as powerful as it is able to manipulate, intimidate and beguile three hundred million plus US citizens into thinking that they are indispensable to their lives. The overwhelming popular rejection of the privatization of social security and the Wall Street bailout suggests that the ruling oligarchy is not invincible.

The original source of this article is Global Research
Copyright © [Prof. James Petras](#), Global Research, 2008

[Comment on Global Research Articles on our Facebook page](#)

[Become a Member of Global Research](#)

Articles by: [Prof. James Petras](#)

Disclaimer: The contents of this article are of sole responsibility of the author(s). The Centre for Research on Globalization will not be responsible for any inaccurate or incorrect statement in this article. The Centre of Research on Globalization grants permission to cross-post Global Research articles on community internet sites as long the source and copyright are acknowledged together with a hyperlink to the original Global Research article. For publication of Global Research articles in print or other forms including commercial internet sites, contact: publications@globalresearch.ca
www.globalresearch.ca contains copyrighted material the use of which has not always been specifically authorized by the copyright owner. We are making such material available to our readers under the provisions of "fair use" in an effort to advance a better understanding of political, economic and social issues. The material on this site is distributed without profit to those who have expressed a prior interest in receiving it for research and educational purposes. If you wish to use copyrighted material for purposes other than "fair use" you must request permission from the copyright owner.

For media inquiries: publications@globalresearch.ca