

The Deeper Origins of the Economic Crisis

By [Shamus Cooke](#)

Theme: [Global Economy](#)

Global Research, May 28, 2009

27 May 2009

For all the horror the global economic crisis has caused for so many people, one progressive consequence has emerged: many of these people are becoming politically conscious — searching for information to better understand their political and economic system. They want to know how things got the way they did and what can be done about it. Unfortunately, much of the resulting analysis has focused too little on actual causes, and too much on abstract financial details and other consequences of deeper economic problems.

Therefore, the typical explanation of the economic crisis goes as follows: depression-era financial regulations were tossed aside, and banks were allowed to merge into new institutions that then invented ways to transform debts into assets, which were gambled away on the stock exchange to the tunes of trillions of dollars.

All of which is true.

What's missing, however, is why. Why did successive governments allow the regulations to be destroyed? And more importantly, why did the entire political establishment agree that these regulations needed to go?

One important statistic can help provide some insight: Whereas manufacturing was twice as large as the financial sector of the U.S. GDP in 1970, these numbers have since been reversed — the financial sector is now 21 percent of U.S. GDP, while manufacturing is just 12 percent, and shrinking.

Why did the financial sector grow as manufacturing sank? And how are the two related?

Investors (capitalists) have become increasingly frustrated with actually producing things; the profits just aren't what they used to be. This is because manufacturers — under capitalism — must compete with others on the world market in selling their goods; and the only way to win this competition is to have the lowest prices, requiring that you also own the most up-to-date and expensive machinery. The huge investment it takes in machinery to win this contest has an adverse affect on profits — the bigger the re-investment in machinery, the lesser the take home cash for the owners.

This drives the more astute investors into the financial realm, where one is magically able to shift money around and make huge profits...seemingly out of nowhere. But this type of money wizardry has its limits. Money, properly understood, is simply a means to exchange goods and services, having no independent existence outside of this purpose.

But that is just what happened during our now-fizzled boom — money took on a life of its own. New financial “instruments” (money) were created out of thin air, with no apparent

connection to reality. But there was in fact a connection: mortgages, car and student loans, and other types of debt were “packaged” together in complex ways, shipped around the world and sold as assets. No one really new what they were buying but they were told it was a sure deal. This giant, confused bubble of debt has yet to be fully deflated. And that’s just what a financial bubble is: money separated from real products.

This phenomenon of taking debt and separating it from its source has a long, profitable history, as old as capitalism in fact. Marx said this about it:

“Such a crises [monetary] occurs only where the ever-lengthening chain of payments, and an artificial system of settling them, has been fully developed.” (Capital, Volume III)

Sound familiar?

Marx intimately understood the important role that credit plays under capitalism, and how an excess of it occurs automatically, eventually leading to crisis.

This is because the capitalist market has definite limits, which capitalists constantly seek to overstep. The biggest limit is that of wages, which can only buy so many goods. But more goods are always produced than can be purchased (also called overproduction), especially when wages are constantly being driven down to boost profits.

Credit is the temporary cure-all that seems to bridge this gap — the larger the gap grows between wages and products produced, the more debt is needed to stave off a recession, or overproduction.

This is why interest rates were kept unnaturally low in the boom days, producing a tidal wave of debt. Not only were average people encouraged to take on large amounts of debt by corporations and governments alike, they needed the extra money to compensate for their stagnant or falling wages.

The delusion that such an obvious pyramid scheme could go on forever was shared by virtually every member of the U.S. two-party system. It is hard to fathom a bigger indictment of stupidity and greed.

If anything good is to come out of this crisis, lessons must be learned. Otherwise, we’ll go on repeating the same boom and bust cycle that has dominated the capitalist economy since the days of Marx.

This means accepting that we cannot simply regulate our way out of this crisis. Credit and debt did not cause the recession; they were merely symptoms of its coming. The disease lies in overproduction, which occurs naturally in an economic system that produces goods only for a market.

Now that the credit bubble has been broken, the class of corporate owners are seeking to off-load their overproduced products in another way. One classic method of doing this is war, where a defeated country’s market is exploited by the victor’s corporations inside its borders.

War and economic crisis are closely related phenomenon, both of which require an anti-capitalist perspective to combat. A system where goods and services are produced for social need, under the democratic control of the people, is not utopian, but an absolute necessity if

the world is to progress past this increasingly turbulent period.

Shamus Cooke is a social service worker, trade unionist, and writer for Workers Action (www.workerscompass.org). He can be reached at shamuscook@yahoo.com

The original source of this article is Global Research
Copyright © [Shamus Cooke](#), Global Research, 2009

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

[Become a Member of Global Research](#)

Articles by: [Shamus Cooke](#)

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