

Eleven Years On

08-10-18

August 9, 2007 became a Pearl Harbor, 'a day that will live in infamy', when the invisible brain of capitalism proved its non-existence. That was the day BNP Paribas Investments determined that three of its funds may have invested in nothing, therefore, dear investors, don't even think of making a withdrawal.

Actually, Bear Stearns sent the same message to investors in two of its funds the previous month. The obvious risk of having vast sums of securities backed by vast sums of subprime mortgages was big news in the years immediately prior to August 9, 2007. And if that wasn't enough to maintain peak attention among the regulators, surely the bad mortgage-caused banking collapse of the late 80's - early 90's should have at least kept them awake.

The decade of the 70's was a bad one for American capitalism. The economy peaked in November of 1973 and has never to this day managed to return to its prior state of relative vigor. Instead there was stagflation for the remainder of the decade ending in a nasty little recession at the beginning of the next one.

At that time big commercial banks lent to companies while depositor owned savings banks lent money to homebuyers in the form of mortgages which the bank would retain until it was paid in full. The Reagan Administration decided that such an old foggy way of doing business was just why capitalism lost a robust decade of financial profit. A law was passed to permit depositor owned banks to become shareholder owned. Such a transition was encouraged by all right-thinking financial minds.

There is an obvious safety net in having a savings bank depositor owned. With funds derived from depositors, many of whom are regular people, the rise and fall of deposits would be an indicator of the health of the economy. The fiduciary role of the depositor selection administration was to maintain the security of those deposits because most regular folks make deposits for reasons of safety, security and possible future borrowing.

That is not how the bank functioned when shareholder owned. Now the administration must increase shareholder value. Safety and security is cast aside because all sorts of mortgages will now be off-loaded to giant financial institutions where they are packaged and sold via funds to investors. There is little concern about risk because of tiny continuous streams of money coming in from the millions of little people paying off their mortgages.

So here we have the infamous MBS - Mortgage Backed Securities - so strong and secure in themselves, and often further strengthened with CDS -- Credit Default Swaps. Those in possession of MBS could purchase CDS from lenders that promised to pay for all losses, including unpaid interest, should the almost impossible happen.

But dang if it didn't happen anyway. Many of those subprimes that were so valuable because the more mortgages assigned to a security, the more secure it must be, well they went from subprime to no-value. As for the vendors of CDS's; they rely on a steady stream of purchases to cover what they expected to be a rare, tiny, failure.

The question remains: how did a vigorous, though shitty, system become an altogether shitty system. While the people of the world would greatly benefit by having no capitalists, from the standpoint of the capitalist it's 'the more, the better.' They haven't grasped the fact that there are too many capitalists, especially those in the financial sector, that can be maintained in profitable enterprises without bringing down the whole house of cards.

The first capitalists were actual workers who knew a great deal about the enterprise they were involved in. After many years of tremendous industrial and technological growth the capitalists are now merely owners seeking maximum income. They know nothing about the actual material functioning of their enterprise, nor do they have any connection with those that manufacture their profits. Eventually they go from being financiers within an industrial enterprise to becoming standalone financiers (bankers) who now, as almost a sideline, have ownership of industrial enterprises.

That not only leads them to undermine the sources of all human material needs, it also turns the masses against them because they have now lost any indication that these bosses have any use value that they would care to accept.

What we've seen happening in recent years is not a new phenomenon. In October of 1918 Thorstein Veblen finished changes he made in a series of articles published in The Dial. The following year it was published as The Vested Interests. Capitalism/Imperialism had just concluded one of its battle of the beasts that resulted in the death of millions of innocent bystanders. Fear and loathing of capitalism was on the rise.

The system had been overthrown in Russia, and in the US syndicalism was on the rise. "the IWW is the vanguard of dissent". "Syndicalism, which is quite properly unintelligible to the kept classes and the adepts of corporate finance..." "whenever and so far as the timeworn rules no longer fit the new material circumstances they presently fail to carry conviction...such wear and tear of institutions is unavoidable..." "To these untidy creatures of the New Order common honesty appears to mean vaguely something else, perhaps something more exacting...And why should it not?"

The week ended with another fear of panic. Behind all the 'worldwide robust growth' is concern that any seemingly uncontrolled financial decline, however remote and isolated, will trigger a worldwide avalanche of the same. Recently it was Argentina, now it is Turkey. Argentina, despite a national rabid hatred of the IMF, accepted billions from that organization which will be paid back out of the gutted social programs. From the moment the poisoned funding was accepted, the

financial community returned to smooth sailing. But Turkey is being stubborn. It has let its currency decline a record low. With its currency weakened investors fear that it will not be able to pay off its sizable foreign debt, which are essential for them to pay off their debts, and so on. To make matters worse the US had doubled a tariff on metals as punishment for Turkey misbehaving. Erdogan, the country's strongman, does much huffing and puffing. Turkey will not be pushed around. But not a peep about ordering the US out of Incirlik, its largest military outpost in the region. Islam regards paying interest on a loan to be a usurious crime. Therefore, borrowing from the IMF is the same as establishing a sacrilegious interchange. Monday should reveal whether it's god or mammon.

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