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Michel Husson: A Structural Crisis of Capitalism

Benoit Pradier Interviews Michel Husson, *L'Humanité* Monday 14 April 2008

L'Humanité: How do you analyze the present financial crisis?

Michel Husson: The present crisis is more than a banking crisis because it impeaches the configuration of the global economy. That configuration has assumed three significant characteristics. The first is the reduction of salaries' share of income on a global scale. Yet the increase in profits that results from that reduction does not lead to increased productive accumulation. These non-invested profits regularly increase and go to feed the financial sphere, which then increases as a function of the disequilibria in the global economy: the United States' trade deficit on the one hand, Europe, Japan, and "emerging" and/or oil-exporting countries' trade surpluses on the other. The United States' economy's need for financing deepens and necessitates the influx of a growing stream of capital. Finally, financial deregulation makes control of these financial flows that surf the world in the search of extravagant yields impossible. The result is successive bubbles (the .com-economy, then real estate, etc.) and, over the last fifteen years, a series of localized financial crises (Mexico, Argentina, South-East Asia, etc.).

Do you believe, as some do, that this crisis is the most serious one since 1929?

The difference between now and 1929 is that governments understand the mechanisms of the crisis better now than they did then. This crisis was born from the bursting of the real estate bubble and is a relatively classic phenomenon. But what's new is the chain reaction that [was] unleashed. Financial deregulation and "securitization" led to very deep - and also extremely opaque - imbrications between investment banks and speculative funds. One rediscovers every day the scale of cumulative losses, which the IMF has just evaluated at $945 billion. The immensity of these losses explains why central banks' interventions have been unable to arrest the movement. The Fed lowered its rates below the inflation rate, injected liquidities, de facto purchased a big investment bank (Bear Stearns) and exchanged $200 billion in Treasury Bills for questionable mortgage loans. But nothing did the trick: the real estate market continues to plunge and every day brings its share of bad news. Such a crisis can remain confined neither to the financial sphere nor to the United States: the United States is in recession and the IMF has just revised its forecasts for the global economy down again. It forecasts growth of 1.4 percent for France in 2008 and 1.2 percent in 2009 and does not foresee a recovery until 2010.

What is the outlook?

We are bogged down in the crisis for at least two years. Moreover, there is an irreversible quality to this crisis: the United States' growth model has just burst apart and I can't see any way it could be patched up. That model was based on a double mechanism: on the one hand, regular reductions in the household savings rate (close to a half-point a year) and, on the other, an equally regular increase in the trade deficit. Consumption pulled the United States' growth - consumption sustained by growing recourse to debt. So it was a credit growth that had to be covered by ever more massive capital inflows from the rest of the world. This system of "vases communicants" can no longer operate because of the ruin of millions of households and because of the drop in the dollar. The dollar has never been so weak and unstable and interest rates are no longer attractive, to the point that capital inflows will cease, if they haven't already. The great unknown, then, is what the alternative model will be. It ought to challenge the unbelievable inequalities in income that exist in the United States. All the last few years' increase in growth has, in fact, been seized by a very narrow social stratum and the average salary has barely increased. To move to a regime of more balanced growth, the highest incomes would have to be pruned. Will the next government want or be able to implement a New Deal that would preclude having the great mass of employees pay for high finance's mistakes?

You signed the international appeal of economists against free capital movement in Europe. Why?

Because it was well-targeted, which explains its success. It shows that the scope of the crisis requires "intervention at the heart of the 'game,' that is, by radically transforming its structures" and observes that within the European Union, "any transformation runs up against the unbelievable protection the treaties found it necessary to accord financial capital." Then it proposes two precise objectives: the abrogation of Article 56 of the Treaty of Lisbon and restriction of the "freedom of establishment" provided for in Article 48 that prohibit all restrictions on capital movements. Certainly, this is inadequate to define an overall policy, but it does allow us to conduct a concrete campaign around a key question, that of the necessary control of capital movements. And Europe is a vast and integrated enough economic unit for another policy to be envisaged at that level.

In the face of this world dominated by free trade and by financial markets where crises incubate, what can we do differently?

We are faced with a capitalism that has escaped all control. Struggling against its financial offshoots should lead to challenges to the absolute freedom of capital circulation, but also, more fundamentally, challenges to the growing exploitation of workers around the world. It's necessary, in other words, to close the speculation-feeding faucet "at the source." The goal is to put the economy at the service of social needs. That aspiration allows us, through the struggle against financial globalization, to found a new anti-capitalism.

Michel Husson is, an economist at IRES, a member of Attac's Scientific Council and the author of "Un pur capitalisme," [A Pure Capitalism] Editions Page Deux.