

From Poor America to Financial Crisis & Recession

Presentation by Raphie de Santos to
the Green Left/Socialist Resistance
'Climate and Capitalism' seminar

Sub-prime Debt

- Brokered round world
- Repackaged as derivatives
- Collateralised Debt Obligations
 - Optimistically priced
 - Low probability of default
 - Low correlation
- Blown apart by Fed raising rates
 - Fed oblivious to underlying financial products

Boom Fuelled By Central bank Policy and Deregulation

- Cut rates – avoid recession/dot com bubble
- Fuelled house boom
- Financial intuitions borrowed short/lent long
- Repeated in UK

Derivatives

- MBS
- CDO
- Explosion in Company bond insurance
 - Credit Default Swaps - \$70 trillion
- Other derivatives exploded to
 - Interest Rates, Inflation
- Total Over-the Counter (OTC) - \$700 Trillion

UK

- Liberal lending practices
 - Buy to Let
 - 125% mortgages
 - Led to bigger house bubble
- Deregulation of Financial markets
- Demarcation lines broken
- Hybrid Banks Created
 - RBS, HBOS

Sub-prime Explosion

- Led to freezing of money markets
 - Reserve capital and unknown risks
- Led to collapse of business models
 - Northern Rock, HBOS
- Led to drying up of credit
- Recession

Lehman's/Merrill Lynch/AIG

- Fall in property prices
- CDS explode in price as recession fears
- Increased market volatility
 - Led to losses in other derivatives
- Massive bailouts
- Still Continuing
- Repeat possible in autumn

Crisis of Financial System

- Led to a massive overproduction of goods
- Profit rates already declining
- Over accumulation of capital led to financial speculation
- All the problems policies of Reagan/Thatcher and Clinton/Bush/Blair/Brown sought to avoid

Western Economies

- Capital flowing East
- Declining profit rates
- Crying up of consumer/corporate credit
- Government bail outs for banks
- Leading to stagnating indebted economies

Germany/France

- Less polluted financial system
- Less Spent on banks
- More for stimulus programmes
- Slight pick up in economies
- But big exposure to emerging markets property speculation
- New capital rules will mean more capital required.

Quantitative Easing Not Working

	Loans on Homes	Cons loans	Mortg	Re- Mortg
July 09	0.3	0.1	6.2	4.3
2009	1.0	0.1	4.6	4.1
2006	9.2	1.1	16	11.5

UK lending in £billions

12 September 2009

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China

- Technically not in recession
- 10s of millions unemployed
- Big government infrastructure programme
- \$3 trillion consumer lending
 - Created property and stock market bubble
 - danger of bursting
 - Leading to withdrawals of funds from US
- Cannot replace consumer power of West

Stock Markets

- Repeating pattern of 1929 not 1974
- Set for major correction
- Rise in gold price at odds with rise in equity markets
- Lead to volatility in financial markets
 - More bank losses
 - Bail outs
 - Higher taxes and Cuts in public services to pay for it

Outlook

- Mass unemployment
 - already here in US (30m) and UK (5m)
- Huge government debts
 - Lead to a combination of tax rises and public sector cuts
- Banking system polluted
 - exposure to recession and \$700 tr derivatives
 - Global unlike 1929
 - Much more complex

1929 Crash



2007 Crash



USA Credit Getting Tighter

- July 2009 saw \$22 billion drop in consumer credit
- 2/3 thirds of US GDP driven by consumer credit
- After cash for clunkers passes and inventories build up will see another dip in economy
- 10 of millions now dependent on food stamps and voluntary health care

Bank Profits

- UK benefited by 50% stock market rally
 - But over £30 billion of write downs
 - Market correction will lead to big losses in second half 2009
- US shows a similar picture
- European banks will be hit by tougher and larger capitals requirements
 - Meaning bigger government bailouts likely

Solutions

- Banks taken under common ownerships and control
 - Change loans into social rents and social projects
- Cancel derivative contracts
- Only way to stem tide of losses
 - turn fixed a liability and asset into a perpetuity of rent to society

Green Solutions

- Turns loans on commercial property
 - social housing conversions
- Convert production for cars into
 - Production for an integrated public transport system
- House building into
 - insulation, conversion and reconditioning
- Only way to defeat law of value and flow of jobs out of UK is
 - to change to production to meet needs

Capitalism

- Ended a long wave of credit driven and financial speculation
- Moved into a long wave of stagnant economies
- Offers best opportunity of a radical alternative to be heard
- A opportunity we must all seize