[https://gegen-kapital-und-nation.org/en/financial-crisis-2008ff/]

Financial Crisis 2008ff

A short review of events

2007 saw the worldwide breakdown of the particular market for commercial paper (collateralised debt obligation). Bit by bit it became evident that just about every important financial institution was involved in this market and was heading for trouble. Subsequently, (for the time being) shares of banks came under pressure at the stock exchange. At the beginning of 2008 the breakdown in value spreads to other kinds of shares and affects the whole stock market. Already by the end of 2007/early 2008 some financial institutes start to struggle and states start to support the financial sector with substantial financial aid. However, those aids do not stop the downward trend. In summer/autumn 2008 quite a few renowned banks are about to collapse and the most severe financial crisis for 80 years unfolds. Among nation states controversy emerged about how to support the financial sector and in Iceland and Hungary we saw the first threats of national bankruptcies. A general commercial crisis began to unfold as well. Crisis management dominated the news and we kept hearing that this and that rescue package by one nation state was at the expense of another national economy[1], which sparked more material for controversy as well as adjusted rescue programs by the other nations.

Explanation attempts in the media and the purpose of this text

An almost funny explanation of the crisis goes like this: A lot of poor people in the USA received credit for building a home. Because these poor people – for a variety of reasons – cannot afford to pay their mortgages any longer, we have a worldwide financial crisis.

It might very well be true that the bad mortgages in the USA were the final straw that broke the camel's back. However, it does not explainhow the camel itself actually works (to stick to the analogy). This is what this text tries to establish. We will not try to explain the so called sub-prime or mortgage crisis, since that crisis is only one crisis in one part of the financial sector and does not explain, why so many financial institutions are about to go bust. Thus, this text simply starts in the middle of the crisis and tries to explain a few principles of the financial industries, which in turn explain the impact of this crisis.

This text does not offer any critique along the lines of mismanagement and the like, which dominates the news coverage of the crisis. According to this theory:

- bank managers have failed,
- rating agencies have failed to rate bank activities properly and
- governments have failed to supervise bank managers and rating agencies.

What is interesting about these accusations is that they are always made whenever a bank has to acknowledge a bad balance sheet. Other banks, on the contrary, are honourably mentioned until the shit hits the fan over there. Then, obviously, there too failure/mismanagement had its way. From the spontaneous change of praise and blame it is clear that the sole criterion is whether everything runs smoothly or not: if everything seems alright, those in charge can do no wrong, and when things go wrong, they are a bunch of fuck-ups. So to explain the crisis this theory can only resort back to the crisis. It explains nothing, but maintains the illusion that capitalism without crisis is possible[2]. On the contrary, this text shows that the crisis is a result of rather normal business principles and that this place is in trouble because everybody (bankers, other capitalists and politicians alike) did the ‘right’ thing according to capitalist logic.

Of course, in crisis, the conditions for many people worsen dramatically. However, we think it is short sighted to wish those ‘good ol’ times’ were back when everything was running smoothly. This is not because we think – like some Marxists – capitalism will inevitably fail due to its crises. Instead, in this text we show that crisis is produced by a well-running capitalism whose principles are hostile towards human needs and wants – in good and bad times. Thus we will also refrain from making suggestions how ‘we’ (who is that again?) can make capitalism run again.

The banking business: lending borrowed money (with the example of Lehman Brothers)

The trigger for the Lehman Brothers’ bankruptcy was that it apparently was dependent on short-term credit by other banks, which was only granted on increasing rates of interest. Lehman Brothers used borrowed money to pursue its business interests on the financial market. For instance, they offered long-term credits to finance real estate purchases. Long-term credits bear higher interest rates than what Lehman Brothers had to pay for their short-term credits – if everything had run ‘smoothly’. The difference in interest rates can be used to make a profit. The short-term credits, of course, have to be paid off, before the long-term credit came back in total. They have to be ‘refinanced’; a business based on debt has to be maintained (or initiated) by more debt. Lehman Brothers paid off short-term credits with other short-term credits (potentially, even from the same bank). Of course, if no short-term credits are granted anymore, the investment bank is in trouble.

From there, there are many courses how this can lead to bankruptcy; the final point is reached, when short-term credit has to be paid off but no liquid money is available to do so. A potential course; if the interest rate rises for short-term credit – for whatever reason – then the rate of profit goes down, because it is derived from the difference between the two interest rates. The trust in the bank to keep on generating profit gets lower with a couple of creditors which in turn leads to higher interest rates for borrowing and finally to no credit-worthiness at all.

Investment banks depend more than ordinary commercial banks[3] on credit from other banks. Those credits from the ‘inter-banking commerce’ were hardly available when Lehman Brothers went bust and if they were offered then only for quite high interest rates. More about this in Section [sec:3]. Compared to investment banks, ordinary commercial banks – those which offer current and savings accounts – are currently better of. They have a source of money, which is independent from the inter-banking trade. This shows, however, that this way of using debt as a source of liquidity is a very normal operation in the banking business. HSBC and Barclays

permanently accept money from their account holders, promise an interest rate and ‘work’ with this borrowed money by lending or otherwise investing it. The end of the line for an investment bank is reached when they cannot get hold of credit from other banks any longer. The end of the line for a commercial bank is when their account holders withdraw their money in large numbers.

All banks and financial institutions are engaged in refinancing (starting business based on external funds) and are dependent that the massive refinancing never stops. The ability to make a profit based on interest rates depends on other parties eager to lend money in order to earn an interest.

The domino effect of credit chains

When a bank lends money to an enterprise, the company gets its hands on money and the bank receives a bond. If the company goes bust then the bank also has a problem since it probably has to bin the bond. However, if the bank sold the bond to, say, another bank then it is not affected by the bankruptcy of the company. Instead, that other bank might be in trouble. However, this process does not explain an escalating financial crisis.

Indeed, things are slightly different; assume some bank A grants a credit to some company and receives a bond. Now, bank B offers bank A another credit, because it assumes bank A possesses some sort of security in the form of the bond. Bank A now has additional funds and lends it to another company or another bank. Some third bank, bank C, now offers bank B credit because it assumes bank B possesses some sort of security in the form of its bond from bank A. This process can be repeated for banks D, E, F etc. Now, if the company – where the whole process started – cannot pay bank A, bank A cannot satisfy bank B’s demands, bank B gets in trouble paying bank C etc.

All financial institutes worldwide were involved in such credit chains, in which one credit is the security for the next credit. This simple principle applies to ordinary credits and rather complex financial products too. Only based on those credit chains can the devaluation of a particular sort of security trigger such global consequences.

However, to understand the banking industry and the financial crisis, it does not suffice to assert that this is all quite wild and shady. Instead, the question is in order how this process is possible in the first place. We will get back to this point in Section [sec:5]. For now, we return to the starting point, the investment banking crisis and their trouble with inter-banking commerce.

Rising interest rates in the inter-banking trade and its breakdown

[sec:3] Recall, that those institutions which offer short-term credits to other banks depend on debt themselves to stay liquid. If they are forced to pay up, because their refinancing sources dry up, they have to keep money as money, simply to pay their debt, which is to say they cannot use their money as capital any longer, i.e. to invest it in order to augment it. Their money changes its function all together: it is not money capital but a means of payment (cf. Karl Marx. *Capital Volume 1*. Translated by Ben Fowkes. Penguin Classics. London 1990. p.232ff). For this to happen a bank does not have to have any problems itself; it is sufficient that it expects problems with other banks. The bank doubts that its short-term credits can be refinanced by short-term credits of other banks. Banks do not trust their own cycle of debt and confirm their suspicion

through their own restrictive allocation policy – a cycle which eventually leads to a breakdown of inter-banking commerce with short-term credits.

As long as the banks pursue their interest to augment all the money they can get hold of, they grant each other credit. Through this process, the banks are capable of financing more and more projects, which promise an augmentation of their money. This also explains why credit reached such amazing dimensions so quickly. However, if banks have to use their money to satisfy payment commitments they cannot credit each other and thus eventually all their money is reserved for payment commitments.

One trigger of this kind was in 2007-2009, when suspicion fell on a particular branch of the financial industry (the so called mortgage crisis in the year 2007). This triggered a partial change of function of money: some banks needed hard cash for their payment commitments and thus could not invest it otherwise. This nurtured the distrust in the entire circulation of debt, lead to more restrictive allocation policies, etc.: a self-reinforcing principle.

Debt replaces money, but it does not work the other way around

The credit cycle expresses a foundation of the financial industry: debt and credit replace money proper, increasingly if it works well. However, the reverse does not apply: money cannot replace debt and credit. This is fundamental to understanding the current crisis.

Proper money was and is still available. In newspapers like the Financial Times amazement was expressed that banks did not lend each other money despite the fact that high interest rates were available and that on the other hand relatively large amounts of money were parked with the central banks for relatively low interest rates.

However, the essence of a functioning banking industry is that actual possession of money becomes relatively unimportant through treating promises on debt like money proper. During boom, debt is accumulated in such quantities that in case of crisis, the available money reserves are not sufficient to balance outstanding claims. This principle shows up in all areas of the financial market, an important example is again Lehman Brothers.

When it went bankrupt, the bank – according to the liquidator – was in possession of ca. $600 billion worth of assets. What are those assets? They consist of shares, commercial papers, state bonds and other securities in which Lehman invested. Apparently, the bank did not buy those assets using its own money but mainly using credit[4]. Those assets in turn were nothing but the debt of other banks with Lehman Brothers. Not only Lehman Brothers attempted to use debt as a means of investment, that is business as usual. Shares, state bonds, commercial papers and all the other stuff which lays around in a bank are treated like assets[5], like actual wealth. These assets then basically exist twice, on the one hand for the new debtor, who might build a new office park using the money, and on the other hand for the bank as creditor, which treats the payment commitment as asset.

This works because other banks and investors agree with it and are happy to buy and sell claims on future flows of payment. The price – which is determined at the stock exchange or in the inter-banking trade – is not only used to bolster gains but also provides security for payments. Here too, credit creates new credit by replacing money as means of payment. If the price of those securities

goes down – because fewer investors want to buy them than others want to sell them – then the bank's security to make payment goes down too. In that case, banks have to prepare, sell off securities, protect their balance and hold on to more hard cash to maintain their credit worthiness. Thus, they sell the securities and contribute to the slump, which in turn further fuels the sell off of securities.

Financial capital grows in circles and in circles it goes down again. The direction is upward if the banks put trust into the idea that claims on future money are as good as augmented money. The direction is downward if this trust is not universally shared anymore and everybody is after hard cash. During the boom and the crisis of the banking industry we can see how each bank is dependent on its competitors.

How come the banks can turn debt into gold?

[sec:5] The fact that in the financial world debt is as good as proper money and augmented money requires an explanation[6]. Under normal circumstances nobody bothers with this question. These days, the outcry over greedy managers is everywhere and thus the crisis is treated as a simple problem of quantity[7]. The quality of the material which the financial industry deals with does not concern anybody even now.

A granted credit fixes a priori by what amount money has to be augmented – the interest rate. This implies an indifference to *how*
this augmentation is accomplished. Superficially, things seem to be a bit different when we consider shares which are traded at the stock exchange, because the dividend is variable. However, by assigning a price to shares, i.e. claims on future income, those involved posit that augmentation of money will definitely take place in the long run. Only the question 'how much?' remains subject to speculation; the speculation on the gains of single enterprises which account for the well known fluctuations in the stock market. Even a banker probably knows that investing money and the production and profitable sale of a commodity can be two distinctly different things. The fact is acknowledged by an adjustment of the interest rate or by the requirement for additional securities. However, that debt guarantees augmentation is presupposed when assessing them.

When augmenting money by lending it for an interest rate or when trading debt, it is presupposed that accumulating money is simply a question of owning money. This presupposition, that an amount of money contains the potential for augmentation, points towards the sphere of the capitalist economy where capitalist wealth is first produced. This warrants a small digression from the main topic.

In this economy, no one works, no technology is developed, no soil is developed, if no money can be made by doing so. Whoever owns enough money can start a production, hire workers, who produce a collection of commodities which brings back a profit if sold successfully. On the other hand we have the employees, who are absolutely dependent on someone to buy and use their labour power.

The difference between what the workers receive as wage and what they produce as commodities (and thus abstract wealth) is the kernel of the economic growth which is measured in money[8]. Hardly anyone knows or acknowledges this but a hunch about it surfaces in statements such as: workers are not supposed to ask for a rise in times of crisis, because now it is most important that

companies grow. Once the upswing is here they are encouraged not to demand higher wages again because that might kill it. When the boom peaks it is about to turn dark anyway and thus a wage increase would be counter productive. Afterwards we are back to recession. At any given moment in time workers are encouraged to be reasonable enough not to demand wage increases. Otherwise they would hinder economic growth and soon have no wage at all.

Workers are completely dependent on capital. If capital is healthy, it does not imply anything about their wage, or the output squeezed out of them. However, if capital goes bust everybody knows that now even harder times are ahead. This subordination of production under profit and this separation of the fruits of labour from those who produce them is the reason for poverty in various forms.

Under capitalist rule, hunger alone is no reason for any enterprise to move a single finger or even to start the machines. It has to be solvent hunger[9].

The need to struggle through life by means of wage labour is only satisfied relative to profits. To work for one's life, needs and wants is secondary in this society; primary is whether labour is needed to make profits. The less wage paid and the more performance is squeezed out of the employee the better for gains. Thus the miserable state in which workers get to work for others and – as by-product – for themselves: low wages and thus limited satisfaction of needs, ruined health, stress at work, angst, little vacation and work hours which do not leave energy for the spare time. For us, a list of reasons to reject capitalist economy. For the banking industry, crumbling down so impressively these days, they are the self-evident foundation.

If access to everything is mediated by money, so too, the ways and means to augment money – using the detour, via production, of commodities – become an issue of owning money. A certain amount of money, then, is already equal to capitalist power; control over soil, means of production, knowledge and people. This is presupposed when interest is ubiquitous in a society. The size of capital becomes a weapon in the competition of capitals among each other: the more capital one enterprise can raise the better it can set up production and sale, the better it can prevail against its competition. Companies have an incentive to get their hands on money they did not earn yet. They want to extend their business using borrowed money to an extent which would not be possible with only their realised gains.

This need of companies for more money to increase their gains is taken advantage of by the owners of money when they give money the form of a commodity. They lend money and secure themselves a part of the profits – which were generated elsewhere – by fixing an interest rate. The trust in the social production process, which aligns everything towards gains, explains one half of the puzzle: why debt and claims on debt can be treated as assets themselves and function as replacement for money. Because interest rates are paid quite naturally, at least by and large, the financial industry assigns a price to pure legal claims on yet to be produced, abstract wealth.

Some on the Left follow a theory which claims that the financial industry grew so much because productive capital was in crisis already. The rate of profit would shrink for the so called 'real economy'[10]
and so investing there would become unattractive. Thus, according to these left-wing theoreticians of crisis, money is put into the financial market. To summarise in an exaggerated form: because normal capital does not function properly any longer, financial capital prospers. We will criticise this theory in a separate text, but for now we want to emphasise the difference of this theory to the theory presented so far: Not because productive capital fails to function properly, but because it

grows so steadily – if we ignore the periodic economic slumps everyone takes for granted anyway – the financial superstructure grows. Because the workers in the industrial centres are so well disciplined, and hardly start strikes which harm capital, because there are hardly any places left which resist the grab of 'Western' capital, financial capital puts trust in interest. Those last two points are a result of 'Western' violence and economic blackmail; this spurred the financial markets.

An economic bottom line

The last section – on the financial industry's ability to turn debt into assets – contained a critique of the financial industry. For emphasis, we make this critique more explicit in this section.

We criticise the hostility of capitalist production and commerce towards human needs and wants. Not just the distribution of wealth, but the reasons why the production of commodities is commenced we resent. Furthermore, we criticise the consequences this has for the wage dependent, who have to produce abstract wealth, but remain empty handed because their proper reproduction is not needed for the accumulation of money. We do not criticise the financial industry for not fulfilling its proper role to provide enterprises with credit. Instead, we criticise the financial industry that it facilitates capital's harmful purpose and acts as principal for accumulation of money when it demands interest. We are also not concerned about the instability of higher spheres of the financial industry, where debt – legal claims on future payment – is treated as wealth. Instead we resent the anticipation of future production of wealth, which is traded in this sphere, and its harmful effect on those who are forced to produce this wealth. By this we do not mean companies, but those who depend on wages. Finance capital treats debt as assets, which is used to create new debt which can again be treated as assets. Interest payments by the debtor now are assigned the task of being on time to make this operation credible, i.e. to confirm the equality of debt and assets. The process of becoming independent of actually earned money is thus dependent on the accumulation of capital of capitalist enterprises. Capital's ability to free itself from money already earned by society therefore does not lead to a loose attitude when interest is collected, it's the other way around: precisely because it constantly creates new assets which depend on steady interest streams, the requirements for the basic commerce of companies tighten.

In crisis, everybody is even more worse off. The reason is simple: everything is subordinated under profit and only happens if profit permits. But because profit shrinks, all results of working capitalism show themselves even more: at the moment when the potential to produce useful things is developed furthest, all of a sudden factories are vacated, because it does not pay. Thus, masses of people are made redundant and exposed to exceptional poverty. Those who are still in demand are confronted with exceptional wage cuts, more stress and more overtime. We resent the demand that the state regulate the financial industry so it does not have a destabilising effect not because we do not believe it would work, but because we fail to see anything positive about flourishing financial markets and functioning capitalist production.

State's interest in the financial industry

Financial capital is one of the main engines of economic growth because through it productive and commercial capital become less dependent on their own previous gains when it comes to investments. Using credit, bonds and shares, companies can expand their investments, without

being limited to profit made already. Furthermore, commodities can be sold even when the buyer is not yet liquid.

Those achievements of financial capital are desired by politicians and thus they are supported. All companies use credit; being in debt is normal for a business. Thus a financial crisis has repercussions on social capital. But even simple circulation of money from wages to personal savings is accomplished through banks which entangle it in higher spheres of the financial industries[11]. Thus problems in the banking sector affect elementary fundamentals of the circulation of money, such as the transfer of wages.

These days the public realises that the financial industry developed techniques which are purely self-referential, and if something goes wrong all of society is deeply affected. The stupid ideal by which financial capital is criticised is this: please work to make real money independent, but only for the 'real economy' and not among yourselves. In some countries – like the UK – the financial industry became so big it accounts for a fair share of the national economy. In these countries the perspective is different: here the financial crisis does not threaten the 'real economy', it is a national economic crisis.

State intervenes – as if the financial crisis was a problem of liquidity

States react to the crisis by granting banks more and easier money via the central bank. At the same time, they realise that these injected sums of money so far were not able to stop the crisis. The reason is that the banks hoard the money to be liquid, because they distrust the other players' capabilities of refinancing their debt. Money is not used as capital but as a means of payment. While the state generates new financial settings – by giving away more money – it does not control what effects that has on the economy. Note how the terms 'capital' and 'money' are confused in the public debate about bailouts and stimulus packages. Objectively, states do not hand out capital but only money. Whether money becomes capital (is used to grant a credit) or stays money (is only used to pay off old debt) depends on the banks, and their decisions are dependent on the circular movement discussed above.

Providing security – in competition and together

By now the support of the banks has been refined. In addition to funds which are granted by European and American central banks for low interest, states introduced aid programmes in which the state provides guarantees or new capital by buying into a bank. Also, some accounting rules were changed such that stuff that used to be illegal is now a legal practice[12]. The state uses the fact that it is the chief power over money to bolster trust in mutual crediting. Its position as the last entity in a society which is solvent is supposed to get the financial industry into motion again. This adds a new aspect to the speculation of the banking industry, which both fosters development and crisis. The stabilising effect of the state's activity also has a destabilising side.

First, the banks do not accept the state's offer enthusiastically. Accepting state aid, the banks' reason, can be taken by the rest of the financial world as a concession that the bank in question has problems which are worse than normal. A bank which accepts state aid is a restructuring case, and not a brilliant investment opportunity.

On the other hand, those banks which do not accept any state support might have a disadvantage during the crisis and afterwards. Because of this last point, nation states are not necessarily happy about other nation states supporting their banks and thus the credit system in general (including that of the competing nations). If Germany guarantees 100% of all savings, while the UK only guarantees 20%, then a lot of capital moves from the UK to Germany and thus the UK and its banks are in even more trouble. Just like in times of economic growth, national competition prevails and nations attempt to minimise their own harm at the expense of others.

This heats up the crisis and thus the most important states decided to meet in order to agree on coordinated programmes how to rescue the financial industry on which every capitalist nation is dependent. But every participant viewed this meeting – the G20 – also as a field to further their own interests at the expense of others.

State bankruptcy and the IMF

The measures to rescue the banks are financed by national debt, and the effects of the financial crisis on some states show that modern currencies themselves have credit characteristics and are dependent on financial capital. The principle to refinance old debt by new debt is mastered by states. This principle works for them as long as banks treat state bonds as secure investment opportunities. This is where a few states are struggling; they can only sell their state bonds for higher interest rates to the commercial world. This in turn makes the commercial world increasingly suspicious towards new debt by these countries. Insofar as this suspicion becomes universal the financial industry does not only retract from the business with these states' bonds but also leaves their currency altogether. Because these states (first only Iceland but by now quite a few nations) cannot support their currency using new debt, their currency drops and they are close to a state bankruptcy.

For these cases of emergency, the IMF was founded after World War 2. It is supposed to grant political credit such that no country in the world has to exit the world market because it is in financial trouble. These programmes usually come bundled with political programmes by the financiers of the IMF – which are the 'winners' of world economy – to open the national market to foreign capital, cut social welfare etc.

The IMF funds themselves are based on the state indebtedness of those 'winners' and are not just the result of taxes. In as much as other countries are 'supported', the backers expose themselves to the suspicion that they abuse their credit worthiness and can even come under scrunity as to how much their currency is worth.

A political conclusion

State activities in a financial crisis clearly show that the financial industry is a state-licensed matter, just like any other source of revenue in capitalism. Everything is made dependent on the credit system, and thus, governments leave nothing out in trying to repair it. This also explains why all of a sudden billions are available while for other projects the need to be frugal is emphasised. Everybody is made dependent on this political economical juggling act, which is aimed at competing nations.

For this, the wage-dependent will have to pay: they will be asked to not to demand any wage increases but to accept cuts. As 'beneficiaries' of the social welfare system, when those are cut back. As tax payers, because it's not 'we' who pay for taxes but mainly those who are under suspicion anyway that they just eat-up their money otherwise anyway (in recent years the budget is increasingly financed by the workers). Furthermore, those with a fixed wage contract are hit first by inflation. For all this the public is being prepared right now by all those doomsday projections in the media.

Of course even more people will starve to death in those areas which are totally dependent on aid from the industrial nations after those devastated them. Those have to keep a close eye on their credit thus will not supervise the misery in the third, fourth and fifth world as closely as to date.

Normality is insane, the crisis only expresses this more clearly!

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1 cf. the 'buy American' clause in the American stimulus package.

2 The same applies to blaming politicians. Their failure is also proven by the mere fact that the credit sector is not functioning as desired.

3 To avoid a misunderstanding: in the USA, law allows the separation of investment banks and commercial banks. In Europe this is not the case. Here almost every bank has an investment branch besides its other businesses. Investment banking is thus not an American phenomenon but appeared there in its purest form.

4 According to court records Lehman Brothers had $613 billion of debt by the time of liquidation (reports the German *Handelsblatt*, Sept, 15th, 2008).

5 Treating payment claims as asset is what Marx called 'fictious capital' (cf. Karl Marx. *Capital Volume 3*. NY 1894. Chapter 25).

6 Marx differentiates between concrete and abstract wealth. Concrete wealth refers to concretely useful stuff. For instance, a car can be used to get around or a computer can be used to write this text. Abstract wealth on the other hand describes a commodity's attribute to be used to gain access to all kinds of things which are owned by others. For instance, in this society cars obviously have the quality that one can sell them, get money for them, which in turn can be used to gain access to all kinds of other things. Abstract wealth is social access power, essence of economic power in capitalism. 'In any case the market for commodities is frequented only by owners of commodities, and the power which these persons exercise over each other is no other than the *power* of their commodities' (Karl Marx. *Capital Volume 1*. Translated by Ben Fowkes. Penguin Classics. London 1990. p. 262). 'But money is itself a commodity, an external object capable of becoming the private property of any individual. Thus the social power becomes the private *power* of private persons' (*Capital Volume 1*, p. 229ff). Bourgeois economics on the other hand considers exchange and money as tools to solve an economic problem of coordination. It is thus surprising when a fan boy of market economy explicitly acknowledges the social quality of money: money is 'the power of control over the current output' (Wolfgang Gey. *Globalisierung und Marktrisiko in der monetären Theorie*. Regensburg 2006. p. 69, own translation). (all emphasis by us)

7 For instance, Lehman Brothers marketed special credits to communities and councils in Germany and offered a 5.11% interest rate if they grant the bank short- and medium-term credit.

Deutsche Bank on the other hand only offered 4.9%. Those councils which took Lehman Brothers' offer are now in trouble getting their money back. A commentator in a German newspaper complained that no one asked where Lehman Brothers would get the interest from. As if everybody knew where the interest of Deutsche Bank came from. A similar criticism can be observed when UK councils are blamed for moving their assets to Iceland instead of leaving them with 'safe' British banks.

8 Btw. this would not change if the workers owned the factories and compete against each other on this level. They would have to exploit themselves.

9

This phenomenon gives rise to all kinds of charities and churches collecting donations or clothes for those who do not have any money. They do not tackle the reason for poverty, but only try to mitigate the results of production for the market by the means of redistribution. Let us ignore for the moment that these charities live on poverty because charity only works if poverty is permanent: if the objective of all members of society is private gain against others it is not surprising when only insufficient funds can be raised to turn destitute people into provided-for people.

10 While the term 'real economy' has several unwanted implications, we will use it as a shortcut for productive and commercial capital in this text. By no means should the reader infer that we want to imply there was anything solid about those forms of capital.

11 Another basis for the credit worthiness of banks: they command all money in society. All money- and credit-operations are done through banks. This allows them to rearrange money streams in such a way that their own money becomes relatively unimportant for paying interest and granting credit.

12 For instance, it is now legal to assert the value of certain derivatives close to the cost price while they are not worth anything under current market conditions.