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Selected Publications:

Books:

- (1) U S Multinationals in the World Economy (Otsukishoten 2005) (Japanese edition)
- (2) The Rise and Fall of the US Keynesian Coalition (Yuhikaku 1996) (Japanese edition)

English Papers:

- (1) "Economic Integration in East Asia: Why Do Multinationals Accelerate Regional Integration?" (2005, English edition, mimeo)
- (2) "Transnational Capital, Deregulation and the Economic Crisis in Asia" Yokohama Journal of Social Sciences Vol.4, No.1 July 1999 (English edition)
- (3) "Fictitious Capital, Over-sensitiveness and the Crisis: A Marxist Financial Crisis Theory and the Great Depression" *Economia* Vo.44, No.1 June 1993 (English edition)

The Fall of the Keynesian Regime, Financial Crises, and Marx's Theory

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Introduction

The sub-prime loan crises which broke out in Europe in the summer of 2007 exploded in the US financial institutions in 2008. Lehman Brothers, one of the big investment bankers in the United States was utterly bankrupt on September 15th, 2008. The securities markets in the world were thrown into very serious confusion for the first time after the stock market crash in October 1929. The financial crisis started to give a serious effect on the real sectors all over the world. General Motors and Chrysler faced bankruptcy, unless public institutions bailed them out.

In this paper, I would like to show the theoretical viewpoints for understanding the financial crises by Marx. The Marx's theory was constructed in the middle of the 19th century. Most scholars say that it would be impossible to apply this theory to the financial crises in the 21st century. However, I would like to be clear that the basic viewpoints concerning the contemporary financial crises should be constructed by Marx's theory. I will make clear that his viewpoints are valuable for understanding contemporary financial crises by studying the three historical stages of economic crises of Europe and the United States. First, I will pick out some crucial viewpoints in Volume 3 of Capital by Marx. These will make us understand the basic characteristics of financial crises in the middle of the 19th century. Second, I will focus on the economic situations in the period of the post-Second World War in which financial crises were defused and averted by the Keynesian policies. And finally, I will focus on the financial crises in the period of neo-liberalism after the collapse of Keynesian regime. I will try how I would be able to apply the Marx's theory to the analysis of the financial crises in the 21st century.

1. 1. Financial Crises in the age of Marx: How can we pick out some crucial viewpoints in Capital vol. 3 by Marx?

The Volume 3 of Capital is not a literature for economic crises. It does not totally show the viewpoints of a financial crisis either. However, I will pick out some crucial phrases for understanding financial crises in Chapter 27: The Role of Credit in Capitalist Production. Marx shows the general observation on the credit system in this Chapter, and particularly pays attention to the reduction of circulation costs in three ways by credit. First, money is completely dispensed with in a large portion of transactions. Second, the circulation of the circulating medium is accelerated. And third is the replacement of gold money by paper¹. The capitalistic credit system, based on the commercial credit and developed to the bank credit, economizes money, accelerates the circulation speed and creates the system, in which we do not need gold money. Money will be only an idea of value. Credit enables the acts of buying and selling to take a longer time, and hence serves as a basis for speculation².

For contemporary financial crises, however, I must pick out some key phrases of joint-stock system by Marx, because it plays a crucial role in the financial crises in the period of neo-liberalism. “The joint-stock system is an abolition of capitalist private industry on the basis of the capitalist system itself.” Therefore, it accelerates speculation. “The credit offers the individual capitalist, or the person who can pass as a capitalist, an absolute command over the capital and property of others, within certain limits, and, through this, command over other people’s labor³.” Speculative behavior based on the property of others makes capitalists brave and its success and failure lead to centralization of capital and expropriation. “Credit gives these few more the character of simple adventurers. Since ownership now exists in the form of shares, its movement and transfer become simply the result of stock-exchange dealings, where little fishes are gobbled up by the sharks, and sheep by the stock-exchange wolves.⁴”

In the capitalist society, the reproduction-process, which is elastic in character, expands to the utmost limits by credit. The credit system becomes a lever for over-production and an excessive speculation in commerce. “The credit system hence accelerates the material development of the productive forces and the creation of the world market, which is the historical task of the capitalist mode on production to bring to a certain level of development, as material foundations for the new form of production. At the same time, credit accelerates the violent outbreaks of this contradiction, crises, and with these the elements of dissolution of the old mode of production.⁵”

How does the credit system, especially the joint-stock system drive the capitalists to the excessive speculative behavior? I research on the formation of fictitious capital

1 Karl Marx, Capital vol.3 (London: Penguin Books, 1981) pp.566-7.

2 Ibid., p.567.

3 Ibid., p.570.

4 Ibid., p.571.

5 Ibid., p572.

created by the joint-stock system. Marx argues as follows: “The formation of fictitious capital is known as capitalization. Any regular periodic income can be capitalized by reckoning it up, on the basis of the average rate of interest, as the sum that a capital lent out at this interest rate would yield.” Therefore “the capital value of this security is still pure illusion.¹” The market value of this security moves of its own, even if real capital does not change itself. For example, if market value of a stock is \$100, the rate of interest is 5%, and the yield of this stock is \$10, the market value of this stock will be \$200, because the yield of \$10 will be capitalized by the 5% interest rate. The market value of this stock will be speculative in part, because it will be affected by the future yields of this stock. This is the reason why the promising stock value rises rapidly. However, “In times of pressure on the money market these securities fall in price for two reasons: first, because the interest rate rises, and second, because they are put up for sale in massive quantities, to be converted into money.²” The storm passes away, and market value of these securities rise again to their former level, in so far as the undertakings they represent have not come to grief and are not fraudulent. They are the best targets for investment of speculators who make large profits. Their depreciation in a crisis is a powerful means of centralization money wealth. If an increase or decrease in the market value of these securities has nothing to do with the movement of real capital, it never changes the level of wealth of nations. “The nation was not a penny poorer by the bursting of these soap bubbles of nominal money capital.³”

The accumulation of ownership of the titles for real capital follows the development of capitalist system. When these titles based on real capital are priced and circulate as commodities, they represent the value of capital. However, these value of titles move independently with the movement of real capital. Therefore, profits and losses caused by the price fluctuations of these titles become the result of gambling. Marx writes, “Gambling now appears in place of labor as the original source of capital ownership, as well as taking the place of brute force. This kind of imaginary money wealth makes up a very considerable part not only of the money wealth of private individuals but also of banking capital, as already mentioned.⁴”

The rapid development of joint-stock system accelerates the accumulation of money capital for loan. It accumulates at the expense of both the industrial and commercial capitalists because money capitalists buy up the devalued industrial and commercial securities on a massive scale, as they will soon go up again in the later phases, and even rise above its normal level. They will then sell them off, and receive massive capital gains from these deals. The money capitalists transform these gains into money capital for loan

1 Ibid., p.597.

2 Ibid., p.598.

3 Ibid., p.599.

4 Ibid., p.609.

for the time being. The gains of money capitalists are not only a source of money capital for loan. Industrial and commercial capitalists transform the portion of profits that not destined to be consumed as revenue into money capital for loan for the time being, and also the portion of profits that destined to be consumed as revenue is transformed into loanable capital. If the price of materials and elements of production fall, capital may be set free, and an interruption of business also set capital free. A lot of people retired from reproduction also transform money into loanable capital.

Marx argues like this: “As material wealth increases, the class of money capitalists grows. On the other hand there is an increase in the number and wealth of the retired capitalists, the rentiers; and secondly the credit system must be further developed, which means an increase in the number of bankers, money-lenders, financiers, etc. With the expansion of available money capital, the volume of interest-bearing paper, government paper, shares, etc. also expands, as explained already. At the same time, however, so does the demand for available money capital, since the jobbers who speculate in this paper play a major role in the money market.¹” The commercial banks respond to the jobber’s demand for available money capital. Therefore “With the development of the credit system, large and concentrated money market are created as in London, which are at the same time the major seats of dealings in these securities. The bankers put the public’s money capital at the disposal of this gang of dealers on a massive scale, and so the brood of gamblers multiplies.²”

The development of British capitalist system institutionally created financial superiority over industry. It is well known that this superiority resulted in passage of the English Bank legislation of 1844. The gold standard was a currency system in the 19th century. The Bank of England was divided into an Issue Department and a Banking Department by this law. The paper circulation governed precisely by the laws of metal circulation was an ideal system of this legislation. When gold drained, bank notes withdrew from circulation. In case of overproduction, such a behavior of the Bank of England sometimes led the British economy into a financial panic and an economic crisis because a lot of means of payments was needed in this period of emergency. The fund was not supplied, interest rates rose rapidly, and business failures occurred in succession.

However, financiers made the most use of high interest rates in the money market. High interest rates created by the 1844 Banking Act in an economic crisis were good chances for them being great financiers in London by making a lot of profits and centralization of capitals. Marx argues as follows: “Talk about centralization! The credit system, which has its focal point in the allegedly national banks and the big money-lenders and usurers that surround them, is one enormous centralization and gives this class of parasites a fabulous power not only to decimate the industrial capitalists periodically but

1 Ibid., pp.642-3.

2 Ibid., p.644.

also to interfere in actual production in the most dangerous manner –and this crew know nothing of production and have nothing at all to do with it. The Acts of 1844 and 1845 are proof of the growing power of these bandits, added to whom are the financiers and stock-jobbers.¹”

The worldwide economic crisis broke out, because all the countries over-exported and over-imported simultaneously. In those times, precious metal, which was gold or silver, was based on the circulation of money. A drain of gold, which was a sign of economic crisis, might begin in England, because this country gave the most credit and took the least of it. Even though the overall balance of trade was in its favor, the balance of payments due, which had to be settled immediately, was against it. However, a real crisis did not break out at once after the drain of gold. “The real crisis has always broken out only after the exchange rates have moved, i.e. once the import of precious metal has the upper hand again over the export.²” If a drain of gold started, the Bank of England withdrew the bank notes from circulation, interest rates rose and money stringency happened. The exchange rates moved, and a drain of precious metal changed into an inflow. Simultaneously an economic crisis broke out in England. This crisis led to a drain of gold from other country to England. Interest rates rose and money stringency happened in other country. The exchange rates moved, and a drain of precious metal changed into an inflow to the other country. Simultaneously an economic crisis broke out in other country.

Therefore, an economic crisis broke out in England, and successively spread to other countries. In the end, “As soon as the general has burned itself out, and we again have a state of equilibrium, the gold and silver (leaving aside the influx of fresh precious metal from the producing countries) is again distributed in the proportions in which it previously existed as hoards in the various countries.³”

This shows us that a lot of wealth must be sacrificed by the economic crisis in order to retain enough precious metal for business world. It is inevitable in the capitalist society that the credit system should turn into the monetary system, and “The utmost sacrifice of real wealth is necessary at the critical moment in order to maintain the metal basis.⁴”

2. 2. Financial Crises in the Keynesian Regime: Why were the financial crises defused and averted in the post-Second World War?

As Marx discussed in *Capital*, the financial crises cyclically broke out in the capitalist world in the 19th century and in the first half of the 20th century. However, they were defused and averted in the post-Second World War. We never had such a kind of financial

1 Ibid., pp.678-9.

2 Ibid., p.702.

3 Ibid., pp.703-4.

4 Ibid., p707.

crises discussed in Chapter 1 until 1971-3. Why did they disappear in the capitalist world?

Firstly, I point out that the power of “the great financiers and stock-jobbers”, which Marx pointed in Capital volume 3, was successfully contained after the Second World War. The power of stockholders was lost in big business, the power of bankers was also weakened, and the power of management became stronger in the United States. Investment bankers were needed for external financing of big corporations. However, big corporations gradually turned to internal financing, because they could earn a lot of monopoly profits after the Second World War. Therefore, big corporations in the United States were independent of bankers and powerful stockholders and their business policies were connected with the interests of themselves¹. The behavior of giant corporations became free from the interests of financing institutions.

Secondly, I point out that the power of international speculative capital was successfully contained after the Second World War. The international trade and monetary system just after the Second World War was created by the Keynesian policy. According to this policy, if all the nations independently encourage an investment and consumption by the development of fiscal and monetary policies in order to achieve full-employment, the world trade will expand and reduce the unemployment world-wide with an increase in the level of GDP in the world. Keynes says like this: “but if nations can learn to provide themselves with full employment by their domestic policy (and, we must add, if they can also attain equilibrium in the trend of their population), there need be no important economic forces calculated to set the interest of one country against that of its neighbors. There would still be room for the international division of labor and for international lending in appropriate conditions. But there would no longer be a pressing motive why one country need force its wares on another or repulse the offerings of its neighbor, not because this was necessary to enable it to pay for what it wished to purchase, but with the express object of upsetting the equilibrium of payments so as to develop a balance of trade in its own favor.²” This is the ideal world for Keynes, therefore he says: “Is the fulfillment of these ideas a visionary hope?³”

Keynes might be disappointed about the functions of International Monetary Fund created by the Breton Wood Agreement in 1944, because he could not fulfill his ideas by creating the International Settlement League based on the Bancor. However, I understand that the IMF was constructed from the idea of strictly containing the behavior of international speculators. The IMF was very cautious to free the international transactions of capital, because it might lead to accept a speculative transfer of capital and a capital flight. Keynes distinguished between the transactions of short-term capital caused by the

1 See Paul A. Baran & Paul M. Sweezy, *Monopoly Capital* (New York: Monthly Review Press, 1966) Chapter 2.

2 J. M. Keynes, *The General Theory of Employment, Interest, and Money* (London: Harcourt Brace Javanovich, Publishers, 1953) p.382.

3 *Ibid.*, p.383.

balance of current account and the transactions of short-term capital which might accelerate an imbalance in economy. He contends that the latter should be strictly regulated. The Keynes's idea was to accelerate an international trade by freeing transaction of the current account. The IMF is not based on the gold or gold-exchange standard.

The currency is privately exchanged for a gold coin by the gold standard. The exchange between currencies is ruled by the gold-parity. The exchange rates fluctuate between the gold-import point and gold-export point, which are ruled by the gold-parity with a transfer-cost of gold. If our balance of payments moves and is in its favor, our exchange rate is up, and if it is over the gold-import point, foreigners send us gold instead of buying our currency. If our balance of payments moves and is against it, our exchange rate is down, and if it is under the gold-export point, we send gold to foreigners instead of buying the foreign currency. However, this is a story of the times of Marx.

The IMF, which was created by the Keynesian policy, was not based on the gold standard, because one of the objectives of its creation was to be freed from the rigidity of gold standard. There were various institutional schemes for currency system from totally freed to restricted one. There were also various systems for exchange rate from the floating to the fixed one. The IMF decided that the members of Article 8 must not restrict transactions of the current account in principle and adopted the fixed rate exchange system. This is an effective way of preventing speculative capitalists from doing their business and making extraordinary profits arising from the international speculative activities. This is also an implemented scheme of J.M. Keynes who insisted the containment of unscrupulous speculators. Keynes says like this: "Speculators may do not harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done.¹"

Financial Crises in the age of Neo-liberalism: Why have financial crises broken out so often?

We have experienced financial crises so often: the U.S. crisis of Savings & Loan Associations in 1991, the Asian Currency Crisis in 1997, the Russian Ruble Crisis in 1998, and the serious financial crisis of Japan in 1997-8. The U.S. stock market collapsed in June 2002 because of the unscrupulous account-rigging for big businesses in the United States. And now we have serious international financial crisis, which broke out in summer of 2007 in Europe, and exploded into the U.S. financial institutions and businesses in 2008-9. Every time the government takes the policies to meet them and the economy recovers from these crises. However, Danger past, God forgotten. We have another financial crisis again! Why have we met with financial crises so often?

1 Ibid., p.159.

Domestic Factors in Financial Crises

Firstly, I point out that the power of “the great financiers and stock jobbers” has recovered rapidly, and it has politically and economically been increasing. But how is it possible to have recovered so rapidly?

As Marx discussed, the Sir Robert Peel’s Bank Acts of 1844-5 served for the great financiers in the latter half of the 19th century England. Here we must discuss how the regulations for banking business in the 1930s were relaxed from the 1980s to the present in the United States. The financial crises were defused and averted in the post-Second World War, because the interests of financiers were successfully contained. Historically, it was carried out in the 1930s under the Roosevelt Administration. Henry Morgenthau, Jr., Secretary of the Treasury under the Roosevelt Administration, tried to construct the Keynesian financial system based on the Department of the Treasury. One of the objectives of the New Deal policy was to change the role of finance capital from “A master of economy” to “A servant of economy.”¹ This policy was carried out with the passage of the Glass-Steagall Act of 1933 and the Banking Act of 1935. The former separated the organizations of investment bankers from the commercial banking institutions, and the latter strengthened the function of Federal Reserve System and the relationship between the Department of the Treasury and the Federal Reserve Banks. The Roosevelt Administration set the U. S. financial institutions under the strict rules of interest rates and their sphere of activity.

However, these restrictions were dramatically released in the 1980s. The Depository Institution Deregulation and Monetary Control Act of 1980 abolished the strict rules of interest rates, permitted the issue of check on the savings account, and extended the business sphere of savings institutions. The Garn-St. Germain Depository Institutions Act of 1982 also extended the business sphere of Savings & Loan Associations and led them to the risky business. And finally, the collapse of US Savings & Loan Associations occurred in the late 1980s.

The Federal Deposit Insurance Corporation Improvement Act of 1991 was enacted after the financial crisis of the late 1980s. This legislation was to reconstruct the FDIC. This crisis led to the FDIC to bankruptcy and a lot of public funds were used to save the FDIC. According to the new rule of this law, the financial institutions whose ratio of net worth is over 10% are exceptionally permitted to do a new business like the securities. The Financial Modernization Act, Gramm-Leach-Bliley Act of 1999 finally completed the deregulation of financial system in the United States. This law permits the creation of financial holding company which controls all over the sphere of financial institutions. The securitization of the US financial institutions, particularly commercial banks dramatically proceeded in the 21st century. When banks make a loan, they have loan assets on their balance sheets until

1 Richard N. Gardner, *Sterling-Dollar Diplomacy, The Origins of Our International Economic Order* (New York: McGraw Hill Book Company, 1969), p.76.

finishing the term of lending. However, securitization starts when they sell their loan assets to investors and get the fees from their selling. The securitization of banking loans has typically proceeded in the home-loan business, but we can see almost all of the loans securitized in the car-loan, lease on computer and trucks etc. Former times, US commercial banks received their profit margins on lending. However, they receive now a lot of fees on securitized business. The US commercial banks received over the 43% of revenue from the non-interest fees in 1999. The non-interest fees are charged on the credit cards, mortgage-service, refinance, mutual fund, and the securitized banking loans. The securitization of consumer credits is rapidly expanding and the commercial banks have a business linkage with the securities markets¹.

The roots of economic crisis, which occurred in Europe in 2007 and went worse in 2008-9, go back to the securitization of economy in the United States and the system of the world after the collapse of the Keynesian regime. The beginning of this crisis was the default on the sub-prime loan in 2007. The sub-prime loan is a home-loan which is given to the low-income and least-credible people in the United States. The weakening housing markets led to the falling down of the prices of houses. The sub-prime loan-owners could not pay back to the lending institutions because the repayment of the debt was rapidly rising. The number of home foreclosures was rising and was at an all-time high.

The financial crisis has spread all over the world because many financial institutions in Europe and Japan invested in the mortgage-backed-securities based on the sub-prime loans. The value of mortgage-backed-securities was falling down and a lot of financial institutions around the world were plunged into the serious economic situations. In the times of Karl Marx, the world economic crisis mostly spread all over the world beginning in England. The roots of those crises traced back to the excessive-imports and exports and few economic crises occurred because of the excessive international investments. In those times, the crises spread out of the excessive international trade. However, today the international excessive investments cause financial crises and have a serious effect on the real economic world.

International Factors in Financial Crises

The contemporary financial crisis spreads worldwide because an activity of international speculative capital is enormously increasing with the liberalization of international capital transactions. The Nixon administration declared that the United State would stop the exchange of the dollar for gold on August 15, 1971 and changed the fixed exchange system to the flexible system in 1973. The U.S. liberalization of international capital transactions led to the breakdown of the Breton Woods System and started the

¹ William F. Bassett and Egon Zakrajsek, "Profits and Balance Sheet Development at U.S. Commercial Banks in 1999," in Federal Reserve Bulletin, June 2000, pp.379-80.

period of neo-liberalism in the world economy. The U.S. role of the world economy is transformed from “The banker of the world” into “The investment banker of the world”. The liberalization dramatically increased in the volume of international transactions of capital. Vladimir Ilich Lenin writes as follows: “the export of capital as distinguished from the export of commodities acquires exceptional importance” in the age of imperialism¹. We also say analogically that the export of capital as distinguished from the export of commodities acquires exceptional importance in the age of neo-liberalism.

In the 1980s, the power of political economic hegemony in the United States was transferred from “the Keynesian coalition” formed by the giant industrial corporations and organized labor into “the worldwide financial hegemony” formed by the multinational corporations and banks. The United States started to construct the giant super-power of economic hegemony through the liberalization of international capital flow. She demanded foreign countries for the liberalization of international capital transactions and many countries liberalized their international capital accounts in the latter half of the 1980s and 90s.

This liberalization of international capital transactions might lead the world economy into the financial crisis, because it will become an institutional factor for excessive investment and speculation into specific countries and areas. U.S. multinational corporations and banks, however, gain huge profits by moving their capital internationally. Particularly, U.S. financial institutions gain a lot of profits by the business of securitized markets around the world. The world wide securitization of finance has formed the basis of U.S. economic hegemony.

The international asset transactions have become a crucial factor for determining the market price of foreign exchange. Demand and supply of the currencies in the foreign exchange are mainly created by the international asset transactions and the volume of transactions out of international trade is relatively small. We must pay attention to the fact that the international asset transactions have a strong tie with the development of securitization of the U.S. economy. The excessive securitization of the U.S. economy has dramatically increased the status of U.S. securities markets. Investment funds all over the world concentrate in the U.S. securities markets and the market price of securities have got a serious effect on the foreign exchange.

How do investors behave in these securities markets? According to the Keynes’s theory, revaluations of existing investments are carried out with convention. Keynes says: “Nevertheless the above conventional method of calculation will be compatible with a considerable measure of continuity and stability in our affairs, so long as we can rely on the maintenance of the convention.²” At the same time he mentions its weak point. “It is its

1 V.I. Lenin, *Imperialism, the Highest Stage of Capitalism*, (Moscow: Progress, 1970), p.86.

2 Keynes, *op. cit.*, p.152.

precariousness which creates no small part of our contemporary problem of securing sufficient investment.¹”

Firstly, as a result of the gradual increase in the proportion of the equity in the community’s aggregate capital investment which is owned by persons who do not manage and have no special knowledge of the circumstances, the element of real knowledge in the valuation of investments has seriously declined. Nowadays for example, investors sometimes buy government bonds, because their yields are comparatively higher with other securities. However, they have no special knowledge of this country’s situations. Secondly, day-to-day fluctuations in the profits of existing investments tend to have an altogether excessive, and even an absurd, influence on the market. Thirdly, a conventional valuation which is established as the outcome of the mass psychology of a large number of ignorant individuals is liable to change violently as the result of a sudden fluctuation of opinion due to factors which do not really make much difference to the prospective yield. Nowadays, we are experiencing “a contagious effect” in the financial crises, which has caused a sequence of banking troubles in many countries.

How about the behavior of the professional investors and speculators? Keynes writes as follows: “For most of these persons are, in fact, largely concerned, not with making superior long-term forecasts of the probable yield of an investment over its whole life, but with forecasting changes in a conventional basis of valuation a short time ahead of the general public.²” “Thus the professional investor is forced to concern himself with the anticipation of impending changes, in the news or in the atmosphere, of the kind by which experience shows that the mass psychology of the market is most influenced.³” Professional investors try to anticipate the basis of conventional valuation a few months hence, rather than the prospective yield of an investment over a long term of years.

Keynes writes, “As the organization of investment markets improves, the risk of the predominance of speculation does, however, increase.⁴” Today, as the internationally liberalized investment system is developed, the speculative capital works predominantly in the investment markets world wide. The United States has been compelled to develop this system because the market price of the dollar must be maintained by the investment funds into the U.S. securities markets. The United States enormously exports capital, and also imports capital much more than the amount of capital exports. This has been the only way of maintaining the dollar system of the United States after the collapse of the Keynesian regime.

Conclusion

1 Ibid., p.153.

2 Ibid., p.154.

3 Ibid., p.155.

4 Ibid., p.158.

The present financial situations are totally different from those of the 19th century. However, the conditions exist now for creating a financial crisis discussed in *Capital* by Karl Marx. The political and economic power of “the great financiers and stock market jobbers” is increasing, and the gambling activities of international speculative capital are rampant world-wide. When a financial crisis explodes, people say, “Great Heavens! Is it a Great Depression?” However, today there are two decisive different conditions from the age of Karl Marx.

First, we don't live in the economic society based on the international gold standard. It is clear that the rampant activities of international speculative capital were put down under the fixed exchange system of the IMF. However, a speculative capital is moving around the world today under the flexible exchange system and sometimes it causes a financial crisis. Therefore, a change from the credit system into the monetary system happens at the time of financial crisis, discussed by Karl Marx. The central banks, however, can supply an emergency huge monetary support to the financial institutions because they are free from the constraints of the gold standard.

Second, we live now in the economic society whose budgetary scale is beyond comparison the largest in history. In case of a financial emergency, the government, even if it is organized by the thought of neo-liberalism, put a huge public fund into the troubled financial institutions and they are saved for the time being. However, the financial instability never calms down, and a rapid increase and decrease in the price of financial assets repeats forever. Nowadays the vibration of the price of financial assets becomes very strong so that it gives an effect seriously on the real economic sectors. A rapid increase in the price of financial assets causes remarkable financial profits and raises the level of GDP, but its sudden decrease causes a lot of loss, which goes down the level of GDP in the real sectors. An assets effect on real sectors has been considerable and it is a typical example of this effect that the big three of U.S. automakers are on the brink of bankruptcy during the financial crisis in 2008-9.

What policies should we take in such serious financial crises around the world? We must take a policy of containment of speculative capitals, because reckless activities of speculative capitals cause a financial crisis and lead the world economy into the depression. We must understand that an inefficient economic activity has been performed in the liberalized international investment markets after the collapse of the Keynesian regime. It is not easy to change this system right now. However, it is time that we should take away an inefficient liberalized international investment system and instead construct a stable system in the near future.