



Marxism is back in fashion...

According to a BBC report published on 20 October 2008, entitled “Marxism is back in fashion”, a German publishing house has reported that Karl Marx’s seminal work “The Communist Manifesto” and “Das Kapital” have been “selling very well” since the onset of the global financial crisis. Also, visitors have been flocking in record numbers to Marx’s birthplace with the general sentiment that ‘Marx was right all along’.

Could this phenomenon be signalling the start of a revolutionary, broad-based acceptance of communist philosophy in the developed world in particular, or is this just another fad spurred by individuals burned and disillusioned by the worst financial crisis in living memory? This article attempts to examine whether there has been, in reality, any sign of a socialist or communist flavour in the recent policies adopted by the USA and Europe as a result of the financial crisis and economic recession.

The major policy prescriptions discussed in Marx and Engels’ “The Communist Manifesto”, for a transition from capitalism through socialism (state control of capital and means of production) and eventually to a communist / classless society are as follows:

1. Abolition of private land ownership and the application of all rents of land to state coffers.
2. A heavy progressive income tax regime.
3. Abolition of all right of inheritance.
4. Confiscation of the property of all emigrants and dissidents.
5. State ownership of credit by means of a national bank with State capital.
6. State ownership of all means of transport and communication.
7. State ownership of the means of production.
8. Equal obligation of all to work. Establishment of industrial armies, especially for agriculture.
9. Combination of agriculture with manufacturing industries. Gradual abolition of the distinction between rural and urban through a more equable distribution of the population over the country.
10. Free education for all children in public schools. Combination of education with industrial production.

The following are the only communist policy prescriptions which have any significant direct / indirect applicability in the US or Europe today.

1. State ownership of land – While there has been no recent direct change in legislation in the USA or Europe to remove the rights of individuals to own land and property, as well as derive rents from these properties, there has been a more indirect move towards state ownership of land and properties through the bailout and nationalization of mortgage brokerage companies. The fact is that, legally, the ownership of the property remains with the mortgagee until the borrower has repaid the debt.

The US unemployment rate reached 6.5%, the highest level in 14 years, as the economy lost 1.2 million jobs so far for 2008. This has no doubt served to compound the record breaking level of mortgage delinquencies (for homes as well as commercial real estate), which signalled the beginning of the crisis. In an effort to calm investors and consumers, the US Federal Reserve announced on 25 November its intention to purchase as much as \$600 billion of debt issued or backed by government- chartered housing financing companies. In addition, homeowners will soon be able to refinance 59% of all mortgages outstanding.

Since the US administration is now in control of Freddie Mac and Fannie Mae (and by extension, about half of the USD12 trillion mortgage market), it means that not only does the state, in effect, own all the properties that are mortgaged, they also control the mechanism by which most people will occupy and eventually own their own home. They can influence access to mortgages, the terms and conditions of the mortgages granted, the way delinquencies are treated and by extension influence overall property prices through these practices.

In the UK, the largest mortgage lender HBOS was acquired by Lloyds TSB, which now accounts for one-third of the UK's savings and mortgage market. Barclays PLC managed to outwit the UK government and instead received a capital injection from Qatar. Bradford and Bingley could not avoid being nationalized and the Royal Bank of Scotland (RBS), Lloyds TSB and HBOS received billions of state funds. In return, the government will get a say in how the banks are run, including control over the bonuses paid to management. The level of influence the UK administration would be able to exercise may be much less than its US counterpart but the fact remains that, much like the US, the government in the UK now holds sway over the property market.

2. A progressive income tax regime – The British have recently announced a temporary cut in VAT in order to stimulate spending and there has been much talk, but only talk, of income tax cuts which will favour the lower income brackets. The reduction of VAT is more progressive in nature, as the flat tax is necessarily relatively more burdensome (as a percentage of overall spending or of income) for the lower income earners than the wealthy. In addition, the move to reduce income taxes on the lower income brackets will result in a more progressive regime. At present, the US income tax regime is already progressive in nature but there are those who feel it is not progressive enough.

Obama proposes to cut taxes for 95% of Americans and in effect eliminate income taxes for a further 17 million taxpayers including seniors. This will be funded by tax hikes for the 5% who earn more than USD250,000 p.a. It is estimated that this change would amount to a tax of about USD1,000 per family and USD1,400 for seniors, from the wealthy to the less fortunate.

The proposed personal income tax reform represents a double edged sword in that it will have the dual effect of also stimulating economic activity. Those whose disposable income will increase are far more likely to spend most, if not all, of their tax-break.

3. State ownership of credit by means of a national bank with State capital – As mentioned in point 1, there has been unprecedented nationalization / state funded bailout of banks in the US, UK and Europe in response to the massive credit freeze. Banks that were earmarked for government bailout (in exchange for share, or some other form of partial state-ownership and stewardship) in the UK were: Abbey, Barclays, HBOS, HSBC, Lloyds TSB, Nationwide, Royal Bank of Scotland, and Standard Chartered. In the US, the Treasury and the Fed have been involved in: brokering merger and acquisition (M&A) activity (such as the takeover of Bear Sterns by J.P. Morgan); lending banks vast sums secured by so-called troubled assets; and purchasing shares in banks to bolster their balance sheets.

We have witnessed many analysts, journalists, economists, politicians, trade union leaders, and the public at large in the developed world, voicing their discontent with the state funded 'bailout' of numerous banks, investment brokers and mortgage firms, stating that the greed of these large corporations precipitated the financial crisis and that they should therefore be allowed to go bankrupt.

The precedent that was set over the past few months with expensive bailouts necessarily sends a signal for the future that Governments (whether for truly altruistic reasons or for the sake of popularity) will attempt to prevent a financial sector crisis and the resulting economic downturn, by spending vast public funds and changing legislation as necessary to save certain private sector corporations from failure. As a result, this has blurred the line that separates state-owned or Government agency entities, from select private corporations, from an investor or lender's perspective. Going forward, investors could feel more secure investing in large banks, for example those which are deemed "too big to fail".

So while the state does not directly have full control of credit by means of a national bank, funded by state capital, much of the liquidity held at banks is increasingly sourced from the state. Thus, the state indirectly controls, through its availability of lending to the banks, the funds available for lending to consumers. Also, the fact that the state has supported certain banks but has allowed others to be absorbed, sends a strong signal to the management of banks going forward.

In addition, the US treasury has the unique position that it alone controls the money supply though its ability to print any amount of currency it desires and by extension, influence the availability of credit to consumers.

4. State ownership of transport and communication systems – There is widespread and accepted state ownership of ground transport systems especially railways throughout the developed world since these elements of infrastructure are expensive, as well as key to growth and development. This is by no means a recent phenomenon and is likely to persist.

Communication systems, however, are less likely to be state run in the developed world as they are in less developed countries.

5. State ownership of the means of production – There are many private sector companies which are partially owned by the state, particularly in Europe. What is more significant is that although the level of state ownership may be low, especially in the US, the level of state regulation – particularly in the financial sector – is set to increase significantly. Key sectors such as agriculture, utilities, transport, communication, pharmaceuticals, etc. also historically face heavy state regulation (and in some cases state funding) due to their critical nature in the proper functioning of the economy. Additionally, we see that recently US automakers are calling on the state for financial support, which would invite state interference in these companies' operations.

Overall, based particularly on the fact that most of the developed world is in a recession, the level of state involvement in many sectors of the economy will climb, as governments seem to be adopting a decidedly Keynesian approach to resolving the crisis – running budget deficits, borrowing heavily in order to spend, with the aim of kick-starting the economy and return it to positive economic growth. This approach assumes that the multiplier effect is alive and well, and would eventually translate government spending into private sector spending and consumption. This, however, is where the problem lies – as banks seem to remain reluctant to lend each other and consumers as well, given expectations of increased unemployment. Consumers likewise are not as eager to spend, particularly based on borrowed funds, for the same reason.

Based on the preceding discussion, it may seem that in practice there has been a shift towards more communist type policies as it relates to the level of state control in the “private sector”. Whether there has been a true fundamental shift in the philosophy of the leaders of the developed world is uncertain and surely something that they would not freely admit.

FINANCIAL & ECONOMIC INDICATORS

As at 4 December, 2008

<u>Exchange Rate/US\$</u>	<u>Closing Value</u>	<u>Previous Week</u>
Yen	92.23	95.19
Euro	1.28	1.29
Jamaica	77.45	77.25
Guyana	203.90	204.20

<u>Commodity Prices</u>	<u>Closing Value</u>	<u>Previous Week</u>
Crude oil (US\$/bbl)	43.67	53.71
Natural Gas (US\$/mmbtu)	6.56	6.45
Gold (US\$/Troy Ounce)	767	815.83

Eurobond Indices (As at 4-December-08)

Lehman Brothers Global Aggregate Index (Return % YTD)	-0.10
JP Morgan EMBI+ (Basis points)	770
JP Morgan Central America and Caribbean Index (CACI) (YTD return %)	-22.90

<u>Policy Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
United States	1.00	1.00
Euro Zone	2.75	3.25
Japan	0.28	0.30
Brazil	13.75	13.75
Trinidad	8.75	8.75
Jamaica	13.50	13.50
Barbados	4.00	4.00

<u>Market Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
US 90-day T-Bill	0.02	0.05
US 10-Yr Treasury	2.55	2.98
3-month UK Libor	3.72	3.93
Japan 90-day T-Bill	0.48	0.48
Brazil 90-day T-Bill	14.30	14.37
TT 90-day T-Bill	7.04	7.04
Jamaica 90-day T-Bill	16.92	16.92
Barbados 90-day T-Bill	4.60	4.07

Sources: Bloomberg, CMMB, Central Bank of Trinidad and Tobago, Bank of Jamaica, Central Bank of Barbados, www.lehman.com

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