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Economy

A Brief History of the present crisis

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This article is a summary and development of the argument that I have been writing in the journal Critique, both in the Critique Notes and a number of articles.

I have left out two issues discussed in Critique, that of the case against the falling rate of profit as the only or fundamental cause and why the ruling class has opted for austerity. [1]

The Marxist theory of crisis has languished in the post-World War II period, largely because there was no real crisis until now. As Marx famously put it: “The world trade crises must be regarded as the real concentration and forcible adjustment of all the contradictions of bourgeois economy.” [2]

Today there is a real structural crisis of the system itself, not just a particular cyclical downturn/upturn. The latter have occurred a number of times in the postwar period, most recently and notably in 1981-5 and 1989-93 followed by the so-called dot.com crash in March 2000.

The last of these, however, was different in that recovery was very limited, and greatly affected by 9/11 and the wars that have followed. The crisis of 2007 is effectively its continuation. But the difference between previous downturns and that of March 2000/2007 is not just in the length of recovery, the depth of the downturn, and the global reach of the downturn.

More fundamentally, the difference lies in the longterm change in class relations with very high levels of longterm unemployment, combined with direct forms of attack on the standard of living of the working class whether through housing, taxes, wages or benefits. In Great Britain the attack has been total. In Ireland and Greece it has not only been total, but unremittingly vicious.

We are indeed living through a period in which the contradictions of the bourgeois economy are being released, after being mediated in the postwar period by the Cold War and latterly through finance capital.

Historically, capitalism since the late 19th century has successively used imperialism/finance capital, war, repression/fascism, then Stalinism/Cold War combined with the welfare state â€” and finally, a return to finance capital â€” as strategies for containment of the forces threatening to supersede capitalism.

I will argue here that these forms have either ceased to exist or have imploded, forcing the bourgeoisie to return to the classical forms of capitalism.

Background: The Turning Point

The crucial turning point came in the seventies when it became clear that the welfare state/full employment made capitalism unstable. Workers who are given lifetime tenure of employment with rising wages demand control over their work and over the society. Since workers are the majority of society, even the bourgeoisie can see that they cannot be held back under conditions where the fundamentals of capitalism are contained. Apart from force â€” which normally remains in the background until the system itself is directly threatened â€” capital, as self-expanding value, uses the form of commodity fetishism (“consumerism”), both ideologically and practically, as its preferred direct means of control.

The increasing role in organization of the economy by governments and corporations has eroded the myth that firms cannot be consciously planned rather than being run by the omnipotent capitalist. At the same time, the public sector and the welfare state cannot be run on the simple basis of value (i.e. profit-making) itself. The attempt to run education, health, prisons, etc. on the basis of value alone does not work. The fact that the bureaucratic alternatives are often poorly run does not alter this point.

The United States has diverged in having less of a welfare state and a smaller public sector than Western Europe, but the difference is one of degree. The role of a huge military sector, which is in essence a nationalized division of the economy outsourcing much of its production, together with a bureaucratic health machine controlled by insurance companies, performs much of the same functions in adding to the consciously regulated capitalist economy.

The role of the Federal Reserve Bank and the Treasury has been underlined since the downturn. The anger shown against both illustrates the way in which capital cannot avoid being consciously targeted today.

Not surprisingly, the bourgeoisie has tried to turn the clock back with increased marketization. The second form used to control workers, then, is that of the reserve army of labor, which had been effectively abolished in Western Europe in the postwar years. The restoration of mass unemployment has been more difficult, although essential to the restoration of capitalist stability.

By the 1960s and the ’70s, to return to the initial point, the working class was demanding both concessions and greater control over corporations and the economy. In country after country there were strikes and demonstrations which led the capitalist class to reassess its postwar strategy. Capitalim adopted a series of measures, which have become well-known as neoliberalism but are better understood as the consequences of the turn to finance capital.

The Analysis

Marx’s references to the contradictions of the capitalist economy and society provide the real starting point of any analysis of the downturn, but are particularly relevant at the present time. It was Trotsky who argued that we all live in a transitional period between capitalism and socialism. That does not mean that we have socialist forms, but it does mean that the capitalist forms are undergoing rapid and uncontrollable change, which the capitalist class is doing its best to roll back.

Put another way, the combined growth of governmental organization of the economy/society, large corporations, monopoly, and the increasing role of bureaucracies of insurance companies, large corporations, and the public sector reflect the increasing socialization of the economy/society, but in a fracturing capitalist framework.

The effect is that the dominance of value (a profit-driven “free market”) is limited in its scope, and decision-making often more important, but the capitalist class has been trying to roll back history. It talks ad infinitum about SMEs (small and medium size enterprises) and the so-called middle class. It tries to privatize everything possible and impossible. The problem is that these measures do not have the desired and expected effect: The middle class is increasingly squeezed and proletarianized, small business is controlled by big business and its independence is illusory, and privatization is limited by governmental regulation.

From this point of view, the switch to the dominance of finance capital took the apparent form of a series of bubbles, followed by a huge bubble which imploded. The reality was that the bubble was a delaying tactic to avoid the inevitable downturn. Alan Greenspan was neither mistaken nor an idiot, as he knew that raising interest rates prematurely would have aborted the upturn in the 1990s and during the early years of the new century.

Capital was transferred out of the value-creating sectors to finance capital. Some of it was exported, leading in a particular instance to the Asian bubble of 1997, but most of it was used for speculation. Leverage buyouts morphed into private equity, and mortgages were re-sold as CDOs ("collateralized debt obligations") while greater risk was offset by CDS's ("credit default swaps"). Translated into value, these so-called "derivatives" amounted to a transfer of value from industry and from wages/salaries.

All crises end up with a banking crisis, since the indebted capitalist or worker tries to get increased loans that ultimately they cannot repay. Raising interest rates at this point bursts the bubble.

Causation Behind the Crisis

Some Marxists attribute the crisis to underconsumption and others to the falling rate of profit, and yet others to disproportionality (imbalances which constrict the paths for productive investment). A fourth view puts particular stress on the financial failure as the fundamental cause. A fifth view combines all four. All crises, in my view, combine all these elements but there is always a trigger and a dominant or crucial cause.

This does not, however, end the discussion as it is quite obvious that governments have played a central role in crises in modern times. It is probably more correct to talk of the ruling class, and the various governments, being central to the crisis. In this respect it is clear that the ruling class has deployed a particular strategy at this time, which has spectacularly failed â€" that of finance capital, which involved a particular politics and a particular relationship to the working class.

Logically, the difficulty in placing investment points to disproportionality as the technical issue, at the present time, within a context where the end of the Cold War removed the basic stability of the system. We cannot look at crises simply in terms of the innate contradictions of capitalism. We also have to understand the response of the bourgeoisie and of governments in order to understand the nature of this particular crisis.

In other words, we have a series of elements of the present crisis that also make up the form of extraction of the surplus product or surplus value. The form itself reflects the decline of capitalism as a system. There are two aspects to this decline; one is finance capital and the other is the direct intervention of the ruling class, as a class, whether through governments or through other means.

Regarding the latter: As the society approaches its supersession, forms of the future show themselves but in a highly distorted form â€" in this instance through conscious control of the capitalist economy. The "invading socialist society" noted by Friedrich Engels has been turned to the advantage of capital, so far as that is possible. Rudolf Hilferding (the early 20th century theorist of "finance capital") was right to point to the way finance capital provides an organizational form for the ruling class. It does not abolish competition, but the collective interest of the ruling class can express itself when it needs to, particularly when it is threatened.

During the Cold War, such expression showed itself through the actions of the United States as the dominant imperial power, which effectively coordinated the ruling class through a series of institutions. The end of the Cold War and the decline of the United States has created problems for the ruling class in this respect.

In regard to the first point, finance capital was effectively the strategy adopted from the late seventies onwards and it has now unravelled.

The problem, at the point of the crisis breaking out, was that capital is self-expanding value and an expression of labor time expended, but the huge agglomerations of capital that had built up could not be reinvested except as fictitious capital, in the form of various kinds of loans and their derivatives. Money cannot produce more money in itself, or produce value without the intervention of productive labor. Money, without going back to labor, cannot complete the circuit to produce more capital.

Concretely, the bourgeoisie was not able to invest because there were insufficient outlets in which to invest, so they poured money into finance capital itself â€" derivatives, stock exchange, real estate, commercial real estate. A vast asset inflation ensued.

The bourgeois economic argument is that the Chinese and other Asians acquired and expanded an external surplus corresponding to the U.S. deficit. Perversely the Chinese refused to spend their money on raising the standard of living of their own population. This argument is dubious â€" or more correctly, it is nonsense.

There was and still is a huge pile-up of money held in financial institutions by wealthy depositors â€" in 2007 it came to 18 trillion dollars, nine times the level of the Chinese external holdings. There was something like 110 trillion dollars held by financial institutions like pension funds, insurance companies, private equity etc which had (and has) to be invested. The rate of industrial growth in the West is too low to absorb this money. The result has been a series of bubbles â€" first the East Asian bubble, then the implosion of Long Term Capital Management, followed by the dot.com bust.

The recent wars provided a brief relief for the system until it finally collapsed. Money has flowed to the third world, particularly to China, but it remains below its potential. Capital remains wary of investing money in countries over which it has limited control. The nations of Asia, Africa and Latin America are no longer colonies, and can and have nationalized property or (e.g. Argentina) refused to pay their debts.

The Situation Today

The situation has not basically changed. Hence money is flowing to the so-called emerging economies, where interest rates are relatively high, as in the case of South Africa, where interest rates are at 8%. In fact, corporations have done exceptionally well in the last year because they had a licence to dismiss workers and lower wages, so raising productivity and profits.

The recent additional expansion of the money supply in the United States â€" called "quantitative easing" or QE2 â€" is technically superfluous given the fact that companies have surplus funds. Obviously, the reason why the Federal Reserve Bank is issuing the money lies in the fact that they know that the corporations are not spending the money and hope that QE2 will provide an additional push to the money supply. However, unless somebody actually invests or spends the money productively it will not serve the necessary purpose.

Critics argue that the issuing of money will cause global inflation. Some, on the left as well as on the right, accept the argument. There is, however, no basis to it. The money flowing to the underdeveloped countries from the developed world goes very largely into portfolio investment or government bonds rather than into direct investment. Interest rates are high in those countries and we may expect that the money will flow back as the interest rates are reduced. Otherwise it is going into speculative investment in commodities. In effect, there is a new bubble in the pricing of raw materials and food, which is certain to burst.

Why is there capital which is not capital â€" that is, why is the ruling class not investing? An editorial in the Financial Times put it like this: "At the same time, corporations are in fine fettle. They are flush with cash, having used the recession to stock up on cheap liquidity and rationalise their business models â€" by firing workers or improving their productivity: hence 18 months of growth and profits, but no new jobs."

So why are they not using their money to increase their capital? The FT then says: "Business uncertainty feeds on itself: the more corporations postpone investments so that they can first see demand return, the longer they must wait for demand to materialise. In economics as elsewhere, the greatest thing to fear is fear itself.

"There are reasons to hope that US businesses may again be sniffing at risk." [3]

So the problem, according to the Leader writers of the Financial Times, is that businessmen are afraid to risk their capital. The "uncertainty" is too great. Of course bourgeois economics absurdly argues that profits are the reward of risk. So the capitalist class, according to them, are afraid to risk their capital, even though that is the function of capital itself. In reality, capitalisms reduce their risk to the absolute minimum, rather than lose their capital or potential profit. So what are they afraid of?

The FT seems to imply that it is an issue of the moment and only this moment, but in fact it was this very issue which led to the downturn. Looked at superficially, of course, banks were doing their best to lend to all and sundry, which is not just risky but foolish. So the official story is that banks were greedy and not just greedy but stupidly greedy. They went for high risks because the rewards were great.

Even a 10-year-old can see that this is nonsense. The banks did not invest in industry but in mortgages and derivatives â€" or in other words in loans and loan derivatives â€" and the economy had low levels of investment outside of finance. Once one removes finance from the statistics, the rate of growth is very low.

So why has the capitalist class in the West preferred only to invest in the unproductive sector and export its capital to the East? As mentioned above, Third World countries such as Brazil are suffering from a surfeit of Western capital going into portfolio investment in their countries. As a result they are taking steps to limit the inflow.

There are two points to note here. First, it is clear that there are huge sums of money which are looking for an outlet, as there were before the downturn; and secondly most, though not all, investors are not prepared to put their money into direct investment, into real production companies.

The huge pool of capital is looking for short term returns. The numbers went down during the downturn but they are moving up again. Obviously one way of spending money is to waste it, as in the recent construction of the most expensive apartment building in the world at 1 Hyde Square in London, where one apartment cost some $200 million, or return to the building of yachts.

The Concept of Finance Capital

So what is going on in more theoretical terms? One way of looking at it is to talk of a capital strike, as some left-wing groups have done, but that implies it is a short term action, when it is a long term strategy. The concept of finance capital is crucial. It is abstract capital (not tied to any particular productive enterprise), which is necessarily short-termist, unproductive and predatory, [4] but has succeeded in shifting the terms of the class struggle towards the capitalist class.

In Europe and the USA, the logic of a Keynesian or popular solution to the downturn would be towards both monetary expansion and the growth of nationalized industries. Yet private enterprise finds it difficult to go for large-scale investment over extended periods of time. Governed by finance capital, it is necessarily short-termist.

No legislation can alter the fact that the wealthy investors, holding the funds required, want immediate returns and are wary of taking on the risks involved in the research and development over long periods, without the government as partner. On the other hand, the dominant section of capital is afraid of allowing government to play an increased role in the economy and afraid of reflating the economy at a higher growth rate (i.e. “stimulus”).

The ideologists argue that growth and innovation comes from small and medium size companies, which have to be promoted over “planned” investment by the state. The argument has no merit, as truly independent SMEs are of little importance.

The automobile industry, aeroplane industry, military industry, pharmaceutical industries and chemical industries are typical in that they are dominated by large companies such as General Motors, Boeing, Pfizer and the like, which contract out a considerable proportion of the work. These smaller companies are effectively controlled by their purchasers in almost every respect.

Such window-dressing serves the purpose of covering up the real intentions behind the permanent austerity program. The meaning of the crisis is that the finance capital strategy itself has now imploded, and the capitalist class has no further strategy other than a return to classical capitalism, with mass unemployment and a minimal welfare state.

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[1] Hillel Ticktin, ”The Crisis and the Capitalist System Today,” Critique 53, 355-371, republished by Routledge 2011, in Hillel Ticktin (ed): Marxism and the Global Financial Crisis. Hillel Ticktin, “The Transitional Epoch, Finance Capital and Britain,” Critique 16, 1983, 23-42 & Hillel Ticktin, “Towards a Theory of Finance Capital,” Critique 17, 1-16, 1986. It is also discussed in the recent issues on the crisis: Hillel Ticktin, “A Marxist Theory of Capitalist Instability and the Current Crisis,” Critique 47, February 2009, 13-30, and in the Critique Notes over the last two years.

[2] Karl Marx, Theories of Surplus Value, Vol. 2, Lawrence and Wishart, London 1969, Progress Publishers, Moscow 1968, 510.

[3] “Something Stirring in the US Economy.” Financial Times, Saturday 8th January 2011, 10.

[4] For a discussion of Finance Capital see: Hillel Ticktin, “The Transitional Epoch, Finance Capital and Britain,” and “Towards a Theory of Finance Capital,” op. cit.

