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Economy

# Capitalism, Global Slump & the New Normal

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**It's been nearly seven years since the onset of the global economic crisis that began in 2007. In order to get an understanding of the crisis's origins, depth, and trajectory, we spoke with David McNally, activist, political economist, and author of *Global Slump: The Economics and Politics of Crisis and Resistance* (2010) and more recently *Monsters of the Market: Zombies, Vampires and Global Capitalism* (2012). For readability's sake, we have broken this interview into two parts. This first part focuses on the crisis itself, its causes, the way in which working life has been reorganized, the perspective of ruling elites in managing the crisis and pursuing austerity policies, and how this should help inform our stance as movement activists.**

Part two [1] will concentrate on *Monsters of the Market*, asking why the monstrous has captured popular culture. This will lead us into a critique of everyday life under neoliberal capitalism, discussing how the experience of waged labor has created an affinity for monster stories, particularly zombies, vampires, and Frankenstein's Monster. The second part ends with McNally's thoughts on building a renewed socialism-from-below. AS

**Tessa Echeverria: Let's start by talking about the history of the crisis that we're in now, neoliberalism and how capitalist states responded to the meltdown that began around 2007. Could you give us a quick rundown of how the crisis came to be and how that relates to the recent history of capitalism?**

David McNally: I see this as the fourth great slump in the history of global capitalism. The last quarter century or so of the nineteenth century was the first slump, the original "Great Depression" where the term was first used. It began in 1893 and ran for about 25 years. Then, of course, for most of us raised on 20th century history, there was the Depression of the 1930s, which was actually the second of the great slumps. That was followed by the slump in which I came into political activism, the crisis of the 1970s running more or less from 1971 to 1982. And then neoliberalism and the way it reorganized and restructured work, corporate power and so on, managed to engineer another wave of capitalist expansion, which really was exhausted by about 2007 when we entered the fourth of these great slumps. We're in year seven or so of this slump, with, I would argue, no end in sight.

That's just to get us situated historically. Now of course, every great slump has its unique historical features. They show all kinds of different characteristics having to do with the ways in which capitalism has evolved and in our case particularly how it has globalized, much more so than in any time in its history. There is also the specific role of the financial sector, and the very esoteric financial kinds of transactions that have been a feature of the neoliberal era of the last thirty years or so.

You put those two features together, globalization and financialization, and it allows us to make sense of why it was that a crisis that began in the U.S. real estate sector, probably in 2006/early 2007, then became a full-fledged financial crisis. That has to do with all of these mortgage-based securities that financial institutions were trading back and forth and selling to investors and speculators globally. It explains why the crisis so quickly globalized, because banks in Spain and banks in Scotland and so on were all holding these mortgage-based assets. I say all of that to give us a wider historical perspective: this is the fourth of these great slumps and they tend to last anywhere from slightly over a decade, as the one of the 1970s and early 1980s did, up to a quarter of a century, twenty-five years or so, as the first one in the nineteenth century. But also to point out that each of these has unique features.

That doesn't mean that there are not some basic consistencies at work. I would argue that consistently in any economy geared for competition between private owners for sales and for profit you are going to get manic waves of

investment where capitalists all try and purchase the latest state of the art technologies that they think will give them an edge in producing the same good or service more quickly. And so computers were used for all of these “just-in-time” production and delivery systems and the like. As long as capitalists are doing that and also trying to corner their markets, at some point they inevitably build more state-of-the-art steel mills and auto factories, build more shopping malls and apartment blocks, build more housing and aircraft than anybody out there can profitably use in a capitalist society. Those crises, which I think can be correctly described as overinvestment and over-accumulation crises, then take some time to get resolved.

The irony is that the way in which the world central banks responsible to governments intervened to try and stop the financial crisis is I believe stretching out the whole crisis that we’re looking at. When banks the world over started to collapse, central bankers, usually at the direction of governments, did what they did not do in the 1930s: in the 1930s they were so taken with their free market ideology that they thought they had to let the banks go down and let the market mechanism automatically correct itself. What they discovered was they had no idea where the bottom was! 1930 was worse than 1929, 1931 was worse again, all the way to 1933 at which point some governments, particularly the United States, began to try to counter the effects of the crisis by using government spending and banking policies.

But they learned that that huge collapse from 1929 to 1933 was catastrophic, both economically for capitalism but also socially and politically. This time, governments intervened massively. They did it basically by saying to the banks, “Give us all the toxic assets that you own, give us all the junk, the mortgage-backed securities that are worth nothing; the collateralized debt obligations that are worth ten cents on the dollar of what you paid. You give us that stuff, and we will give you back central bank money, the best stuff out there for investing, buying, and selling; the best paper that can be used for any financial interaction. We’ll give you dollar bills for junk.”

They threw the first few trillion into the system and that didn’t solve the crisis. They threw some trillions more, and by my reckoning at least \$28 or \$29 trillion dollars got thrown into the banking system and a little bit into fiscal stimulus programs of the Bush-Obama variety in the United States. Now to give you an idea of what that means, because I suspect you, like me, have never seen \$28 or \$29 trillion, that’s more than the value of all the goods and services that the U.S. economy produces in two years. In other words, the equivalent of taking more than two times the U.S. gross domestic product and giving it to the banks. Big surprise: that stopped the banking crisis!

As a result, that part of the crisis is over. Literally, there was no limit: they would just keep bailing out until the banks were stabilized. The problem is that they not only massively injected money into the banks, but they also effectively made the rate of borrowing money free! They made interest rates effectively zero for banks and prime corporate borrowers. What that has meant ironically is that the businesses that would otherwise have collapsed were either bailed out, think General Motors or Chrysler (which were directly bailed out by governments in the United States and Canada), or they were tacitly bailed out by being able to go to the bank and borrow with nearly zero interest attached. Essentially that free money has kept all sorts of businesses afloat.

I say it’s ironic because in order for capitalism to get back on its feet it needs to get rid of all the excess capital or excess businesses that are out there; all the over-accumulated, over-invested state of affairs. They do that by corporate bankruptcies.

In the 1970s and 1980s in the United States that is what happened: all kinds of steel corporations went out of business for instance. But we haven’t seen that because money has been effectively free. So we’re in the fourth great slump in the history of world capitalism, a massive intervention by central banks stopped a banking crisis, but by making money effectively free they’ve also blocked capitalism’s own perverse mechanism for getting back on its feet. You bankrupt the least efficient, least productive, least profitable companies, and you let the most efficient, most productive and most profitable take over their markets so that they can now start to expand and invest again.

You have a bailed out capitalism where the banks aren't collapsing, but where there's effectively something close to zero new investment by businesses. There's this long, high unemployment, very low growth rates and so on. Capitalism needs a wave of bankruptcies to really get back to vigorous growth, but central bankers are worried that in an environment of high unemployment it would have politically damaging effects to see a lot of businesses go under. And maybe some of those companies, if they go under and can't pay back their loans, will start yet another banking crisis. That's why I've been saying since early on in the crisis that I expect this to be one of those longer kinds of crises, easily ten years, perhaps significantly longer than that.

**TE: I was wondering if you could talk a little bit about how this is more of a global slump than a short-term or localized "crisis."**

DM: Let me start with the first part of that on how global this crisis has been, because of course early on the claim was, "It's just a U.S. crisis." And when Europe was tanking within a matter of months, they said, "It's just a crisis in the Global North, the South is vigorous. China, Brazil, and India are going to keep the whole system ticking over." And of course in the last while, it's been clear that there are big problems in those parts of the Global South as well.

This doesn't detract from the fact that there are uneven rhythms to a global crisis—a crisis does in fact have to start somewhere. But if it were only a local crisis, then you would expect just an individual economy, or a couple of regionally connected economies, to go through a crisis. We've had crises like that: in 1997 there was the so-called "East Asian Crisis," which didn't go global. It stayed within one region of the global system.

But this was different because a long wave of neoliberal economic expansion from about 1982 to 2007 was winding down due to over-accumulation. In that context, the whole system is vulnerable. Really, everybody is on the edge because it's just not productive to keep investing when you've got already a global capacity to produce 200 million tons of steel more than anybody needs, and that's where the world is at the moment.

Once the crisis hit in the United States, it wasn't long before it was a European crisis. Of course we now know that for a lot of interesting reasons Southern Europe was particularly vulnerable: Greece, Portugal, and Spain really stand out in that regard; Italy becomes part of that story. But not just Southern Europe, contrary to some claims: Ireland has been hit very hard and all the indications are that France is going to continue to just limp along. Those Southern European countries have unemployment rates around 50 percent for youth and about 25 percent of the workforce as a whole. That's Great-Depression-style unemployment rates that most of Europe is experiencing right now.

Right at the start of the crisis, China introduced a much bigger stimulus program than did the combined stimulus programs of Bush and Obama in the United States. China massively invested in airports, highways, bridges, hydroelectric stations, and so on as a stimulus response to the crisis, particularly in 2008 and 2009. They were really worried about losing their export markets. That did help stabilize the system for a period of time. Therefore the stories that China, India, and Brazil would be the new growth centers were plausible.

Today, Brazil has been really sliding down for two years and all of a sudden when you read the business pages you see this incredible worry about China. They're now talking about all the bad loans that the Chinese put out as part of their stimulus programs five years ago accumulating to a point where they don't know if the central government can contain that crisis. The Chinese growth rate has already dropped by about a third, or 40 percent.

But it's happened unevenly and on a stretched out timeframe, so it's easy for people to lose the interconnections across this process and understand the way in which it is one large global slump, which I've referred to on some occasions as a mutating slump. It may begin in one specific sector, say real estate, and then move into the banking system, and then when the banking system is able to contain it, it moves into an unemployment crisis. Its epicenter

may move geographically: if the U.S. banks are bailed out, then the pressure may fall on the European banks; if China does a massive stimulus, they may postpone the day of reckoning, and so on.

What we're really seeing is that while the temporal rhythm is stretched out over many years, each time the crisis in one sector or one region sneaks back into other sectors and other regions. China's turning down will now be very bad for all of those economies which export a lot to China, particularly for the huge building boom they've been in. All of those economies can expect to see a slowdown, which will be blamed on China's slowdown rather than recognizing that China's slowdown is just part of this wider pattern of a mutating slump that is changing form all the time as its center moves. It's as if you have an illness that moves from one part of the body to another: it's still the same organic illness at work, but it's manifesting in different parts of the ailing organism. That's really what we're seeing and the organism in question here is the global economy. Different parts of it become the centers of pain or centers of distress in what is really one integrated global process.

**TE: Following that, a lot of people over the past few years have talked about austerity versus neoliberalism, and I was wondering if you could talk a little bit about the distinctions between those forces and how that plays out in this slump?**

DM: I do think that this is the key to understanding why profits look so robust in the United States. The picture for corporate profits seems to defy the description I've given you. The understanding of austerity allows us to grasp some of the key political dimensions of this ongoing crisis.

Starting with the picture for business, when they recognized that it was not going to be possible to bail out the banks with just a few trillion dollars, the amount of debt governments around the world were going to take on was massive. Very early on, central bankers sent the message to governments that they would have to make somebody pay for the amount of debt governments were taking on to bail out the banks. The obvious candidate was the working class and poor people as a whole, who would in the first instance feel the effects of really dramatic cuts to social spending: education, healthcare, pensions, social assistance, and the like.

There the campaign has been orchestrated. We had the dubious distinction in Toronto in 2010 of having the G8 and the G20 meetings, the group of the eight largest and twenty largest global economies. They send their finance ministers, prime ministers, presidents, and so on to gather and strategize together. Prior to those meetings in 2010, there had been a phrase kicked around in the business press: "A decade of austerity." That was the rhetoric. It was going to take a decade to turn around the results of the massive government spending to bail out the banks.

Then all of a sudden, in and around the G8 and G20 meetings in the early summer of 2010, the phrase "Age of austerity" appeared; the "decade" had been shelved. What they realized was that the scale of their intervention had been so massive, \$28-\$29 trillion, that there was no way they were going to pay it down and restore the kind of budgets they wanted within ten years.

But I think there was more to it than that. It was the scale of the debt, but also they recognized the political opportunity: they realized that if movements of mass austerity resistance were not going to topple governments, and that was an open question at first—it certainly looked like a possibility in the days of the Arab Spring, when governments fell in Tunisia and in Egypt—that if by and large they were not going to be swept aside by mass social protest, then they thought, "We can actually use this." They could use the crisis long term to roll back the kind of gains that have been historically acquired going back to the 1940s or 1930s by labor and social movements.

Governments beginning in the so-called western, industrialized countries in the late 1930s made concessions to working class and social movements around unemployment insurance, old-age pensions, socialized medicine (the

United States being an important exception), public education, and, critically, higher education spending—all of that could be rolled back. You could privatize sections of it; you could move towards user-pay, so that even at public universities students pay more and more of the actual cost of attendance; you could starve the publicly-funded school system so that those of the middle class and above flee towards charter schools and private schools; you could undermine the so-called safety net in such a way that you could also systematically drive down living standards.

That has unfortunately worked. The majority of people in most of the Global North are poorer today than when the crisis broke in 2008. Their standards of living have declined and profits have soared. This is one of those cases where a really basic correlation works: wages down, profits up. That is largely what has driven the profit recovery.

Here we have the paradox that corporations have been significantly restored to health thanks to austerity, but they're not investing. The amount of cash that corporations are sitting on in the United States is around \$2 trillion and in Europe it's around €2 trillion. These are historic highs! They're raking it in again, but because of the over-accumulation I described earlier there's not a lot of incentive to invest.

We have a capitalism that is profitable with high unemployment. It's a unique combination of capitalist austerity that is working in terms of profits but it is not restoring economic growth to any degree that would really resolve the jobless crisis.

Unfortunately, the power elite has discovered that they can enforce austerity to a level I think many of them did not imagine pre-crisis. I don't think they thought they could put the boot in this hard without mass social upheaval. They're just going to keep testing limits. So what if class sizes in Detroit will be sixty? So what if Latvia has fired one third of all of its teachers? So what if pensions have been chopped by 70 percent in Greece? This is profitable for business! This is great neoliberal austerity for governments.

As long as they expect that they can keep doing it I think they will. As a result we get the phenomenon that commentators are talking about all the time where we have some of the most extreme degrees of social inequality coexisting with an essentially stagnant global capitalism with high unemployment rates. That is the new normal. I think it will stay the new normal until there is a shift in the balance of social forces by way of the kind of upsurge of mass working class and social protest that we saw, say, in the United States in the second half of the Great Depression of the 1930s.

**Andrew Sernatinger: Could you talk about why having this understanding of the global political economy isn't just something that's abstract and "out there," but is really important for people in terms of movement work and organizing?**

DM: I think this sort of analysis has a lot of value in terms of how progressive/left movements orient themselves and begin to think strategically in the long-term. Unfortunately, one of the things we learned during the neoliberal era from the early 1980s on, where gains won by feminist, civil rights, antiracist, labor, queer, antiwar movements, and so on were rolled back, is a kind of politics of defensiveness. I have so many buttons and t-shirts that begin with the word "stop". "Stop these cutbacks!" "Stop these attacks!"

That mode is of course important. We need to try and resist all the attacks we can, stop cuts, and so on. But the danger for left/progressive movements is that we get into a purely reactive mode where we're simply engaged in damage limitation. We're not having the discussions, doing the strategic thinking, and raising the organizational or political questions that follow about where are we in world history? Do we need to think in terms of the way the rulers are thinking? They're thinking of "decades" and "ages"—that's their rhetoric. If we want to do more than damage limitation and we want to recover a politics of social transformation, to get back to a genuinely radical, transformative,

liberatory political and social agenda, then I do think we need to situate ourselves.

The other thing I think we need to do is actually challenge the idea that austerity is simply being done by a bunch of crazy right-wingers, and what they're doing is bad for quote "the economy" because it suppresses consumer demand by making us poorer. As though all we have to do is persuade those in power and corporate leaders that what they're doing isn't good for themselves. That's the classic Keynesian argument, all we need to do is restore effective demand and everyone will benefit.

The problem with that perspective is that austerity is working for business and pro-business governments. Their interest isn't something called "the economy." Their interest is the corporate bottom-line and austerity is working for that. It's true: austerity isn't producing jobs. But that requires us to reckon with the fact that the purpose of a capitalist economy is not to create employment. That's not why businesses invest. It's not why bankers give loans. They don't do it to create jobs. They do it to help borrowers and investors maximize their profits.

The outgrowth of the view that austerity is some deluded, deranged right-wing agenda is that if only we could get good Democrats in office in the United States, or good New Democrats in office in Canada, then somehow all these attacks would go away. I'm sorry. I just don't believe it. I think that the analysis that I've been describing says to us that this is in capital's interest. This is in the interest of corporate power and of the bankers in our society and they're going to persist with it.

If you want to stop it, you can't simply try to do this educational work saying it's bad for the economy. You actually have to raise the question that radical working class and social movements of the 1930s did, which is how do we shift the balance of social forces in our society? How do we build a counter-power from below that is actually capable of winning victories against the agenda and begins to build an actual social force that is capable of articulating and shaping an alternative? Believe me, I don't think that can be done over night. But I do think that this is the kind of strategic understanding that follows from the analysis that I'm making. As you say, it's not just an academic analysis.

When I talk in these terms, I don't think I'm being just hopelessly abstractly utopian. If we look at the 1930s in the United States, what we see is that really the first half of the Great Depression was just a carnival for capital, it was austerity on steroids. They hammered labor into the ground. It took really significant grassroots organizing among different lines, particularly the great tactic of the sit-down strike where rather than going out you occupy the place of work. That was a transformative moment in the history of the left, when a radically different strategic and political conception of how you do labor organizing and activism began to sink in. Once the first few victories were won it became infectious. As a result, it always remains possible to push that kind of direction forward.

Having said that, it can't happen unless you soberly ask yourself where are we in history, what is the nature of this economy, why everywhere are governments that can get away with austerity doing it, and what does that mean strategically for developing a ten year and twenty year vision for radical politics and organizing.

**AS:** The reason I ask this question in part is because a few years ago Richard Seymour posed a question [\[2\]](#), saying, "Why are we not able to explain this crisis?" Part of the problem with popularizing a movement was that austerity had become very naturalized, and the crisis was seen as something that just happened to people, not something that was systematic or designed. Asking that question, I was hoping to get to how we create a common sense based off of what you're describing?

DM: I think that is a key part of it, because you're right of course that the neoliberal offensive was not just an offensive against labor and social movements. It was those things, but it was also an ideological and cultural transformation. It created a primacy for the market in our own minds and it created a kind of fatalism about the

economy. It's the idea that the economy is like a weather system and it has these patterns entirely outside of our control. When it starts to rain, you simply go for your umbrella. These economic policies have deep-rooted dynamics in the nature of the capitalist system but the way in which they're translated into social and political policy is not nature-given. There's nothing meteorological about it. It overwhelmingly has to do with balances of social forces and what our rulers can or cannot get away with.

There's no question that what you say is correct: there is a key task of popular education. Having said that, I also think that there is out there a deep and abiding cynicism about Wall Street, banks, and corporate power. We saw that not only reflected in the Occupy movement, whose message I think really did have a popular resonance that surprised many commentators, but also I think we're even seeing it increasingly in popular culture at the moment. Even in mainstream film and television!

The irony is that it's not as simple as there being a deep ideological conviction about the market and about market-based ideas and solutions, but I think there is a historic collapse of any sense of alternatives, which I suspect is what you were getting and as was Richard Seymour. There is that sense out there that we have got this historical moment where the sense that this direction could be reversed is at an incredible low point. The cumulative effect of social retreat and social defeat over the last thirty years has really pulverized the radical imagination and the sense of possibility that was so different when I came into the left in the 1970s. That left had a sense that it had won major battles around civil rights; was winning major battles around gender rights; it could feel that it was having an effect on public opinion over the war in Vietnam. Taking the streets, occupying state legislative buildings, occupying workplaces and striking, occupying schools that are going to close—the sense that that can actually win is intoxicating, but feeling that it makes no difference, that it doesn't matter what you do, is massively deflating.

We need to figure out ways of rebuilding the radical imagination practically, by way of identifying those small victories that are tangible and can build a new sense of self-confidence. That's part of the story for the great shift that happened in the United States in the second half of the Great Depression of the 1930s.

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[1] [Monsters and a Critique of Everyday Neoliberalism](#)

[2] <https://www.jacobinmag.com/2011/07/...>