The current world crisis, an expression of the instability of capitalism. A Marxist view

Tarrit Fabien

University de Reims Champagne-Ardenne, OMI (EA 2065)

Abstract

In this paper, capitalism is understood as an unstable system, and such instability has been reinforced since the 1980s, as a rapid succession of crises has happened since then. Within an attempt to insert the current crisis within such dynamics, we will try to display its own specificities. The recurring character of the crises has much to do with the fact that the remedies that are used to counter each of them contain the germs of the next crisis. In this paper, our interpretation of the emergence and of the development of the current crisis is based on Karl Marx's analysis of capitalism, and especially on the tendency of the rate of profit to fall.

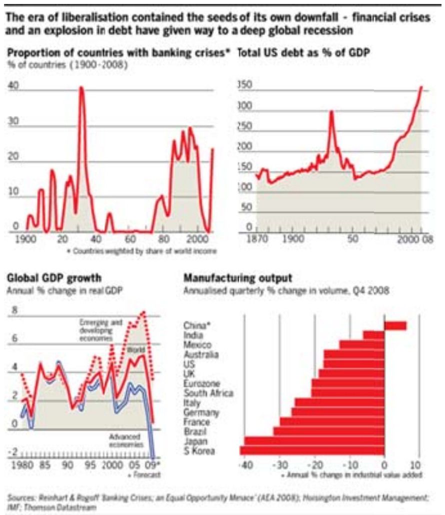
In an introductory part, our contribution displays how considerable the current crisis is, and it depicts a comparison with the period after 1929. We see it as an expression of the basic contradictions of capitalism.

In the first part, we demonstrate that the conjunctural foundations of the current crisis have paradoxically been strengthened by the components of the relatively long period of growth between 2001 and 2006 (massive debt, increase in the rate of exploitation and in the amount of available labour force…), which components permitted a restoring of the rate of profit. In other words, the real estate crisis that started in the United States in 2007 is an answer to the NTIC crisis in 2001-2002. We shall then display the way how the explosion the real estate bubble in Summer 2007, which originated in mortgage credits, turned into a financial crisis – the triggering event being the bankruptcy of Lehmann Brothers on September 15th 2008 –, and then to a world economic recession, with a decrease in GDP, as it never happened since the end of the Second World War. We deal with these events as the expression of an historical trend of overaccumulation of capital, within capitalist dynamics itself, which led to devaluation. We describe this as an expression of the tendency of the rate of profit to fall.

In the second part, we present the methods that have been used in order to face the current crisis. First, the States have massively intervened in order to save the financial system, and then the whole economy, from collapse, in helping some productive sectors (cars, airplanes…), in restoring the activity, in implementing investment programs… Second, the level of exploitation increased on a massive scale, with a stagnation, and even a decrease, in the level of the real wage; an important amount of capital was destroyed, both constant capital (closures of factories) and variable capital (redundancies, forced reduction in the number of worked hours). Third, the States have also shown a relative movement of national retreat, with a shift to protectionist measures, and it shaped into a massive decrease in the amount of international trade and into a transformation in the power relations between States.

In the third part, we analyse the latest period, and we discuss the reality of the economic recovery. Statistical data tend to show a recovery in stock market rates, a stabilization of world trade, and a recovery of the trade of liquid assets between banks, and the forecasts tend towards the conclusion of an increase of the world production, namely a recovery of the world growth. We first can see that such recovery does not rely mainly on the mechanisms of capitalism, but mostly on the public funding. We observe then that the main victims of the recession are the most fragile and the most disadvantaged categories of the population, both within OECD countries and between the countries – the poorest parts of the world are particularly strongly hit. We conclude with the statement the structural imbalances persist (weakness of the dollar, massive debt…), that the practices that originated the crisis (Securitization…) are still in, and that the most fragile States might be the next victims, as it is shown with the attacks on Greece.

JEL : E32, N58, P16

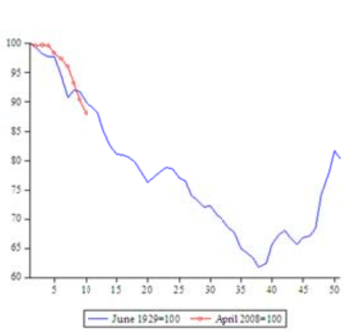


The current world economic crisis puts an end to a rather long period of relatively strong economic growth, which itself had succeeded to a series of crises that had been more and more frequent since the 1980s. This paper focuses on the peculiarity of the current crisis within the dynamics of capitalism. Such a peculiarity is based both on the own nature of the crisis and on its extent, in the sense that it reveals the major contradictions of capitalism. As it started from the collapse of the US real estate sector, it can be seen as a further expression of the existence of growing failures in the world capitalist economy. The economic system is now seriously damaged. This paper aims then to describe this crisis as a demonstration of the basic contradictions of capitalism, especially the law of the tendency of the rate of profit to fall. First we draw up the most immediate and the most obvious expressions of the crisis in looking into its basic structural mechanisms. We describe it as a particular expression of the tendency of the rate of profit to fall, and it develops as an overaccumulation-devalorization phenomenon (I). We then describe the practices used by the actors against the crisis (II), and we conclude in expressing a doubt on the consistency of the claim that the world economy is in a recovery stage (III).

I. The most violent crisis since 1929, at the heart of capitalism

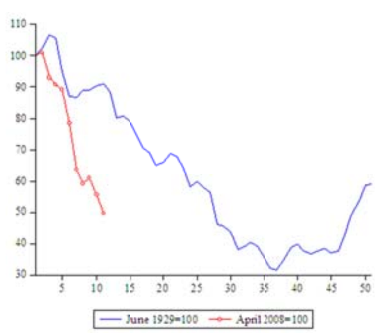
The current crisis broke out in 2008, and it was preceded in 2007 by the bursting of the real estate bubble in the United States. All of this had not been expected by the mainstream economists, neither its happening nor its extent. The bursting of the crisis was paradoxically founded on the conditions that allowed a strong growth between 2003 and 2006 (I.1), and it is for that reason an aftershock of the 2001-2002 crisis (I.2).

World Industrial Output, Now vs Then



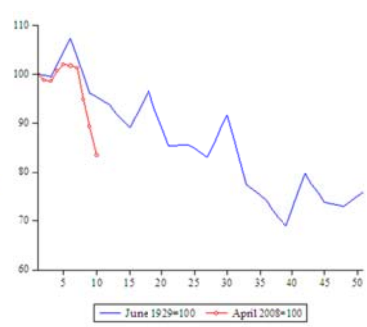
Source: Eichengreen and O'Rourke (2009)

World Stock Markets, Now vs Then



Source: Global Financial Database

The Volume of World Trade, Now vs Then



Sources: League of Nations Monthly Bulletin of Statistics,

I.1. A burst based on the conditions of the previous period of growth

The current crisis is an echo to the period of relative prosperity between 2003 and 2006 (I.1.1), which was founded on an increase of the inequalities and of the rate of exploitation on the one hand (I.1.2), and on an increase of debt on the other hand (I.1.3)

I.1.1. After a long period of strong growth

As it happens, the current period is specified by increasing contradictions in the world economy. We have noticed that, from the 1980s to the early 2000s, financial crises happened more and more frequently, in an extent that was had never happened since 1929: a stock market crash after the Mexican debt crisis in 1987, comparable to the 1929 crash; a real estate crisis in the United States, in Europe and in Japan in 1990; a crisis in the European monetary system in 1992-1993; a crisis in Mexico in 1994-1995; a financial crisis in Asia and in Russia, which became international, in 1997-1998; a crisis in Brazil in 1999; a crisis in Turkey in 2000; a crisis in the Internet sector and in Argentine in 2001-2002. Then a paradox appeared, to the extent that since 2002, after the Internet crash, the economic growth was stable and relatively high. Between 2003 and 2006, the rate of the world economic growth reached a peak level since the early 1970s: the world GDP grew about 5% a year (5.5% in 2006), with a low rate of inflation.

I.1.2. An increase in the rate of exploitation and in inequalities

An additional paradox is that such a strong economic growth did not correspond with an increasing people's welfare. It is founded, among others, on an increasing exploitation of the working people, which expression is a strong increase in the inequalities of income, especially in the main world economic power, the United States. We use it here to illustrate our point. From 2001 to 2004, the median income in the United States dropped by 7%. The significance of the conjunction of this figure with the strong increase in the GDP is that inequalities strongly increased. The one percent richest part of the population hold one-third of the wealth (34.3%), whereas the 20% poorest only hold 0.2%. Between 2001 and 2006, seven million more people lost health insurance, and the rate of poverty grew from 11.3% to 12.3%, whereas the rate of profit of firms reached a peak level at 12.8% (it never exceeded 8.3% during the strong growth in the after-war period). It means that the capital-labour relation considerably shifted in favour of capital.

Besides, the development of capitalism in China, in India and in the countries of the former Soviet Union has meant that in a relatively short period, the world labour force doubled in size. It mechanically led to a fall in the organic composition of capital on the one hand, and to a pressure against the level of wage which allowed an increase in the rate of exploitation on the other hand. All of this led to an increase in the rate of profit, since the counter-tendencies to its fall were acting strong.

I.1.3. A raise of debt

The economic growth in the United States has also rested on military expenditure and on budget deficit, which is, to a large extent, funded by foreign investors (46% of the American debt is owned by foreign capitals – 31% en 2001), mainly Chinese and Japanese. Such growth has been encouraged by three factors:
- the increase of the Chinese productivity,
- the decrease in the interest rate,
- the fall of the real wage and even if nominal wage.

Correspondingly this fits with three events:
- the development of inflation, mainly of basic vital commodities,
- the burst of the real estate bubble,

- the limited character of exploitation (the surplus value grows higher the national income and, since it is not invested, financial capital become overabundant and it demands higher and higher profitability, but, because of the social and physical foundations of the value of the labour power, the rate of exploitation cannot unlimitedly).

The first signs of an economic crisis of capitalism appeared then in 2006-2007, and it occurred at the heart of capitalism: the United States. 82 200 jobs were created in 2007, whereas 219 900 were created in 2005, the industry lost 1.8 million jobs between 2001 and 2007, the households' debt amounts to 133% of their income in 2009, the investment is 10.4% of GDP in 2009, the lowest level since the 1960s, the deficit in 2008 was 459 billion dollars in 2008 (it was 161 billion dollars one year before)…

Household debt service (required payments on mortgage and consumer debt) and personal saving as a percent of after-tax income (US)

Sources: *Bureau of Economic Analysis* (*NIPA data*); *Federal Reserve*

I.2. An extension of the Internet crisis

Friedrich Engels had already noticed that the tools that are used against the economic crises do themselves contain the seeds of another crisis, a more violent one. As for now the current crisis is, to some extent, a follow-up of the Internet crisis in 2001 (I.2.1), the outcome of which was the development (I.2.2) and the burst of a real estate bubble (I.2.3), which turned into a financial crisis and then into an economic downturn (I.2.4).

I.2.1. After the 2001-2002 crisis

The crisis of the 'New Economy' in 2001 was predated by an unusually important stock market bubble, the only comparison being the 1920s' bubble. The burst of the 2001 bubble foreshadowed an important economic slowdown, with a rapid drop in the firms' investment and a strong increase in redundancies. The economy entered into recession in March 2001, but the recession did not turn into a depression, partly thanks to the stability of the level of consumption. Households strongly decrease their savings, to a historical minimum level[1], in order to avoid a fall in their living standards.

[1] The rate of savings in the United States was 11.2% in 1982, and it fell to -1.1% in 2006.

Most of all, the public authorities implemented an important deal of support, both on a budgetary and on a monetary level. On the one hand, the federal government made massive budget expenditures, and in the United States the 239 billion dollars budget surplus in 2000 turned into a 459 billion dollars deficit in 2008. On the other hand, the Federal Reserve System (Fed) made its monetary policy much more flexible, in reducing its key interest rate from 6.5% to 1% in 6 months (first semester 2001). Firms and households were then encouraged to get indebted, and this was particularly important in the real estate sector, where laws were adopted in order to allow the agents for more debt, to ease lending, to cut tax on mortgage… all of this facilitated the constitution of a real estate bubble.

I.2.2. The development of a real estate bubble

The bubble started to develop through the grants of real estate credits, with high and variable interest rates, to households that were – if not poor – not much solvent (the *subprime*). They sold their letters of credit to other agents who packaged them within sophisticated financial assets which they hoped to be profitable. All of this was based on the assumption that the demand for credit would continue to increase, so that the price would keep on growing, without any necessity for the borrowing agent to worry about the risk, since it would always be able to resell his asset. From 1994 to 2006, it worked – real estate prices grew up between 10% and 20% a year between 2001 and 2006). In 2006, these credits, namely the *subprime* credits, amount to 600 billion dollars, which represents about 20% of all real estate loans in the United States. So the real estate prices were overvalued and a speculative bubble developed. During that period, investment in new buildings increased by 80% in the United States, by 20 to 40% in Europe. The number of real estate loans to households grew by 3.3% a year in Germany, by 11% a year in the United States, by 19.2% a year in Italy… and between 2001 and 2006 the debt load of households increased from 100% to 110% of GDP in Germany, from 107% to 140% in the United States, from 31.1% to 52.2% in Italy, from 64.7% to 75.3% in France, from 106,6% to 155,5% in England… and the proportion of the mortgage loans in the income of American households doubled from 2000 to 2005. It is noteworthy that at that time, the real estate bubble was not presented as such, as for many previous bubbles. As for now, it can be explained by the fact that since 1929, real estate prices in the United States had never dropped, so that it was hugely admitted that the prices would continue to grow up.

I.2.3. The bursting of the real estate bubble

Difficulties started to appear in 2005, when real estate prices reached a peak and started to decrease. A significant number of households proved unable to refund their loan – it happened that the amounts that were to be refunded by the households summed up to 70% of their income, at a time when wages stagnated and when the Fed increased its key interest rate. So the bursting of the real estate bubble was the event that triggered the crisis, but it was not the primary reason. Beyond the issue of securitization, which leads to speculation, to parasitism and to financial risk, three points were concentrating.

- Real wages were stagnating, and even decreasing. It is largely due to a serious drop in struggles for wages since 2001[2].
- Real estate prices (lands and buildings) started falling.
- The Fed's key interest rate increased, up to 5.25% in mid-2006.

Then real estate prices dropped by 18.4% between July 2006 and May 2008, and defaults in payment reached a record level at 10% in April 2007. The sale of new accommodations dropped by 40.7% in 2007 and the price fell by 10.4%. 1.3 million accommodations (1% of the American households) were seized in 2007, mainly between July and December, which

[2] Among others, this has to do with an increasing repression of any social movement after Septembre 11th attacks.

amounts to 79% increase on one year-period. The most precarious households were not able to sell their assets, so that they were obliged to leave them to credit institutions. The most vulnerable of these institutions got then into trouble. They had to borrow to the central banks, which lowered their key interest rates in order to avoid that such difficulties increase and spread out. The *subprime* market still collapsed, and more than 3 000 billion dollars of these assets lost half of their value. The profits of merchant banks fell by more than 50%. Dozens of banks and investment funds were involved in the real estate market, and in finance business, about a hundred small and medium firms went into liquidation.

I.2.4. From the financial crisis to the economic recession

« The credit system, which has its focus in the so-called national banks and the big money-lenders and usurers surrounding them, constitutes enormous centralisation, and gives to this class of parasites the fabulous power… to interfere in actual production in a most dangerous manner » (Karl Marx, *Capital*, Volume 3, Chapter XXXIII). The tightening of credit facilities launched a wave of bankruptcies in hedge funds, in investment funds, in deposit banks and in investment banks. It can be seen then that the *subprimes* were more a symptom than a real cause; they just were underestimated by the mainstream economists. Because of securitization, these real estate loans were related to other risky loans managed by the banks. They had to sell them at a low price, and then the profits of banks and of insurance companies collapsed, so that the real estate crisis turned into a bank crisis, on two levels:

- A crisis of liquidity: banks turned to have more and more difficulties to borrow to other banks on the interbank market, because of a lack of confidence,
- A crisis of profitability: the losses that were related to the real estate crisis damaged profitability.

Unlike the crashes in 1987 or in 2001, which got concentrated in a specific industry, unlike the crisis like the one that struck South-East Asia in 1997-1998, the current crisis reaches the financial markets as a whole, and it got started in the heart of capitalism, the United States. Then the financial crisis that was initiated in the American real estate credit rapidly spread. Lehmann Brothers, the 4th biggest American investment bank, made public a huge amount of losses, its share lost 70% of its value during the week of the 8th September, and it became bankrupt on the 15th September 2008: it was liquidated and put into administration. Its assets were freezed and its bankruptcy was announced. Such an event was commented as the *"greatest financial crisis, globally, ever"* (Alan Greenspan, former chairman of the Fed from 1987 to 2006, *Reuters*, 16th September 2008) and it rapidly had effects on other financial institutions. The net income of commercial banks and of saving institutions dropped by 86.5% in one year; it fall from 36.8 billion dollars to 5 billion dollars, the lowest level since 1991. Two days later, the value of the share of the American insurance AIG lost 60%. AIG had insured for more than 500 billion dollars of assets that were closely related to the real estate market. It was doomed to get bankrupt too, but the Fed decided to lend it 85 billion dollars, with a condition that it would get 79.9% of the firm. Actually it was nationalization, it was the most radical public intervention in the private sector in the whole history of the central bank. In doing so, the Fed overcame its own rules, since according to its own regulation, it is not allowed to refinance insurers. But the consequences of the bankruptcy of AIG would have been much more severe than the bankruptcy of Lehmann Brothers. On this day, the share of AIG lost 35% of its value (it had lost 97% since early 2008). Despite these massive interventions, as a matter of logic, the production was struck by the drying up of credit, so that the world GDP dropped 4% in 2009 (it was particularly striking in the United States) and the world trade fell by 12%.

The financial bubble that triggered this crisis started from speculative attacks on the real estate market, it spread into the banking sector (especially investment banks), and it led to a huge destruction of capital on a world scale, first in finance and then in industry. This crisis is first a world crisis of accumulation, and its bursting has been accelerated by national policies that have been implemented since the 1980s, aiming to facilitate the flow of capital and to increase the pressure on wages. It then became a likely option to turn to an economic depression that could be deeper and longer than the depression in the 1930s. The inner contradictions of capitalism, its tendency to concentrate and to centralize capital, have strengthened its historical tendency to overaccumulate capital. This means both that capital is unable to get its value increased and that the value of the labour force is relatively low.

II. THE REACTIONS OF THE PROTAGONISTS

Against the development and the extension of the world economic crisis, as an expression of a tendency of the rate of profit to fall, a few actions have been implemented in order to limit its scope, all of which have to do with counter-tendencies to the fall of the rate of profit. First, public authorities (governments and central banks) had a strong intervention in order to save the system (II.1). Second, it can be noticed a conjunction of an increase in the rate of exploitation of the workers and of a decrease in accumulated capital (II.2). Third, another reaction to the crisis was, paradoxically, a national retrenchment, together with a transformation of the power relations between the States (II.3).

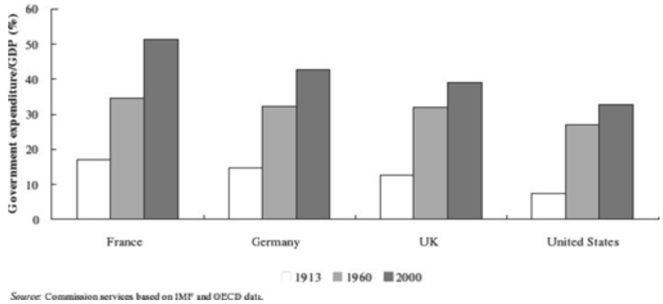
II.1. A huge public intervention

In a configuration where capitalism and market regulation have to face their own considerable malfunctioning, the intervention of both monetary and budgetary authorities proved to be a necessity for avoiding a systemic collapse, and huge amounts were used for helping financial institutions (II.1.1). This can be seen as a further refutation of the assumption that capitalism is self-regulating (II.1.2).

II.1.1. The State in last resort

In 1997, Alan Greenspan was claiming that the Asian crisis occurred because “free market methods” had not been properly implemented. This meant that the amount of regulation on firms and on banks was too high. But, on a historical long period, data rather confirm Wagner’s “law of increasing state activity”, at the expense of the private sector: All along the twentieth century, the richest countries unambiguously tended to experiment a growth in the expenditure of public administration related to the GDP.

Public expenditure as a percentage of GDP



To be sure, public expenditures have a stabilizing role and they allow a better flow of credit. There was a consensus based on the principle that a collapse of the financial market should be avoided. Northern and Bear Sterns have been nationalized, not because the State wanted to, but because they had no other choice for saving their system. Still, it is extremely unusual that the Fed has any intervention out of the meetings of its Open Market Committee – the last time it happened was in 2001, six days after September 11 attacks, for decreasing its interest rates. The first objective was to get serenity on the financial markets – mainly the international investment banks – in supplying them all the liquid assets they needed for restoring the ability of banks to grant credits, in order to limit the slowing down of investment and to avoid an economic recession. Public interventions rapidly increased. Precisely, the States in the euro zone, together with the United Kingdom, requested their central banks the loans to be guaranteed. Marx was evoking the abolition of the capitalist mode of production within the capitalist mode of production itself. "*Nice, too, that the capitalists, who so vociferously opposed the* 'right to work, *are now everywhere demanding 'public support'*" ("Marx to Engels", 8th December 1857).

II.1.2. The end of a period

We can notice today that the ideology of "free market" has become less and less popular, and that more public regulation has been advocated. The case of Iceland, yet a relatively rich country, is a striking illustration of that. The three private banks that exist in this country had borrowed a lot to Swedish and to British banks, and in late September-early October 2008, they proved to be unable to refund them. The Icelandic government decided then to nationalize them, and the International Monetary Fund (IMF) granted a 2.1 billion dollars loan to Iceland. Still, its GDP dropped in 2009 by 10%. Actually thousands billion dollars have been unfreezed in order to face the crisis: rescue of the financial system, aid to some productive sectors (first car industry), recovery programs through tax cuts, investment programs… It might not happen soon that public debt will stop increasing. What costs the more to the public finance are not the measures in support of the activity – even if they are huge – but the fall in public revenue due to the drop in the economic activity. On 18th June 2009, the American president announced an important set of reform of financial services in order to shift the distribution of the powers between various regulating groups, and to create new organs… The European Union also aims to get a stronger financial supervision. The three European authorities to come, and which supposed to control the banks, the insurances companies and the markets, will have the ability to put more constraints, and even to decide beyond what the national regulating powers do.

II.2. An increasing exploitation

In order to maintain their activity and to restore their rate of profit, firms have increased their degree of exploitation (II.2.1), the outcome of which being an increase in unemployment and in poverty (II.2.2).

II.2.1. Restoring the rate of profit

It really happened that the most vulnerable fraction of the capital owners suffered important damage. During the first quarter of 2009, a record number of firms did cut the dividends of their shareholders. The *Forbes* ranking, which informs on the number of billionaires in the world, had lost many of its members. They were 793 billionaires in 2009 (1 125 in 2008), and the total worth of their assets amounted to 2 400 billion dollars en 2009 (4 400 billion dollars in 2008). In order to recover, the capitalist class needs to restore the conditions of extraction of the profit, so that the rate of profit stops decreasing. For that, it needs to increase the rate of exploitation and/or to decrease the amount of accumulated capital. This means lower wages, either direct or indirect wages – social welfare –, redundancies, lockouts… It happened that the total destruction of capital during the first stage of the financial crisis amounts to half of the world wealth. The OECD had proposed to decrease tax on labour income, especially on low wages, which amounts to a fall in indirect wages. For France in particular it proposes to keep on limiting the increase in the minimum wage, since it would be too high relatively to the median wage. In any case, the objective is to cut the value of the labour force. Restoring the rate of profit means restoring confidence on financial markets. In the United States, many firms have cut wages from 5 to 10%. On the first quarter of 2009, the average annual wage dropped by 6.2%, and the weekly working time reached a lowest historical level (33.1 hours) – 9 million people were forced to work part-time[3]. Actually it might be the case that such measures partly succeeded in improving some figures.

II.2.2. A general impoverishment

"The ultimate reason for all real crises always remains the poverty and restricted consumption of the masses as opposed to the drive of capitalist production to develop the productive forces as though only the absolute consuming power of society constituted their limit" (Karl Marx, *Capital*, Volume 3, Chapter XXX). Such attempts to restore the rate of profit are founded on an absolute impoverishment of the world popylation, to begin with the most vulnerable categories. The number of people living with less than two dollars a day grew by 200 million in 2009 compared to 2007. According to the International Labour Organization (ILO), the number of unemployed people in the world increased by more than 10 million in 2008, the highest figure since the Asian financial crisis in 1998, and by almost 30 million in 2009. Furthermore, 80% of them receive no unemployment benefit. In the United States, 13.7 million people are unemployed, the highest figure since the end of World War Two. It happened that one year after the start of the crisis, 6 million workers had lost their job – this figure amounts to the number of jobs that were created during the last nine years. Seven million people in the OECD lost their jobs in 2008, and the number of unemployed people in the European Union increased by 4.6 million in 2009. Spain lost one million jobs in a year, to reach 18.8% rate of unemployment. In Ireland the rate of unemployment shifted from 4.9% in early 2008 to 12.5% in late 2009. In the United States, 3.5 million kids under five suffer malnutrition, and 12 million are threatened by it.

[3] Similar events happened in Japan in late 1990s, before a long-lasting economic stagnation.

II.3. A relative national retrenchment and a transformation of power relations

The relations between the States have also been victims of the crisis, an outcome being the development of some forms of protectionism (II.3.1), in the context of an increasing fragility of the domination of the American economy (II.3.2).

II.3.1. The protectionist temptation

The World Trade Organization (WTO) noticed a rapid slight to protectionist measures, including increase in customs duties and, for the most part, mainly non-tariff barriers (norms…). The IMF estimated a 12% drop in world trade, which is the most important fall since the end of World War Two. World foreign direct investment fell by 15% in 2008 and by 30% in 2009. The European Union (EU) is cracking[4]: the leaders of the EU States first refused to elaborate a global schedule for helping Central and Eastern Europe countries, which were strongly hit by the crisis. The French Minister of Economy recently questioned the Stability Pact, and she asked the European to be more flexible with its rules[5]. In April 2009, the European Commission implemented procedures against France, Spain, Ireland and Greece for excess deficit[6]. According to Eurostat, the European board for statistics, exports from the sixteen countries of euro zone to non euro zone countries dropped 24% on one year-period in February 2009, and imports dropped by 21%. On the first quarter 2009, the American imports dropped by 30% on one year-period.

II.3.2. The fragility of the American rule

The current economic period must also be understood within a process of transformation of the relations of power between States. We already mentioned that a peculiarity of the current crisis is that it got started and it is centered at the heart of capitalism, namely the United States. The American economy reached its peak level between 1945 and 1970, at a time when up to 60% of the world industrial production was concentrated there. Now it only amounts to 20%. Therefore, the current situation is far different from the 1950s when the world economy was boosted by a single power. During the last fifty years, American capital has been weakened – this is shown by, among other things, the instability of the exchange rate of the dollar. The dollar is still the reserve currency but, as a matter of fact, the United States are the most indebted nation in the world, and they accumulated deficits on a massive scale. The trade deficit gets balanced thanks to a massive purchase of American Treasury bills by central banks and by private investors from other countries, especially China and Japan. Since 1970, the United States have always been living on credit, which means that they spend more than they produce. For that reason, since then, the United States always had to count on a partner, which was also its main competitor – especially in basic industries. This was first Germany, and then Japan in the 1980s – with some painful consequences. Now this role is played by China, but their relationship is different. On the one hand, Chinese capitalism is a peculiar kind of capitalism; it can rely on a huge stock of labour force, with hundreds millions of workers, but it does not have any structured and experienced stock market, financial system and banking system. On the other hand, China has a much stronger autonomy than Germany's and Japan had. But it still remains true that the American economy is the biggest owner of capital and that, to a large extent, China depends on the economic competitivity of the United

[4] The euro zone crisis having started from Greece is a further illustration of that point, but I will not elaborate here.

[5] It requests, among others, that the public deficit is not higher than 3% of the GDP and that the public debt is not higher than 60% of the GDP.

[6] Since the current debt crisis appeared recently, this paper will not deal with it, knowing that it is particularly strong in the euro zone.

States. In the recent period, their relationship worsened. Until recently, the American government had accepted to under-evaluate the Yuan, in return of a purchase of American Treasury bills by China. In January 2009, China stopped purchasing them, and it started again in March, but for a smaller amount, so that the American administration stopped questioning the under-evaluation of the Yuan to international institutions. In March 2009 too, the Chinese Prime Minister and the Governor of the Chinese Central Bank requested publicly that the dollar should stop being the reserve currency, and that this role should be given to a non-national money issued by an international institution. This was followed by a first formal action on the 18th May 2009, when China, together with Brazil – one of its main trade partners –, claimed that it would stop using dollars for its bilateral trade. If it would have succeeded, the dollar exchange rate would have fallen, the price of imports would have risen, with bad consequences on the level of employment. China, Russia, France, Japan and the Gulf States have considered the idea of replacing the dollar by a basket of currencies. It seems that the other States are less and less willing to bear the gap between the American rule and its real economic power. Actually it is far from sure that the dollar will keep being the main reserve currency in the world. In June 2009, Ron Kirk, the American spokesperson on trade issues, accused China of practicing national preference in the destination of its industrial raw materials. Together with the European Union, the United States started to register a complaint against China before the WTO, in order to protest against Beijing's restriction to the export of strategic raw materials. For the first time since it entered this organization, in 2001, China lost its appeal on an affair about its practices in support of its national car industry.

III. <u>AN ARTICFICIAL RECOVERY</u>

At least before the euro zone crisis started in Greece in late 2009, some figures on economic growth have shown, if not a proper recovery, the reduction of difficulties for the world economy (III.1). We will show that, to a large extent, such an event rests on the support of public authorities (III.2), which does not prevent the most disadvantaged people to be severely hit (III.3). Moreover the imbalances that caused the burst of the crisis did not disappear (III.4).

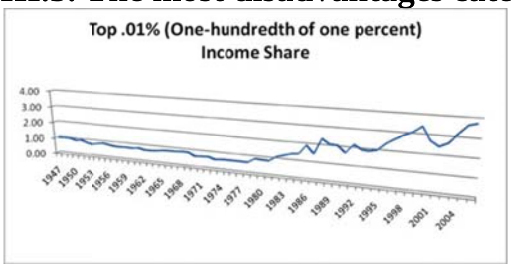
III.1. A recovery?

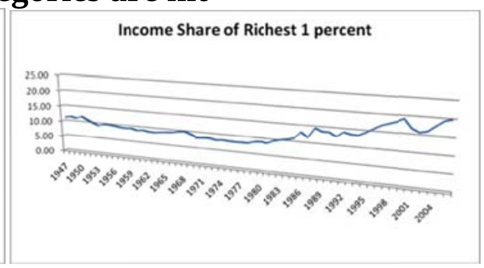
In the second half of 2009, some optimistic figures have been shown up concerning the restoring of the economic situation. The American government presented 5.7% economic growth on a yearly basis – this is higher than the relatively strong economic growth in the 1990s. On two consecutive quarters, France had a low but positive growth rate (0.3%). According to the Ministry of economy, the French economy *"really turned to recovery"* (*Europe 1 Radio*, 13th November 2009). According to the IMF, *"the global recovery is off to a stronger start than anticipated earlier"* ("Global Economic Prospects and Policy Challenges", p. 2). Some figures, including the increase in the GDP, seemed to show a recovery in the accumulation of capital: after having lost 40% in the last quarter in 2008, the price of shares increased by 30% in the next six months; after a strong fall, the world trade stabilized; the exchange of liquid assets between banks started again on the interbank markets…

III.2. A growth mainly based on the public intervention

It would premature to draw a conclusion that a new significant and long-lasting economic growth started. Indeed, it is a fact that *"almost everywhere the recovery is led by the public investment (+33.6% in the first semester of 2009 in China) and by the households' consumption, but not by any outlay by firms"* (*L'expansion*, n°746, October 2009). Moreover the financial system is still defaulted, and unemployment may last. Capitalism needs more and more public support, first in its most powerful economy, the United States. In fall 2008, the American Congress voted a first program for helping the American banks and insurance companies, amounting 700 billion dollars. The countries in the European Union did the same for a sum of 1 700 billion dollars. The French government lent to its banks 360 billion euros through a program. For helping national banks, British authorities lent a sum amounting to 30% of its GDP, Belgium to 35%, Ireland to 225%... Then, such a partial recovery is mostly based on measures by national States, including banks' rescue, extension of due tax for firms and for some households, huge national subsidies to industrial groups, together with the huge cut in key rates of central banks (1% in the European Central Bank, 0.5% in the Bank of England, 0.25% in the Fed, 0.1% in the Bank of Japan).

III.3. The most disadvantages categories are hit





The recent recovery of some economic data was then due to public intervention and, to a lesser extent, to an increase in the rate of exploitation of the working class. Wage-earners have experienced a serious decline in their living conditions: higher unemployment, cuts in wages and in social welfare, peak level in property seizures, increasing number of homeless people, increasing malnutrition… The income gaps have exploded, and the most vulnerable categories of the world population have been hit, especially in the poorest countries, where employment is informal to a large extent: more than 50% in Latin America, more than 70% in sub-Saharan Africa, more than 80% in India… According to the ILO, over 200 million people are unemployed in the world – a peak level since the end of the Second World War. China also suffered, even if its GDP kept growing: its official unemployment rate is 4.5%. According to the World Bank, 90 million people turned to extreme poverty – that is less than 1.25 dollar a day. Living conditions worsened for the migrants: *"Restricting measures increased during recent months: in the United States, public aid was conditioned by strong restrictions in foreigners' hiring; in Spain and in Japan, subsidies were allowed to programs for immigrants' return; in Italy, bills were voted against illegal immigration… Beyond such measures, the immigrants are the most seriously hit by the cuts in employments"* (CEPII, *L'Économie mondiale 2010,* p. 93). Because of the increasing unemployment as an industrial reserve army, the workers who still have a job are pressurized for increasing productivity: in the United States, during the third quarter in 2009, the labor productivity increased by 9.5% whereas the number of working hours decreased by 5%. In case of a recovery, unemployment will not decrease as rapidly, if it does. *"[It may happen] that unemployment increases well into 2010"* (IMF, "Global Economic Prospects and Policy Challenges", p. 8).

III.4. Persisting imbalances

In the best forecast, which is not about to happen, a strong recovery will prepare the next world crisis, and it even may happen now that the coming period will see a slow growth or even a return to recession. According to the IMF, public debt will explode, at least until 2014, to 108% of the national wealth in the United States (62% in 2009), to 92% in France (64% in 2009), to 246% in Japan (188% in 2009)… Besides, Britain and the United States much resorted to money creation. Indeed the bank of England and the Fed repurchased Treasury bills and State bonds to banks, which amounts to monetize the public debt and to depreciate the exchange of the British Sterling and of the American dollar. Despite the intervention of many Asian central banks on the exchange market, the exchange rate of the American dollar kept decreasing. Even if every State tried to rescue its own capitalism, the reasons why the economic crisis burst are still on. The increase in the rate of exploitation, and mostly the destruction of a substantial fraction of the world capital may create the conditions for a recovery of profitability, and then for a stage of economic expansion. But the public rescue of banks, of insurance companies and of car firms… could limit the destruction of capital. What is more, the subsidies given to financial groups and to industrial groups indeed increases the size of the world capital that pretends, in a way or another (industrial profit, trade profit, interests…), to get a part of the social surplus value, from which the origin is only surplus labour, that is the surplus value, taken from the unpaid labour made by the proletariat of the whole world.

CONCLUSION

The current period can be seen as a historical turning point, since this crisis is the most violent since 1929, with a strong decrease in production, together with increasing firms' bankruptcies, increasing unemployment. It is a warning as far as the survival of capitalism is concerned. Not only it is important in size, but it started in the heart of capitalism, and it has nothing to do with random, since its conditions have developed in the previous period of economic growth, which was comparatively long. The States replied through rescuing programs, international power relations started to get substantially transformed, and the most vulnerable categories of households suffered painful consequences. Misery is both the reason and the outcome of crises, and since it exists, capitalism is regularly hit by crises.

Besides, most of the loans that were granted to banks were not accompanied by any condition, except refunding, so that it is quite likely that similar events will happen in the future. It has happened that the starting recovery proved to be very unstable, and mainly supported by the States. In order to end this regular instability of the world economy, a critical analysis of the mode of regulation of the economy is necessary for displaying a mode of organization which is able to maximize the collective welfare.

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