From accumulation to dis-accumulation

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Abstract

This paper argues that the world is in a depression. The Great Recession was undoubtedly deeper and longer than any since the Second World War. But it was for all that a recession. A depression is not to be equated with a deep slump. The former depends on exogenous factors. There have been two previous periods of depression in modern capitalism. The first was the Long Depression triggered by the Financial Panic of 1873, which tipped over into the mid-1890s; and the so-called Great Depression of the 1930s. Both of these spanned more than one business cycle. The exit from the Long Depression was a result of the shift from the era of competitive capitalism to imperialism and emergence of finance capital. This was predicated on a massive destruction of capital. This combined with major gold discoveries towards the end of the nineteenth century. The Great Depression only ended with the preparation for world war towards the end of the 1930s, the subsequent destruction of capital resulting from the Second World War, and the expansion of imperialism (finance capital) as a whole. The US emerged as the dominant power. However, the robustness of their expansion depended upon the strengthening of imperialism as a whole. This required the re-construction of the economies of other imperialist powers - both enemies and allies alike. Inter-imperialist conflict is a perennial fact, but it is conflict over the share of the pool of surplus value. It is in all their interests to make the pool as large as possible. It's a dance of death.

Since the early 1970s, imperialism has been substantially weakened. This is reflected in the diminishing pool of surplus value, which in turn is an underlying driver of the present depression. It is the long-term consequence of an epochal shift of the world economy that saw the Golden Age reverse into a secular downward curve. This downturn is often referred to in the literature as the Long Stagnation. The context of this shift was the reversal of the upward trend in the rate of profit in most imperialist countries, notably in the US (and UK). Successive business cycles do not exhibit repetitive (or, indeed, random) features. They are conditioned by more long-term trends. In this case an overarching downward curve has determined that the recovery after each recession has failed to lead to a sustained increase in rates of profit or rates of accumulation. However, recoveries there have been.

The segment of the downward curve in the two decades up to the end of the 1980s[1] was indeed a period of stagnation of the world economy. This was marked by the slowing rate of accumulation of capital consequent on the falling rate of profit. However a new downward shift became evident in the 1990s. Hitherto the falling rate of profit had been countered by the rate of growth in the mass of profits, albeit at a declining rate. Progressively it became clear that the mass of profits was no longer weighty enough to counter the falling rate. A period of slowing accumulation of industrial investment was transformed into one of dis-accumulation – a diminution of investment in capacity expanding plant and equipment. This approach will be contrasted with what might be called the narrower capital accumulation approach (*qua* Henryk Gossman and Paul Mattick); Rosa Luxemburg's view; the Smithian approach of Robert Brenner; and that of Long Wave theory.

A concomitant of the falling rate of profit has been the sinking of ever-greater proportions of capital into paper assets of all kinds in search of a higher return. The "financialisation" paradigm will also be critically evaluated. This overall review will provide a springboard to interrogate the dialectical relation between the processes of production and that of circulation; and the relationship of interest-bearing capital and production. This latter will deal with finance capital - the fusion financial and industrial capital. This will identify the cobweb of financial institutions at the centre of which is the stock exchange, but extending to the derivatives markets. It is through the trading of shares and bonds – and derivative instruments - that ownership rights are established and the allocation of capital decided. These markets function internationally to such a degree that trade in capital (debt) is more

important than trade in goods and services. This is finance capital. Whilst the financial markets are the arena for the most obscene forms of speculation, it is vital to understand that the financial system is crucial to the overall reproduction of capitalist social relations. It cannot be lopped off from the actual arena of surplus value generation and circulation process – but is integral to it. On this basis, the presumed dichotomy between the "real" economy and the financial markets will be challenged. Instead the symbiosis will be identified.

Finally, precisely because of the falling rate of profit capitalists ferociously compete amongst themselves to augment their share of surplus value. This typically takes the form of price competition. Long-term deflation is the result.

The Downward Curve of Capitalist Development

The inter-relationship between epochal segments of the curve of capitalist development and the business cycle are complex. But capitalism's "final crisis" cannot be deduced from cyclical downturns *per se*. Periodic capitalist breakdown and re-expansion is an inevitable outcome of the very workings of capitalism – the business cycle. But why does one upturn lead to self-sustaining growth and another not? This is the task at hand. Let's first clarify what causes periodic breakdown and subsequent recovery. There is substantial disagreement amongst Marxists on this. Theories that have been advanced would include disproportionality between the investment goods sector and that of consumer goods, overinvestment, over-production, under-consumption, diminishing non-capitalist markets - or some combination of these. There is no question that Marx himself considered the phenomenal form or trigger of this crisis to be the overproduction of commodities. 'Overproduction of capital ' Marx explained 'never means anything but overproduction of means of production, means of labour and means of subsistence, that can function as capital, that is, can be applied to exploiting labour at a given rate of exploitation; a given level, because a fall in the level of exploitation below a certain point produces disruption and stagnation in the capitalist production process, crisis, and the destruction of capital' (Marx, 1981: 364). As is clear from Marx's explanation overproduction of goods is not the same thing as under-consumption, except in the trivial sense that if goods are not sold, then they are not consumed. But this is a tautology.[2] The issue is where the source of the problem is to be located – in the sphere of circulation or that of production. Marx is quite clear that it is the latter. Tinkering with effective demand through either fiscal policy or monetary policy may postpone things but will not resolve the problem. As Henryk Grossman put it: ' It is the accumulation of capital that forms the primary cause that leads ultimately to the economic failure of capitalism due to an imperfect valorisation of the accumulated capital' (Grossman, 1929).

Rosa Luxemburg's view was not so much an investigation of the workings of the business cycle, but an explanation as to why capitalism will collapse. She rightly saw crisis as one of over-production, but identified the latter in an insurmountable limit to the expansion of the market. In her conception such an expansion could only be found in non-capitalist modes of production. As these latter would be progressively absorbed into capitalism, *ipso facto,* first shrinking and then ending market expansion for capitalist production. There are fundamental errors in this view, which will be examined soon. However, the problem is *not* her insistence that capitalism will inevitably break down and be superseded by socialism, the conditions for which would be prepared by the very workings of capitalism itself. On this she was in the mainstream of the classical Marxist approach. This view is not at all to be interpreted as a prediction that capitalism will self-destruct and, *a fortiori*, this was not the view of Luxemburg which some of her critics have suggested - some through simple misunderstanding, but others through deliberate distortion.

Karl Marx and Frederick Engels themselves held the view that capitalism would inevitably break down and be replaced by a higher mode of production, socialism. Formulations to this effect appear in several of their writings. Here is Marx speaking in Capital Volume 1: 'Along with the constant decrease in the number of capitalist magnates, who usurp and monopolize all advantages of this process of transformation, the mass of misery, oppression, slavery, degradation and exploitation grows; but with this there also grows the revolt of the working class, a class constantly increasing in numbers, and trained, united and organized by the very mechanism of the capitalist process of production. The monopoly of capital becomes a fetter upon the mode of production, which has flourished alongside and under it. The centralization of the means of production and socialization of labour at last reach a point at which they become incompatible with their capitalist integument. This integument is burst asunder. The knell of capitalist private property sounds. The expropriators are expropriated' (Marx, 1976: 929). Vladimir Lenin along with other Bolshevik leaders such as Leon Trotsky and Nikolai Bukharin held a similar view. In his *Imperialism, the Highest Stage of Capitalism* Lenin insists that '(imperialism develops) very near to complete socialisation of production; it drags, as it were, the capitalist against his will and without his being aware of the fact, into a social order which offers a transition from complete freedom of competition to complete socialisation' (Lenin 1916/76a: 205*).* Other historic leaders such as Rosa Luxemburg re-iterated this classic view of the inevitable collapse of capitalism, albeit for idiosyncratic reasons. Certain other theoreticians such as Henryk Grossman equally did a service by sticking to his guns on this one. None of these mentioned however held to the simplistic view that capitalism would therefore inevitably collapse of its own volition. The formulation of Marx quoted makes this very clear. The whole practice of Lenin and the Bolsheviks would be incomprehensible if they thought this to be true. So, too with Rosa Luxemburg (and Grossman), her opposition to Leninist perspective of a vanguard party necessary to lead the overthrow, not withstanding: Capitalism she averred, alongside Lenin, has to be overthrown through the conscious actions of the working class and its allies.

This classical Marxist conception is by no means a *petitio principii*, as asserted by Robert Brenner and Ellen Meiksins Wood. Capitalism prepares the conditions for its own historical supersession through the greater socialisation of the means of production flowing from the imperious necessity to concentrate and centralise capital. If this were not true, then any socialist perspective would be at best simply a moral imperative. In any event, this process and its dynamic can be identified and not just logically inferred: 'The capital, which in itself rests on a social mode of production and presupposes a social concentration of means of production and labour-power,' Marx asserted 'is here directly endowed with the form of social capital (capital of directly associated individuals) as distinct from private capital, and its enterprises appear as social enterprises as opposed to private one's. This is the abolition of capital as private property within the confines of the capitalist mode of production itself' (Marx, 1981: 567). For those who want to build a Chinese wall between Lenin and Marx, it is worth noting that Lenin in developing his views on imperialism (monopoly capitalism) simply repeats Marx's observation: 'Capitalism in its imperialist stage arrives at the threshold of the most complete socialisation of production. In spite of themselves, the capitalists are dragged, as it were, into a new social order, a transitional social order from complete free competition to complete socialisation. Production becomes social, but appropriation remains private' (Lenin, 1917).

Having said all this, it is worth repeating: If capitalism is not overthrown when the conditions make this ripe, then it will revive. How self-sustaining this revival might be will be examined in the next section. As Lenin and Trotsky insisted in their polemic with the ultra lefts that saw the imminent doom of world capitalism coming out of the Great War: there is 'no absolutely hopeless situations' for capitalism. This is a key point: Even though the period overall – as in the 1920s - is one of a descending curve, there will still be conjunctural upturns. By the same token in periods of overall upturns there will still be conjunctural downturns. An appreciation of this is key. Marxism is a guide to action, not an academic theory. Wrong tactics will be proposed if this distinction is not grasped.

The root of Luxemburg's misconception lay in seeing capitalism as a closed system. She posited the resolution of this by capitalism finding the new markets it required in order to expand, outside the sphere of capitalism itself: 'the accumulation of capital as an historical process, depends in every respect upon non-capitalist social strata and forms of social organisation' (http://www.marxists.org/archive/luxemburg/1913/accumulation-capital/ch26.htm). The problem with this, in a nutshell, is that she failed to understand how the very working of capitalism itself expanded the market through the competition among different capitals resulting from the falling rate of profit and thereby that commodities exchanged at their prices of production and not at their value; the unevenness of the rate of development between the different sectors of the economy (department I – capital goods – and Department II - consumer goods); and unevenness between different countries. Moreover, even in her own terms she was confused as to how capitalism incorporates earlier modes of production in semi-colonial countries. It does this by annexing them to its own needs, transforming but not eliminating their pre-capitalist social structure: The utilisation of slavery in the US South, debt peonage in numerous semi-colonial countries, the caste system as in India and so on – all these grafted on to the most developed forms of capitalism. That is a process of combined development: The most primitive subsumed by the most advance. This guarantees permanent dependency. No colonial or semi-colonial country has graduated to the top class since the dawn of imperialism at the turn of the twentieth century (with the possible exception of Israel).

Subsequent theoretical currents have re-focused Luxemburg's basic conception by suggesting other "non-productive" sectors to absorb overproduction of commodities – arms production being the most prominent (see Kidron, M, 1989 – and his subsequent adherents). Unfortunately for this latter sort of view is that it was an attempt to explain the expansionary phase of capitalism after the Second World War. But even if it had been successful in doing this, it is inapplicable today when the issue is one of the paucity of surplus value, not its abundance. If it can't explain both, it fails the test of practice; it is just wrong. Marxism is a science, albeit with its own laws.[3] Marx is quite clear: 'The general possibility of crisis is the formal metamorphosis of capital itself, the separation, in time and space, of purchase and sale. But this is never the cause of the crisis. For it is nothing but the most general form of crisis, i.e. the crisis itself in its most generalised expression. But it cannot be said that the abstract form of crisis is the cause of crisis. If one asks what its cause is one wants to know why its abstract form, the form of its possibility, turns from possibility into actuality. . . . The general conditions of crises ... must be explicable from the general conditions of capitalist *production*' (Marx, 1969a: 515 – my emphasis).

Henryk Grossman was a sharp critic of Luxemburg, albeit targeting the same opponents as she did. His approach is more acceptable. In the first instance, he focused on Bauer's incorrect interpretation of Marx's expanded production schemas in Volume 2 of Capital. According to Bauer's view, Marx's schemas actually show accelerated capitalist growth, not stagnation or slow down, and accordingly working class living standards would progressively rise. The result would be that, contrary to Marx's assertion class antagonisms would lessen as capitalism developed. Grossman showed that even using Bauer's approach, Marx's schemas would show a progressive diminution of the mass of surplus value. In developing his critique in this way, Grossman is often dismissed as locating the demise of capitalism in a corrected version of Bauer's scheme. But Grossman explicitly denies this. 'I emphasized in the book' he explained 'that Bauer's scheme is unrealistic. .. Bauer makes unrealistic, false assumptions and I just wanted to pursue his argument *ad absurdum*' (Grossmann to Paul Mattick, June 21st, 1931). The essence of Grossman's approach - and its strength - is that it locates the problem at the level of production and not consumption. 'It is the accumulation of capital' Grossman insisted 'that forms the primary cause that leads ultimately to the economic failure of capitalism due to an imperfect valorisation of the accumulated capital' (Grossman, 1929, Ch 1). He goes on: 'However, despite all the periodical interruptions and attenuations of the tendency to collapse, with the advance of capital accumulation, the general mechanism approaches ever closer to its end because, with the absolute growth of capital accumulation, the valorisation of this increased capital becomes increasingly difficult. Once the counter tendencies are themselves weakened or brought to a halt, then the tendency to collapse gains the upper hand and imposes itself absolutely as the "last crisis"' (Grossman, H., 1970: 140).

Paul Mattick who was heavily influenced by Grossman took a similar tack. He acknowledged that capitalist breakdown is always a crisis of the overproduction of commodities. However, he went on: 'What is involved here is not an overproduction of commodities in relation either to the absolute consuming power of society or the relative consuming power of capitalism, but an overproduction of commodities in relation to the capitalistically-limited demand under the particular conditions of relative capitalistic stagnation' (Mattick, 1969: 74). At the end of the day both Grossman and Matttick fail because they fail to integrate the financial system in its intimate and indispensible role in the reproduction of capitalist social relations. Mattick himself makes the point that capitalists only see profits in terms of prices and of course he recognises the role of credit in the circulation process but he ends to elide the role of finance to that of monetary policy.

Whilst Grossman places himself in the mainstream of the Marxist tradition in his insistence that no value is created in the process of circulation. Yet, it is here that surplus value is ratified i.e. it is through the actual sale of commodities that profits are registered. Capitalists do not aim to raise the rate of surplus value *per se*, but the rate of profit. The former is the root to the latter. But profits can only be registered if produced commodities are sold. Clearly for this, money is needed. The role of banking, that is credit money is integral to this. Moreover, credit is not only needed to guarantee the process of circulation, but crucially in the production process including importantly the purchase of fixed capital, raw materials and other intermediate inputs. Under mature capitalism funds for investment are provided through the financial system. As Alan Freeman has pointed out: 'Marx's discussion of expanded reproduction begins not with the conditions for the balance between the production and purchase of *products* that preoccupied the participants in the "reproduction debate" … but with the conditions for the formation of *money hoards* that can purchase these products. A part of the capital of every enterprise necessarily exists in the form of a reserve hoard whose role is not merely the settlement of obligations but as the basis of expansion' (Freeman, A., 2004).[4] With the advent of imperialism i.e. finance capital it is the financial markets that take on this central role.

However, before we get onto this, let's look at another approach to capitalist breakdown – that of long wave theory.

Long Waves?

The Long Wave, or Long Cycle theory (LCT), was initially formulated by the Russian economist N.D. Kondratiev in the early 1920s.[5] He postulated regular long-term cycles in prices, interest rates and other economic variables within which there continued to operate the shorter business cycle (and a shorter one within the latter, later to be dubbed a "Kuznets cycle"). Joseph Schumpeter took up these ideas in the 1930s, notably in his classic work *Business Cycles* (Schumpeter, J 1929). Subsequently, this general approach was revisited and reformulated by Ernest Mandel in the 1980s, updated in the 1990s (Mandel, E., 1995). In the original Kondratiev formulation, within the postulated 50 years span, we are invited to see a period of impetuous growth followed by a period of slow-down, deflation and depression, each lasting about 25 years. The fluctuations are endogenous, each period of upturn provoked by the application of qualitative technological innovations. This precipitates a more general re-organisation of capitalism at the level of distribution, organisation and exchange. However, as these technological advances are diffused throughout the world economy profits decline, price competition increases, demand contracts, and a downturn ensues. During this period of slow or nil growth, there would be new incentives to discover cost-cutting innovations. These however would only be applied when capitalism has found a new equilibrium whereby (new) markets are found, demand expands and new profitable investment opportunities emerge sufficient to justify the costs involved in introducing the large-scale application of the new technology. The types of technological leaps that Kondratiev had in mind were such things as the shift from manufacture to machinofacture at the time of the industrial revolution; and the application of steam power, and inauguration of new communications systems, like canals, railways, telegraph and so on at the end of the nineteenth century.

Within these cycles, periods of upturn and downturn can be identified:

- Upward swing, 1780-1815; downward 1816-48
- Upward swing, 1848-73; downward, 1873-93
- Upward swing, 1893-1913; downward, 1914-1940
- Upward swing, 1940/47-73; downward 1974/5 – early 1990s.
- Upward swing, 1995 onwards

There is a general consensus with this periodisation, although opinions differ as to precise turning points and terminal dates.[6] However, whatever the exact periodisation, the most substantial issue is whether these secular trends are precipitated and terminated endogenously in an analogous way to the business cycle. The debate therefore concerns the mechanism generating the long-term phases. It is here that substantial flaws can be identified with the LCT. The LCT has a number of different formulations. The more vulgar proponents are simply technological determinists, an approach exemplified by Freeman and Perez. They explain: '…a new techno-economic paradigm develops initially within the old, showing its decisive advantages during the 'downswing' phase of the previous

Kondratiev cycle. However, it becomes established as a dominant technological regime only after a crisis of structural adjustment, involving deep social and institutional changes, as well as the replacement of the motive branches of the economy' (Freeman, C. & Perez, C. 1988, quoted Dicken, P., p. 149. Dicken himself generally endorses this approach). The failings of such a mono-causal, technologically determinist explanand can readily be appreciated from the fact that the inception of (convergent) information technology in the mid-1990s is projected as the beginning of the upward swing of a fifth Kondratiev cycle. If the Long Cycle theory were correct, then the present period ought to be exhibiting a new impetuous upturn. Indeed, this latter is the view of Long cycle theorists, Keith Harvey and Bill Jefferies which seems to find justification in the supposed success of what they term "neo-liberalism" and the supposed '(quantitative) and qualitative advances in manufacturing processes created by globalization (sic).' (Keith Harvey and Bill Jefferies "Marxism and Long Waves' http://www.permanentrevolution.net/entry/313). Exactly how the catchall phrase of "globalisation" has created a new technological revolution is left to the imagination. In the context of the Great Recession it is very difficult to sustain a view that suggests that the latter half of the 1990s triggered a new international secular economic upturn – which apparently will last until 2015.

It was already clear at the time these ideas were being formulated that the communications revolution and the wider application of computerisation in no way play a role as fundamental as the shift from manufacture to machinofacture which lay at the heart of the first industrial revolution, or those technological advances at the beginning of the twentieth century, nor of the immediate post-war period. The major technological advances in recent times have been mainly in the sphere of consumer products. As Robert Gordon put it: 'I classify these earlier inventions into four clusters, starting with electricity (including electric motors, electric light, consumer appliances), internal combustion engine (motor transport, air transport, superhighways, supermarkets, suburbs), "rearranging molecules" (petrochemicals, plastics, pharmaceuticals), and communications/entertainment (telephone, movies, television). The "big four" were much more profound creators of productivity growth than anything that has happened recently. Much of what we see now is second order ... Enthusiasts of the internet might consider that the computer has not created the paperless society but rather a duplication of electronic activities, all of which generate paper ... ' (Gordon, J., 1999a, p. 8). In any event, a new industrial revolution or not, there has been no return to the Golden Age.

Kondratiev himself was much more nuanced. His approach focused on the role of technology in precipitating both equilibrium and disequilibrium in the capitalist system. Nonetheless, seeing the shifts endogenously generated, he found himself in the same trap when he predicted a new phase of capitalist upswing coming out of the First World War. Ernest Mandel stakes out an intermediate position. For him, the downturn segment is endogenously determined – crucially, as a result of the falling rate of profit. For him, it is only upturns that are triggered by exogenous shocks. 'To state it more clearly, although the internal logic of capitalist laws of motion can explain the *cumulative nature of each long wave once it is initiated* and although it can also explain the transition from an expansionist long wave to a stagnating long wave, it cannot explain the turn from the latter to the former.' It is not possible to square the circle by these means. He offers the same reasons for both the downturn in the business cycle *and* the long cycle. So why the exit from the long cycle would be exogenous whilst the upturn of the business cycle is endogenous is unclear. Crucially, however, if the exit from a downturn is exogenous, in what way – in terms of theory – is it possible to insist on a 50-year Long Cycle (Mandel, E, 1995)? Historically, what we see is that there are ascending and descending curves of varying historical time-spans. The upward or downward shifts actually correlate with significant historical events, which are not immediate reflections of economic shifts. By the same token, they may or may not coincide with technological developments – and there is little evidence that the latter is a root cause. Financial and economic shocks clearly play a key role. But whether such shocks precipitate downward shifts depends on the fragility or otherwise of the world capitalist system. This latter is as much a political as an economic question, relating to the confidence of the bourgeoisie in robustness of the world order (Trotsky, L., 1941). 'There are distinct phases of economic performance, each with its own momentum', explains Angus Maddison in summing up his discussion of the various theories and his evaluation of the statistical evidence. 'The move from one phase to another has been caused by system shocks. These may well be due to predictable breakdown of some basic characteristic of a previous phase, but the timing of the change is usually governed by exogenous or accidental events which are not predictable' (Maddison, A., 1991, p.123).

As already noted, rather than the early 1990s experiencing a new upward segment of the long wave, it showed the exact opposite: A sharp downward inflection in the curve of development signalling a new depression. I would identify three intertwined features of a depression as such. First, a major factor in counteracting the decline in the rate of profit is the increase in the mass of profits. This is not happening on the scale that it can outweigh the declining rate. As a result, the present period is marked by the dis-accumulation of capital in the main imperialist countries, notably in the US. A concomitant of this is the long-term increase in the reserve army of the unemployed. What bourgeois economists refer to as "jobless recoveries". Secondly, the on-going economic crisis combines with a systemic financial and banking crisis starting in 2007, and which is simply in a temporary lull. Indeed it is now combined with a sovereign debt crisis. This has deepened currency crises, most notably that of the euro. Such a combination has not been seen since the 1930s. Thirdly, a fundamental characteristic of depression - which marks it off from a recession - is deflation, notably price deflation but also debt deflation. This will mark the whole period. It is quite wrong to define deflation as negative inflation. Inflation is a monetary phenomenon; deflation results from price competition. Accordingly secular deflation by no means excludes inflationary spikes consequent on the very measures of the central banks to reverse the depression. Nonetheless, these will be episodic – not that this makes them any less devastating for working people for all that. In a situation of over-production and endemic overcapacity, price competition intensifies. Then, persistent price deflation necessarily spills over into debt deflation. These factors feed off and reinforce each other.

From Long Stagnation to Depression

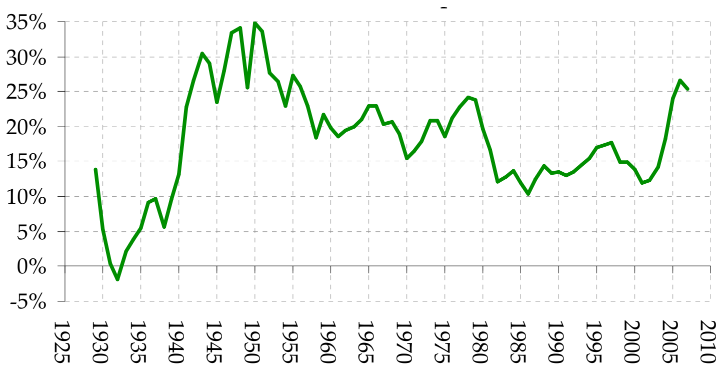
The epochal shift of the world economy in the early 70s saw the weakening of the imperialist system as a whole and the hitherto untrammelled ascendancy of the US beginning to be challenged not only by a series of reviving European countries, headed by Germany, and by Japan. It was even coming under pressure from some semi-colonial countries, such as South Korea. But there was much more to this secular shift than these underlying economic factors. The tipping point was provided by a concatenation of exogenous elements. It would include the working through of a series of elements, not all synchronous. The end of Bretton Woods is illustrative. The abrupt end of this dollar-based gold exchange standard was not only due to economic factors, but political developments. The over-supply of dollars relative to US gold-holdings resulted from the need to fund both the war against Vietnam and what President Johnson dubbed the "Great Society". There were broader implications. The truth was that the collapse of Bretton Woods was not just a shift from an international fixed to a floating exchange-rate regime. It signalled a body blow to the whole post-war architecture, encompassing the International Monetary Fund and World Bank. Up until then, the various crises could be absorbed by a robust structure. This was the heyday of Keynesianism. Henceforth, even localised crises had a tendency to shake the whole structure. A number of elements in tipping the curve downwards were outside the realm of economic forces as such. It is this secular downward curve that has condition the business cycle over the past 4 decades.

It is not possible to predict how exactly the present world economic and financial crisis is going to unfold. It would be foolish to try to identify the exact trigger of the next round – although likely culprits can be pointed to. But the trigger should not be confused with the underlying laws of motion, which can be identified. Investment and technological upgrade has continued at the level of specific sectors and individual companies as competition between capitals has intensified, as a result of the falling rate of profit. But such investment has not been capacity expanding but a process of downsizing – leaner but fitter. By the same token, it is true big business has successfully increased both absolute surplus value (extending the working day) and relative surplus value (speed-up, efficiency gains and increases in productivity). But such measures by themselves are not this time around sufficient to re-establish a new period of an upward trend in the rate of profit. The mass of surplus value has to be dramatically expanded. What is required is the drawing into productive employment of vast new layers of the working class. Instead we are seeing a sustained increase in the reserve army of unemployed. This is true even after taking into account the massive influx of labour into industry in China and India.[7] According to the

ILO, worldwide 205 million were unemployed in 2010 – an increase of 27.6 million since the beginning of the crisis in 2007 (ILO, January 2011 http://www.ilo.org/global/about-the-ilo/press-and-media-centre/press-releases/WCMS_150581/lang--en/index.htm).

The period that opened the short-lived "American Century" after World War II came on the backs of the sharp upward lift in the rate of profit thus spawning the Golden Age. However, by the late 1960s/early 70s the secular trend in the rate of profit began to turn down (See Fig 1). From the early 1970s on, the world economy has seen a secular diminution in rates of economic growth, growth of capital stock and a slowing of productivity; and this latter despite downsizing, job speed-ups, and all sorts of production synergies (for the US see Shaikh, A. 1987 and 1999; and Kliman, A., 2010; for an overview of the developed economies more broadly, see Brenner, 2009; Palley, 2007).

Fig 1: Profits Before Tax as a percentage of Historical Cost of Fixed Assets US Corporations

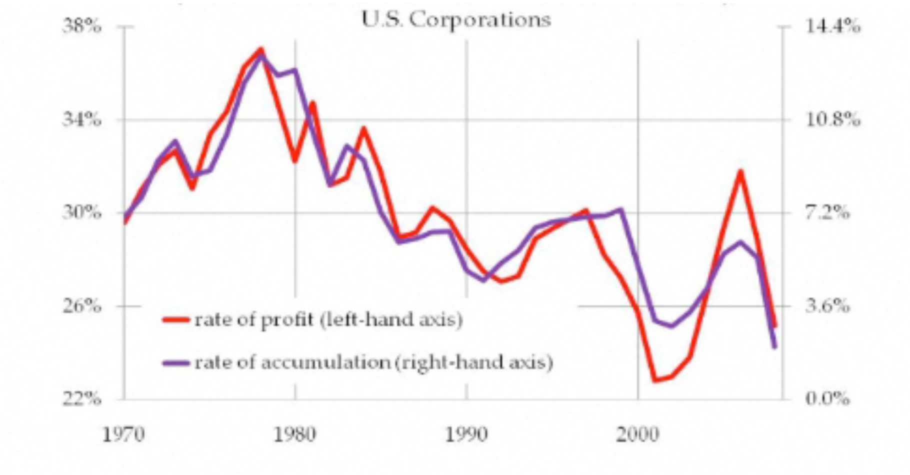


Source: Kliman, A., 2010 Fig 1 p.20 http://akliman.suarespace.com/persistent-fall

This approach is a completely different framework to that offered by Robert Brenner despite there being a crossover in terms of many of the empirical observations. He says: 'The crisis currently unfolding in the world economy is, without close comparison, the most devastating since the Great Depression, and could conceivably come to approach it in severity. This is because it manifests huge, unresolved problems in the real economy that have been literally papered over by debt for decades, as well as a financial crunch of a depth unseen in the postwar epoch. It is the mutually reinforcing interaction between weakening capital accumulation and the disintegration of the financial sector that has made the downward slide so intractable for policy makers and its potential for catastrophe so evident' (Brenner, 2009:1). It can be seen immediately that this approach relies on a separation of the "real" economy from the financial system – a typical "billiard ball" view of the mutual interaction (see the section below on "financialisation"). The essay from which this is taken is actually a preface to Prologue to the Spanish translation of the author's *Economics of Global Turbulence* (Brenner, 2006). In the latter, he terms the Golden Age the "Long Boom" and the Long Stagnation, the "Long Downturn". His explanation relies on the importance of the falling rate of profit. But his notion of the latter hasn't anything to do with the Marxist view. Indeed, Brenner specifically rejects the explanation offered by Marx and those in his tradition, instead embracing the "Okishio Theorem" which claims to show that, contrary to Marx's conclusion, there is a secular tendency for the rate of profit to rise. Brenner therefore has to perform some extraordinary gymnastics to conclude, nonetheless, that the whole period of the Long Downturn exhibited instead a falling rate of profit. He does this by adopting the approach of Adam Smith. Contrary to the neo-classical school, both Adam Smith and Ricardo recognized that as capitalism develops it exhibits a falling rate of profit. The Smithian notion of the falling rate of profit results from the competition amongst firms. This inverts Marx's direction of causation that sees competition arising from the falling rate of profit (Shaikh, 1999). His explanation therefore is unashamedly underconsumptionist i.e. the crisis in the Long Downturn results from the lack of effective demand.

The view expressed in this paper is that the secular decline in the rate of profit has led progressively to a failure to invest, at a macro level, in capacity-expanding plant and equipment. In other words, the falling rate was beginning to serious effect capital accumulation. Capitalism expands – or it dies. Yet the period opened by the 2007-09 Great Recession has seen the rate of accumulation more rapidly decline. We can define the rate of accumulation as the relation between productive use of surplus value in real investment and that used unproductively. Specifically that the rate of accumulation (the mass of profits) is progressively less able to offset the fall in the rate of profit. Accordingly, the latter is not sufficient to justify investment in capacity expanding plant and equipment. Hitherto the growth in the mass of profits during the period of the Long Stagnation had been one of the key countervailing factors to its falling rate. The fact is that in the most recent period this increase in the mass of profits has not been sufficient to offset the declining rate to the extent that it will induce productive investment. To the contrary it has intensified price competition as each capitalist tries to grab as much of the declining share as possible. The other side of the coin of the failure to invest in production is the growth of the reserve army of labour (the only source of surplus value) combined with a mass of speculatively invested capital. This invites the imperious necessity to destroy capital on a hitherto unimagined scale and once more expand world imperialism – the only way to restore the rate of profit.

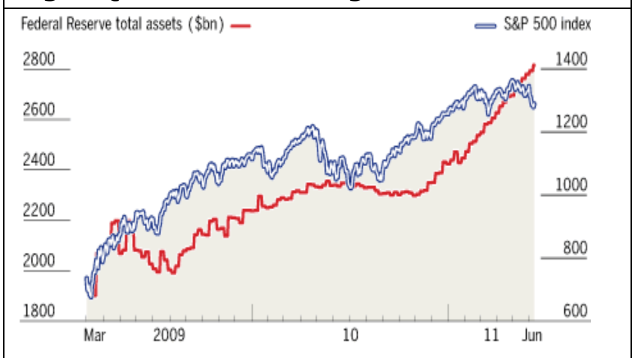
Fig 2: Rate of Profit and Next Year's Rate of Accumulation
(net investment as a % of historic cost of fixed assets)



Source: Andrew Kliman, www.marxisthumanistinitiative.org/economic-crisis/video-the-great-recession-its-aftermath-at-the-2011-left-forum.html

Because of the falling rate of profit finance capital began looking for a home that offered a greater return on capital advanced than would be received from investment in many sectors of industry. Accordingly we began to see the exponential growth of fictitious capital. Specifically, the growing role of derivatives and other complex financial instruments whose leverage and inherent instability periodically rocked the system. 'The years since the early 1970s,' explains Charles Kindleberger in his *Manias, Panics and Crashes* ' are unprecedented in terms of the volatility in the prices of commodities, currencies, real estate and stocks, and frequency and severity of financial crises' (Kindleberger and Aliber, 2005: 1). This observation was confirmed by the credit crunch that set-in in the summer of 2008 and the fiscal crises beginning in 2010. This has progressively deepened – notably in the eurozone – but not only there.

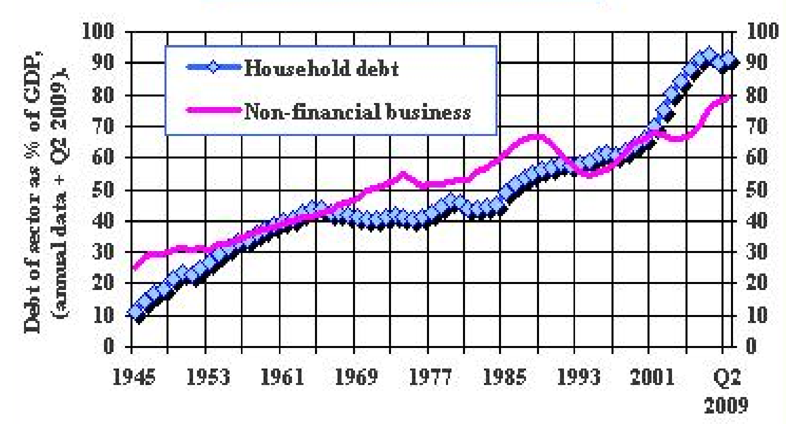
Fig 3: Quantitative Easing v S&P 500



Source: Thompson Reuters Datastream (F.T. 13/06/11)

The policy response in each case was lowering interest rates and, subsequently, as the interest rate floor was reached, quantitative easing. On the one hand, this had led to all sorts of asset price bubbles. Fig 3 shows the direct correlation between quantitative easing and the S&P 500. On the other hand, the monetary loosening aimed at encouraging investment and boosting consumer demand has led to unprecedented leverage by big business; and credit-induced consumer spending. Fig 4 shows that in the US corporate debt has at best only levelled out and that personal debt has only marginally dipped. What's worse, sovereign debt has mushroomed. According to the Bank of International Settlements 'The simple mean of household debt-to-GDP for the US, the UK and Spain declined by only 2 percentage points from 2007 to the end of 2010, while over the same period for the same countries, government debt-to-GDP rose 30 percentage points.' (BIS, 2011). Other capital has gone into commodity speculation as raw materials including food become to be viewed as an asset class.

Fig 4 US corporate debt to GDP & personal debt to GDP



Source: Federal Reserve Z1 table D3 and BEA NIPA Table 1.1.5 (Smithers, A. 2010)

Meanwhile, the shadow banking system is alive and well. Shadow banks can lend money, but they differ from commercial banks in that they don't take deposits. Commercial banks are the means by which fiat money from the central banks gets into the financial system and, through the creation of credit money and the money multiplier, create a broader category of money than the monetary base. Shadow banks don't create credit money and nor consequently contribute to the money supply. Instead they borrow cheap and lend dear. They do this either through the money markets or through facilitating the transfer of funds from one non-bank financial institution to another; or a non-bank financial institution to a business requiring capital. Having said that, the actual differences are often times conceptual – the same institution or bank operating in both arenas, for example Citicorp or Barlcays; and what distinguishes much of Goldman Sachs more notorious trading from that of a hedge fund? Shadow banks, mainly investment banks, are big players in the over-the-counter derivatives market, both traditional like forwards and swaps, and some of their own construction like Collateralised Debt Obligations and Credit default Swaps. The story is now familiar. When the underlying asset turns sour, these bits of paper turn out to be just that – bits of paper, but which are now poisonous (toxic). What would otherwise be classed as an asset now become liabilities. The financial system would now otherwise collapse without the intervention of the state (central bank and government).

From a Marxist perspective, speculation is inherent in the very nature of capitalism, and even more so finance capital. On the basis of his analysis of interest-bearing capital, Marx already identified the structural reason for this: 'The production process appears simply as an unavoidable middle term, a necessary evil for the purpose of money-making'. So capital can just as easily be made available for speculative purposes as for investment in real production. If the perceived aim is simply to make money, why go through the risky and dirty business of financing real production? Engels therefore added: 'This explains why all nations characterised by the capitalist mode of production are periodically seized by fits of giddiness in which they try to accomplish the money-making without the mediation of the production process' (Marx, K, 1978, p. 137). Further Marx explained: 'All connection with the actual expansion process of capital is thus completely lost, right down to the last trace, confirming the notion that capital is automatically valorised by its own powers'.

But this is not some separate activity from production. It is how capitalism works. In a world of fluctuating currencies, volatile commodity prices, major shifts in interest rates (the buying and selling of bonds) and so on, derivative instruments have become ever-more fundamental to the functioning of business in the form of hedging. Yet for every hedger there must be a speculator. Speculation in all forms of debt plays an ever-greater role in the dog-eat-dog competition for an ever-greater share of available surplus value. Given the inherent characteristic of interest-bearing capital if an adequate rate of return cannot be offered by investment in industrial production the various financial institutions seek profits through speculation ("investment") in all forms of fictitious capital. Derivatives are a further step removed from production. In today's world fictitious capital has taken a proliferating variety of forms. They derive their value from the underlying instrument be it shares or share indices, bonds, currencies, frozen pork bellies – or the weather. As the anticipated prices of the underlying shift, so does the value of the derivative instrument. On the organised exchanges, this ensures gigantic trading volumes and numbers of open contracts that dwarf margin requirement. Accordingly, speculation has grown exponentially, both in organised exchanges, and - more especially - over-the-counter (in which the banks play an absolutely central role). Bubbles are inevitable – and so are crashes. It is this that makes the financial system the most vulnerable point in a capitalist economy. If there is one thing that the recent crisis has ensured is that the Efficient Market Hypothesis is completely discredited.

Yet, it was not the bursting of the ballooning assets nor the implosion of the Shadow banking system, nor the role of complex financial instruments that causes the periodic crises. To the contrary these gigantic Ponzi schemes developed as a result of the measures taken by central banks aimed at dealing with the real problem they faced - the crisis of accumulation and the falling rate of profit.

The Financialisation Hypothesis

The "financialisation" hypothesis has its own take on all of this. Thomas Palley argues that financialisation 'transforms the functioning of the economic system at both the macro and micro levels. Its principal impacts are to (1) elevate the significance of the financial sector relative to the real sector, (2) transfer income from the real sector to the financial sector, and (3) contribute to increased income inequality and wage stagnation.' Banks have been able to do this, it is claimed flowing from the surfeit of liquidity created by the central banks in the financially powerful states. This paradigm actually crosses the ideological spectrum – from self-proclaimed Marxists through New Keynesians, old Keynesians and chastened neo-classical economists (Lapavitsas, 2010 a & b, Roubini, 2010 Krugman, P., 2009, Palley, 2007).[8] What unites all these schools, at root, is that there is something called the "real economy" which somehow operates outwith the financial sector. It is useful to focus on the way that this is developed by Costas Lapavitsas because he claims to stand in the 'classical Marxist debates on imperialism and finance capital at the turn of the twentieth century' (2009: 6). It is not accidental that his main reference point in this regard, however, is the work of Rudolf Hilferding, with whom Lenin had deep disagreements. Hilferding's understanding of finance capital posited the exogenous role of the banks in dominating industry and perceived finance capital operating in the sphere of circulation. For his part, Lenin insisted 'this definition is in so far incomplete in that one of its most important moments is lacking, namely the increasing concentration of production and of capital to such a high degree that the concentration leads to monopoly and has to led to monopoly' (Lenin, 1916). Lapavistas boldly declares that his own paradigm encaptures a *new* stage of capitalist development, albeit drawing on the authority of Hilferding (and Baran and Sweezy):

Lapavitsas throws around all sorts of Marxist categories – mode of production, relations of production, process of production, the circulation process, and the like. At one point he even admits to the classical Marxist view that no value can be created in the process of circulation. But from where do banks (both commercial and investment banks) get their profits? The very definition that he proffers for the growth of the financial sector is that banks no longer (?) provide loans for productive investment. So, in his conception, the banks must get their profits from the circulation process. He boldly proclaims this view: 'Financial profit today is not simply a share of surplus value created in production' (Lapavistas, 2010b). The key factors underlying his view reinforce this: 'First, less reliance of large corporations on banks; second, banks shifting their activities toward mediating in open markets and transacting with individuals; third, increasing implication of individuals in the operations of finance' (Lapavitsas 2010a). He elaborates on this latter point: 'Banks and other financial institutions' he argues 'have been able to extract profit directly out of wages and salaries, rather than surplus value ….The emergence of financial profits out of wages and salaries as a systematic social phenomenon has been called financial expropriation' (Lapavitsas, 2010: 21).[9]

However, this inverts the real process at work. Banks don't *choose* to involve themselves in speculation in the securities market, property speculation and loan-sharking at the expense of investment in new technologies leading to capacity expanding plant and equipment. As Andrew Kliman has shown in a recent study, speculation leading to unpayable debt stems not from easy money or psychology but from the falling rate of profit and capital accumulation that makes investment in industry unattractive and makes more attractive to seek higher returns in all sorts of fictitious capital. Cause and effect is the opposite way around (Kliman, A., 2010, *passim*).

This separation of the "real" economy from the financial markets inevitably leads to utopian proposals to resolve the situation. All proponents of financialisation of whatever political persuasion see the answer in greater oversight and regulation, and - ridiculously - punishment of the banks and "too big to fail" financial institutions. Nouriel Roubini, for example, posits the key tasks required to save the capitalist system the elimination of the "shadow banking system" combined with a sophisticated mix of monetary and fiscal policy (his own) - together with the resurrection of something akin to the Glass-Steagall Act. For Lapavitsas the solution is government control of the banks and the creation of peoples banks (mutual societies), the 'democratisation of the financial system' and control (sic) of big capital - together with the resurrection of something akin to the Glass-Steagall Act (Lapavitsas, 2010a).[10] The truth is, of course, that financial crises are endemic to capitalism and getting more violent. *The Dodd–Frank Wall Street Reform and Consumer Protection Act* _ and its EU equivalent - in no way provides a remedy. Increasing capital adequacy ratios for the commercial banks are merely tinkering with the problem, not least because the various "stress tests" are (an acknowledged) fake and a fraud. The parallel decision to promote previously over-the-counter contracts onto clearing houses far from alleviating the problem, will in fact exacerbate the problem. As with any balloon, squeezing air from one part just reappears in another part – until it bursts. Clearinghouses, which guarantee against counterparty risk, will now themselves become vulnerable given the gargantuan value of OTC contracts and the size of their leverage.[11] More on this below.

Money, banks and fictitious capital

It is easy to see that the financialisation hypothesis is based on an elementary confusion: That between the source of income of the banks as against the structural role the banks play in the whole financial system, and therefore their role in the funding of industry. The key dichotomy is not between the commercial as opposed to the financial role of the banks, the distinction between which is ever more difficult to identify: the same institution performing both functions simultaneously. To cut a long story short, the financialisation hypothesis confuses the question of the relative size of income generated from various commercial activities of the banks as opposed to strictly financial activity, with their structural position in the very functioning of the financial system - the central bank-commercial banking-stock exchange nexus.

Before making more of this, it is necessary to prepare the ground by looking at the role of the banks and the financial system in the production process under mature capitalism – in the first instance, that of interest-bearing capital. Then it will be possible to see how the emergence of finance capital – the fusion of banking capital with industrial capital – adds other credit instruments bringing to centre stage the broader financial institutions and notably the stock market. Neither in the period of classical capitalism nor that of finance capital are there two parallel processes going on – the financial markets and the "real economy". This latter was the position of J.A. Hobson, and from another angle, Rudolf Hilferding. To the contrary, for Marx and *ipso facto* for Lenin the two circuits were completely inter-twined.[12]. As industry develops, its inherent tendency towards concentration and centralisation leads to the development of ever-larger enterprises. Such companies require capital quite beyond that of the family firm. The development of joint-stock companies – the separation of ownership and management – transformed interest-bearing capital into a tradable commodity and a form of money.

It is important to make a distinction between credit to commercial enterprise and that to industry for investment. In either case of course, the banks loan money in order to get back an increased sum of money. To that degree, banks are indifferent as to its use once loaned. But no value can be created in the process of circulation. However, things are quite different when loans are extended for productive investment. Here, interest is paid out of profits generated in the process of production i.e. out of the newly appropriated surplus value. The loan has a (new) use value. It is traded as a commodity. This is how Marx posed the matter: 'The owner of money, who wants to valorise this as interest-bearing capital, parts with it to someone else, puts it into circulation, makes it into a commodity as capital; as capital not only for himself but also for others. It is not simply capital for the person who alienates it, it is made over to the other person as capital right from the start, as value that possesses the use-value of creating surplus-value or profit; as a value that continues its movement after it has functioned and returns to the person who originally spent it, in this case the money's owner. That is, it is removed from him only for a certain interval, only temporarily stepping from the possession of its proprietor into the possession of the functioning capitalist. It is neither paid out nor sold, but simply lent; alienated only on condition that it is, first, returned to its starting-point after a definite period of time, and second, is returned as realised capital, so that it has realised its use value of producing surplus-value' (Marx, K., 1981: 464). Credit can be extended in the form of direct bank loans, purchase of corporate bonds or shares. To that degree, the latter instruments take on an aspect of money. These forms of credit have no value as such. They simply represent claims on an income stream based on anticipated profits. Accordingly Marx called these financial instrument fictitious capital: 'the capital-value of such paper is...wholly illusory... The paper serves as title of ownership which represents this capital. The stocks of railways, mines, navigation companies, and the like, represent actual capital, namely, the capital invested and functioning in such enterprises, or the amount of money advanced by the stockholders for the purpose of being used as capital in such enterprises... But this capital does not exist twice, once as the capital-value of titles of ownership (stocks) on the one hand and on the other hand as the actual capital invested, or to be invested, in those enterprises (Marx, K., 1981: 466-7). This characterisation can be extended to all forms of financial paper, including the different forms of complex financial instruments so redolent today.[13]

With the rise of monopoly capitalism (imperialism) we saw a progressive fusion of financial capital and industrial capital. This was Lenin's insight in his concretisation of imperialism as the highest stage of capitalism. His analysis was firmly based on the trends already identified by Marx and Engels. Imperialism, however, arose after Marx was writing. It was Frederick Engels who, in the first instance, underlined the decisive shift in capitalism after Marx's death – notably in the role of the stock exchange. In his *Supplement* to Volume 3 of *Capital*, Engels identified most of the elements, which were further elaborated on by Lenin: 'But since this book (Capital Volume 3) was written', Engels explained 'a change has occurred that gives the stock exchange of today a significantly increased role, and a constantly growing one at that, which, as it develops further, has the tendency to concentrate the whole of production, industrial as well as agricultural, together with the whole of commerce — means of communication as well as the exchange of function — in the hands of stock-exchange speculators, so that the stock exchange becomes the most pre-eminent representative of capitalist production as such' (Marx, K 1981, p. 1045). Engels, however, in addition to noting the decisive shift in the role of the stock exchange, underlined the growing importance of joint stock companies, the centralisation of the banking system, its ever-greater role in agriculture, the need for capital export, and the relation of the latter to colonial expansion.

In Marx's time, the stock market had primarily been the arena for speculators to rip off from each other ('swindling'). This, of course remains true to this day. But it is an error to see contemporary stock exchanges as mere casinos. They play a real role in the production process. To be sure, trading in stocks and bonds (the secondary market) is removed from anything directly concerned with production – and the derivatives market more so. To talk about buying bonds and shares in the secondary market as "investment" is a complete misnomer. On the other hand, the buying of bonds or shares in the primary market potentially provides funds for real investment. There is a distinction be drawn. However, the primary market could not operate without the secondary markets. To be sure, the latter do not allocate funds to firms directly. Capital is made available to firms only through the primary market. However the performance of various companies stock on the secondary market, not only determines its capacity to utilise the primary market as a further source of funds. It is also a key determinant of corporate access to (or cost of) any sort of credit at all. A further consequence is the instrumentality of the secondary market in modifying property rights - since these rights are enshrined in shares (titles of ownership), which can be traded. This leads onto a further indispensable function of the secondary market: its centrality to the process of merger and acquisition, that is, the centralisation of capital. It is the share price, determined in the secondary market, which establishes the value (capitalisation) of a company. It is the ups and downs of the share price that reflects/determines the success or failure of a company in a capitalist economy; merger, take-over, bankruptcy, accesses to loans through sale of bonds or from banks (or other money market institutions). The bifurcation of the stock exchange into primary and secondary markets does not express the division between capital for production and speculation – it precisely illustrates the fusion of the two activities. In the age of imperialism, it is the financial markets, and notably the stock exchange, that determines where capital will be allocated, which industries will grow, and which will be allowed to wither, and therefore which jobs are created and which lost, how much capital moves overseas either as portfolio speculation or foreign direct investment. It is the arena par excellence where different capitals fight over their share of surplus value. It is intrinsic to determining dynamic to the formation of an average rate of profit and thereby the determination of prices of production. Put another way, the financial system with the stock market at its core is the institutional means whereby the capitalist law of value is expressed. It flows from the fact that commercial fees, interest, debt and paper values are not "things" but part-and-parcel of the production and reproduction of capitalist social relations (Barnes, J. & Clarke, S. 1988). This is the phenomenal form of finance capital.

Monopoly Capitalism

The world market is dominated by a relatively small number of multinational companies, multinational banks and "international" stock exchanges – and now, even retailers. Imperialist-based MNCs dominate the world economy and are doing so at an increasing rate. In 2009, there were some 82,000 MNCs worldwide, with 810,000 foreign affiliates. Exports by foreign affiliates of MNCs are estimated to account for about a third of total world exports of goods and services, and the number of people employed by them worldwide totalled about 77 million (whereas in 1990 the proportions were 50/50). Foreign affiliates of MNCs account for 10% of world GDP, as measured by value added of these, the top 100 MNCs combined accounted for some 4% of world GDP (WIR, UNCTAD 2009).

This prominence of monopolies/oligopolies (it matters little which) was a central plank of Lenin's view of imperialism. In this he was simply following Marx who explained that monopoly was intrinsic to the capitalist mode of production – albeit that monopoly and competition were not polar opposites, but dependent one on the other: 'In practical life we find not only competition, monopoly and the antagonism between them, but also the synthesis of the two, which is not a formula but a movement. Monopoly produces competition, but competition produces monopoly. Monopolists are made from competition; competitors become monopolists. . . the more the mass of the proletariat grows as against the monopolists of one nation, the more desperate competition becomes between monopolists of different nations. The synthesis is of such a character that monopoly can only maintain itself by continually entering into the struggle of competition' (Marx, 1971, p. 152). The charge that Lenin somehow abjured ongoing competition between capitals under imperialism is unsustainable. Indeed, his implacable, not to say, vitriolic, hostility to Kautskyian "ultra-imperialism" should be proof enough of that. It was Kautsky, not Lenin that argued that competition between nation states and their monopolies was a thing of the past. Lenin to the contrary stressed the inevitability of competition amongst the imperialist states and their trusts What he did insist on was the national roots of finance capital, and the integration of these monopolies with their state. Thus he recognised that in the age of imperialism competition assumes a somewhat different form; that with the creation of finance capital the inherent tendency to monopolisation had gone a stage further than that outlined by Marx.

Lenin (and Bukharin) insisted that in the age of imperialism, competition is raised onto a whole new level. Given the mis-information as to Lenin's actual views that is perpetrated by even those calling themselves Marxists, it is necessary to quote extensively from Lenin. Given Lenin's key role as a political leader much of his analysis is to be found in his reports to party congresses and the like. But first in his most famous work - the one thing that is generally read by his critics - he stated: '… monopoly under capitalism can never completely, and for a very long period of time, eliminate competition in the world market (and this, by the by, is one of the reasons why the theory of ultra-imperialism is so absurd) … the possibility of reducing the cost of production and increasing profits by introducing technical improvements operates in the direction of change. But the *tendency* to stagnation and decay, which is characteristic of monopoly, continues to operate, and in some branches of industry, in some countries, for certain periods of time, it gains the upper hand …' (Lenin 1916: p276)

Lenin further clarified his views in a sharp exchange with Bukharin at the eight Congress of the Russian Communist party:

> 'Pure imperialism, without the fundamental basis of capitalism, has never existed, does not exist anywhere, and never will exist. This is an incorrect generalisation of everything that was said of the syndicates, cartels, trusts and finance capitalism, when finance capitalism was depicted as though it had none of the foundations of the old capitalism under it' (CW 29 p 165). He continued: 'Nowhere in the world has monopoly capitalism existed in a whole series of branches without free competition, nor will it exist. To write of such a system is to write of a system, which is false and removed from reality.' Then he concluded intriguingly: 'If Marx said of manufacture that it was a superstructure on mass small production, imperialism and finance capitalism *are a superstructure on the old capitalism*. If its top is destroyed, the old capitalism is exposed. To maintain that there is such a thing as integral imperialism without the old capitalism is merely making the wish father to the thought. … *Imperialism is a superstructure on capitalism.* When it collapses, we find ourselves dealing with the destruction of the top and the exposure of the foundation (Ibid p 168-9 – my emphasis).

This is not unimportant as a key characteristic of a depression is price competition. As the rate of profit falls price competition increases, undermining monopoly rents. The underlying trend therefore is one of deflation. Once deflation takes hold, debt deflation kicks in. That is, the real value of loans increases, discouraging further borrowing either by consumers or industry. Thus begins a debt-deflation spiral.

Ultra-imperialism?

There is a contrary view as to the relation between imperial capital and the Third World. It is suggested that a qualitative shift has occurred between finance capital and the national state. They consider the world, and nation-states, to be now dominated by "rootless" capital. Michael Barrat Brown, for example, avers: 'These giant companies had increasingly divorced themselves from their original national base. National governments had in effect lost control of them. Hilferding's "finance capital" had no longer a national identity' (Barrat Brown, M, 1996). John Holloway puts the same point: 'The established links between groups of capitalists and the state come to be seen as a hindrance once it is seen that capital in its money form attaches to no group of people and no particular activity' (Holloway J, 1996: 133). He concludes: 'The competition between national states is not a struggle between national capitals, but the struggle between states to attract and/or retain a share of world capital (surplus value)' (Holloway, ibid). Such radical changes in the structure of world capitalism according to Hugo Radice '... require the reconstitution of the state as an enabling institution for capital. This reconstituted capitalist state faces two ways. It operates nationally to control labour and other resources and make them readily available for the transnationals to exploit. At the same time it operates internationally, in concert with other states to ensure the basic legal and institutional prerequisites for global flows of capital and commodities' (Radice, H 1996: 16). The unambiguous implication is that a new neo-global age of capitalism has dawned where imperialist governments' main role is now to collaborate in facilitating the functioning of "Transnationals".[14] In a similar vein Cyras Vinar proclaims: 'The current crisis is the first full-fledged crisis of the new epoch, which was inaugurated without much notice in the early 1980s; an epoch that emerged from the implosion of the Pax Americana (1945-1979) and decline of American hegemony, a good decade before the fall of the Soviet Union. I identify this epoch as "globalisation," that is to say, the epoch of transnationalised social relations in which "national capitals" not only lost their personality but also effectively shed their nationality across the board' (Vinar, C., http://radicalnotes.com/content/view/133/39/). A more recent – and more rigorous formulation is that offered by Panitch and Gindon. Here we are told: '(Given) the state's relatively autonomous role in maintaining social order and securing the conditions of capital accumulation … domestic capital tended to be "dis-articulated" and no longer represented by a coherent and independent national bourgeoisie' ((Panitch, L. and Gindin, S., 2004: 32).

The role of the imperialist state, then, is no longer to promote their own finance capital straining to break down barriers to the attainment of that objective. It is now reduced to that of providing domestic conditions that can attract foreign investment. In other words, that the ever-greater domination of the world by MNCs *lessens* inter-imperialist rivalry. Karl Kautsky was the first to pose the possibility of "world capital" during the First World War. But as Lenin replied: such a theoretical possibility could only be envisaged if uneven development between the imperialist powers had been overcome - a utopian dream. World imperialism is today further away from ironing out its uneven development than at the time Lenin was writing. Nonetheless, some are quite bold in acknowledging their Kautskyite lineage: '(T)his sort of collective colonialism feared and predicted by Kautsky in his famous disagreement with Lenin in 1915', writes Susan Strange. 'Where Lenin predicted the inevitable clash of national capitalist-imperialist states, Kautsky argued that their common interest in maintaining a stable but open world economic order would lead the imperialist powers to collective intervention into what were then, still, colonies. On the whole, Lenin has been proved wrong, and Kautsky - and the late Ernest Mandel - right' (Susan Strange 1998, p. 94).[15] For David Harvey this perspective is couched in terms of some resurrected New Deal: 'This means liberating the logic of capital circulation and accumulation from its neo-liberal chains, reformulating state power along much more interventionist lines and redistributive lines, curbing the speculative powers of finance capital, and decentralising or democratically controlling the overwhelming power of the oligopolies and monopolies. … The effect will be a return to a more benevolent "New Deal" imperialism, preferably arrived at through the sort of coalition of capitalist powers that Kautsky long ago envisaged … (It) might, by adequate pursuit of some long-term spatio-temporal fix, actually assuage the problems of over-accumulation for at least a few years' (Harvey, D., 2003: 209 -211). So, too, with Panitch and Gindin: 'Kautsky was right to perceive, however, that even if inter-imperial rivalry had led to war between the major capitalist powers, this was not an inevitable characteristic of capitalist globalization' (op. cit: 14). In fact, it is quite clear that when "globalisation" is spoken of (rather than internationalisation), it actually means Kautsky's "supra-nationals". Marxists in the Leninists tradition are best advised to avoid the term.

To be sure, finance capital has always seen national boundaries as a cage from which they must escape if they are to find a profitable outlet for their surplus capital. But the nation-state is the basis and inextricably bound up with capitalism. So the imperious necessity of breaking down national boundaries is combined with beefing up their own state and integrating it into the dominant monopolies. In pursuit of such objectives, imperialist states today continue to erect those barriers to cross border capital flows that they consider to be in their national interests. The national market remains the bedrock to successful international functioning. Thus, the top 100 monopolies have significantly larger domestic assets than that invested overseas *(UN World Investment Report*, 2005). International mergers, take-overs and acquisitions have accelerated. But genuine transnational ownership is still the subordinate form: 'Alliances, formal and informal are becoming the dominant form of integration in the world economy', explains Peter Drucker. Such alliances span: '... joint ventures, partnerships, knowledge agreements, and out-sourcing agreements. In alliances, investment is secondary, if there is any at all'. Some alliances do, of course involve substantial capital investment such as those that have been constructed to bid for big military, aircraft or other prestige contracts. 'But even then, the basis of the alliance was not capital but complementary knowledge. ... More and more, investment of any size is symbolic - a minority share in each other's business is regarded as "bonding" between partners. In many alliances there is no financial relationship of any kind between partners.' (Drucker, P.F., 1994. See also Petrella, R., 1995 p. 37-8; Lazar, F., 1995: 281). Company control through boards of directors still firmly rests with the nationals of the home country. And, of course, the final destination of the bulk of the profits of overseas-based companies (often through off-shore banks and the like) is to the bourgeoisie in the home country.

It is difficult to sustain the argument that the ownership of industry is somehow independent the big financial institutions – and the ruling families that stand behind them. Who owns industrial shares, therefore, is far from irrelevant. According to the US Conference Board, in 2006 institutional investors owned 67.9% of the largest 1,000 U.S. corporations. Of these, pension funds owned 40%, investment companies 22%, insurance companies 23%, bank and trust companies 12%, and foundations 2.5% (Institutional Investment Report 2008: U.S. and International Trends, The Conference Board; see also Levey, D. and Brown, S., 2005). Every monopoly enterprise attempting to function in the world market demands the support of their government, their state (and in the last analysis, its military power) to support them against their foreign rivals both at home and abroad, and seek to extend the part of the globe dominated by their MNCs and oligopolies. Again Lenin pointed to the ever-closer integration of these monopolies with *their* state. As Dunning puts it: 'Increasingly governments, too, are beginning to view their role as harvesters of the rent generated by *global* economic activity and as protectors of *their own enterprises* from unacceptable economic strategies pursued by other governments'. National states bolster their own MNCs by socialising much of their costs (through R&D, for example), through NTBs, VERs, subsidies and through government procurement policies amongst other things (Dunning, JH 1993: 611-12 ff; Petrella, R, 1996). Today's dismantling of barriers to capital flows and MNC investment (globalisation), far from removing borders, is a reflection of intensified inter-imperialist rivalries. "Free Trade" or dismantling barriers to capital flows is always the battle cry of the strong against the weak. Just as in the 1930s Great Depression, as the prospects for the world economy deteriorate, imperialist powers will not act in concert out of enlightened self-interest. Capital must expand - or it dies. With a diminishing cake, this of necessity means nationally based capitals gaining new spheres of investment, increasing market share and cornering raw materials at the expense of imperialist rivals (Petrella, R 1996).

It is quite clear that today's world is more akin to Lenin's "state monopoly capitalisms" rather than that of "rootless" MNCs tied to no nation-state or national capital. Competition between state capitalisms is once more on the rise. Such a scenario has led to world war twice in the twentieth century. It is unlikely that inter-imperialist competition can once again take the form of world war between the imperialist powers in the foreseeable future. Amongst other things, the military power of the US is overweening to say the least, and this cannot be counter-posed in the future by some putative supra-European state. Any prospect of this, too, has been historically by-passed. Nonetheless, the tendencies that lay behind the catastrophes of world war in the past, rather than having been eliminated, is once more asserting themselves. We can see this in proxy struggles in the third world as various imperialist powers work with competing indigenous forces to assert their influence, one over the other.

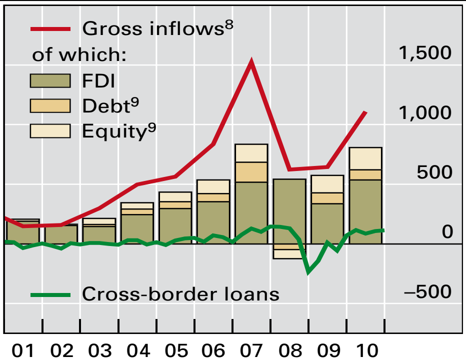
Capital Export

Again, it was Lenin that pointed to the growing significance of the creditor-debtor relationship internationally compared to that in trade in goods and services. This is not at all the same thing as banks simply garnering interest from workers (and farmers). Capital export has a multifaceted character – from speculative intervention of financial institutions (and central banks) in the foreign exchange market, in the international money and capital markets; from the growth in foreign direct investment both Greenfield and *a fortoriori* mergers and acquisitions, which is not a form of real investment that is to say, investment in capacity-expanding plant and equipment. A good deal of what is called FDI is simply mergers and acquisitions. There is no clear-cut distinction between these different facets. Debt is not a "thing" but a social relation. All typically involve the bourgeoisie applying the lever of fictitious capital – variegated forms of debt - as a way of grabbing from their rivals as much as possible of the surplus value produced on a world scale. A key aspect of this is the use of debt relations as a way of oppressing and dominating the, now, semi-colonial countries. In the quotation above indicating Lenin's views on the rentier, the final part of the last sentence was omitted. He actually concluded that the features that he identified '… means that a small number of financially "powerful" states stand out among all the rest' (Lenin, V.I., 1916/1964 p 238). Added to this, he records elsewhere that the world has been 'divided into a large number of oppressed nations and an insignificant number of oppressor nations, the latter possessing colossal wealth and powerful armed forces' (Lenin, V.I., 1966).[16]

Lenin underlined this shift in capitalism in relation to the colonial and semi-colonial world, and the significance of that in siphoning off the surplus capital from these countries. This is a key bedrock of imperialism irrespective of the destination of capital exports. As Henryk Grossman explained: 'At advanced stages of accumulation, when it becomes more and more difficult to valorize the enormously accumulated capital, such transfers [from underdeveloped to developed countries] become a matter of life and death for capitalism. This explains the virulence of imperialist expansion in the late stage of capital accumulation' (Grossmann 1929b p. 172). Those that reduce imperialism to the domination of the world by monopolies and the latter's integration into statecraft are dramatically narrowing the classical Marxist (i.e. Leninist) view. Thus we here Alex Callinicos aver: 'Stated most rigorously by Bukharin, what I henceforth call the classical Marxist theory of imperialism affirms that capitalism in its imperialist stage is defined by two potentially conflicting tendencies: (1) the internationalisation of production, circulation and investment and (2) the interpenetration of private capital and the nation-state. In consequence, an increasingly integrated world economy becomes the arena for competition among capitals that tends now to take the form of geopolitical conflict among states' (Callinicos, 2005).

Having said that, Lenin at no time considered that imperial surplus capital simply found its way to the "backward" countries. He stated '... What distinguishes imperialism is the rule *not* of industrial capital, but of finance capital, the striving to annex *not* agrarian countries, particularly, but *every* kind of country' (CW 29 p107). In today's world, we can see that this takes three primary forms: Loans, equity and FDI.

Fig 5: Composition of Capital Flows

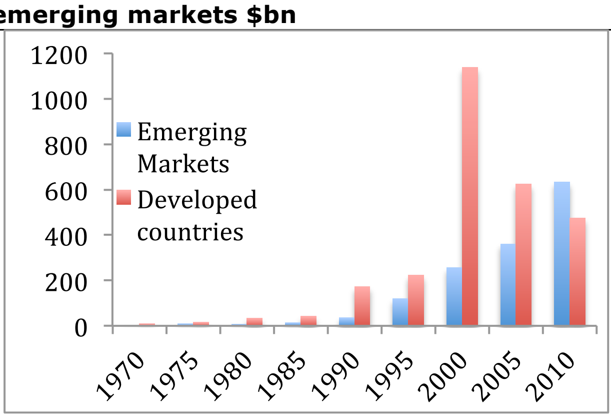


Source: BIS 2011

Trying to fault Lenin by pointing to the fact that the bulk of capital export has been between the imperialist countries themselves doesn't hold water. Nonetheless, the dominance of colonial and semi-colonial countries is fundamental to any notion of imperialism. Ironically, those that try to fault Lenin by the fact that the destination of capital exports for most of the second half of the twentieth century was to other imperialist countries are actually blind to the fact that over the last decade or so there has seen a *secular* shift of FDI to the semi-colonial countries, to the degree that it is proportionately growing relative to flows to imperialist countries.

Foreign Direct Investment into "emerging markets" has dramatically expanded as the major multinationals have sought to establish vertically integrated, cost-cutting affiliates in low-wage semi-colonial and transitional economies, notably China. This has signalled a secular shift in the destination of FDI. Whereas the overwhelming proportion of FDI in the post-war years was primarily between the imperialist economies themselves, from the early 1990s onwards the relative proportions going to the "emerging markets" rapidly changed – albeit mostly finding a home in a small handful of these economies, again notably China.

Fig 6: FDI to Developed countries versus emerging markets $bn



Source: Unctad data base; for 2010 Economist Intelligence Unit

As of 2010, over 50% of FDI was going to the semi-colonial countries.

Nonetheless, semi-colonial countries are dominated and exploited by the financially powerful states in three sorts of ways: by the extracting of super profits; through debt bondage; and through unequal exchange. Anwar Shaikh, in a series of devastating articles, has debunked the notion that trade between semi-colonial and imperialist countries benefits both sides equally - as proclaimed by modern day liberal economists (e.g. Wolf, M, 2005). As he points out, all the boasting of these free-marketeers is based on the unsustainable Ricardian theory of comparative advantage, and its sibling, the Hecksher Ohlin hypothesis (amongst a number of articles, see ff Shaikh, A.,1980). He illustrates how trade, even within the neo-classical framework, is actually based on Absolute Advantage

Accordingly, in the first instance, cheaper and better quality hi-tech goods from the industrialised countries typically undermine local production. Even where there is substantial FDI – and this is concentrated primarily in about 12 countries – these are typically processing zones. Other things being equal, therefore, semi-colonial countries will face an on-going current account deficit. This will require that these countries seek external borrowing either through the imperialist banks and big bondholders, or from the imperialist dominated multilateral institutions – the International Monetary Fund and the World Bank. This ensures that there is an on-going transfer of surplus value in the form of interest from these countries to the imperial centres. According to the UNCTAD 'the total external debt (public and private) of developing countries as a share of GDP rose to 24.8 per cent in 2009… the average external debt-to-export ratio of developing countries and transition economies increased from 64.1 per cent in 2008 to 82.4 per cent in 2009.' (UNCTAD, 2011: 81)

But things don't end there. Imperialist capital in its quest to reverse the falling rate of profit, finds it expedient to move some of its production overseas where wage rates are lower. This is where the hybrid character of semi-colonial countries comes in. The co-existence of capitalist industry with semi feudal social relations on the land ensures a steady flow of cheap labour through the progressive expulsion of the peasantry from the land. Moreover, this labour still has one foot in agriculture. This set-up allows MNCs to pay for labour power below its value, the reproduction of the labourer only guaranteed by its ability to additionally eke out some form of living from the land. MNCs win against the local bourgeoisie through its greater access to capital, higher levels of technology and greater efficiency. Local capitalist either seek protection by acting as junior partners to the MNCs, or in those industries where the domestic market is so small that it is of little interest to MNCs or, where it has some natural advantage – mainly in the production of primary commodities. It is this latter which is at the root of unequal exchange when it comes to international trade, that is, the exchange of goods embodying more labour in exchange for those goods – normally capital goods – with a lower proportion of congealed labour. As Marx explained: '… nations may continually exchange with one another … without for that reason necessarily gaining in equal degrees. One nation may continually appropriate for itself a part of the surplus labour of the other …' (Grundrisse p. 872). Or again, '*Say*, in his notes to Ricardo's book … makes only *one* correct remark about *foreign trade*. Profit can also be made by cheating, one person gaining what the other loses. Loss and gain within a *single* country cancel each other out. But not so with trade between different countries. … Here the law of value undergoes essential modification. The relationship between labour days of different countries may be similar to that existing between skilled, complex labour and unskilled, simple labour within a country. In this case, the richer country exploits the poorer one, even where the latter gains by the exchange' (Marx, 1972: 105).

In sum, industry is marked by a bifurcation between a highly developed foreign-owned export zones, and a backward domestic sector mainly oriented to the home market and/or servicing MNCs. This is the source of super-profits for MNCs. Contrary to the pristine development of capitalism, now investment was and is determined by metropolitan capital. Local capital becomes an adjunct of imperialist capital. The home market is dramatically narrowed by persistent poverty and polarisation of wealth and income. According to the ILO in 2009 630 million workers *i.e. those with a job* have to live off $1.25 a day – up 40m since the onset of the crisis. This is 20.7% of all workers in the world. According to the World Bank's own figures 1.4 billion people in the developing world (one in four) were living on less than US$1.25 a day in 2005 (Global Economic Prospects 2010, http://go.worldbank.org/7NIPEVSMO0). As Nancy Birdsall has pointed out, amongst other things, such inequality is a major barrier to economic growth and inhibits the development of a sufficiently large home market (Birdsall, N, 2007). Such is a direct result of the failure to eradicate, to one degree or another, pre-capitalist social relations.

It is in this context that we should place all the talk about the BRICS coming to the rescue.

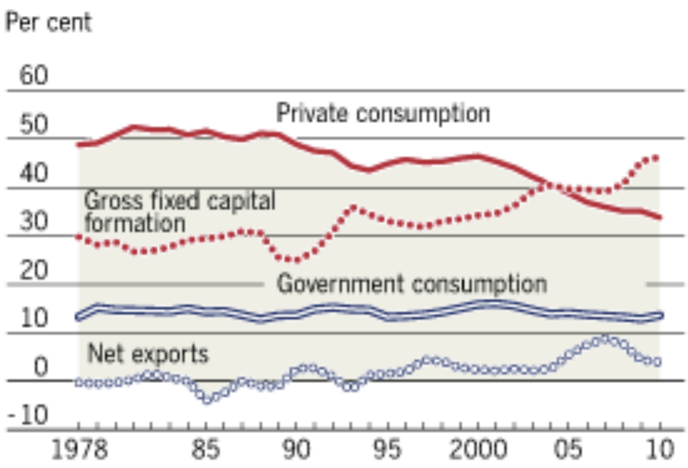
The BRICS and the De-Coupling Thesis

Every decade sees a new country or region that is going to reach the top table – something that has not happened since the consolidation of imperialism at the end of the nineteenth century. In the 1970s it was the Latin American economies – notably, Mexico, Brazil and Argentina. In the 1980s, it was the Asian Tigers. This optimism carried over to the 1990s to be joined by the transition economies of the ex Soviet bloc. Now it is the BRICS. Putting the 5 countries in the same bag is downright silly. What is that unites a relatively industrialised semi-colonial country (Brazil); a rapidly growing but impoverished country (India); a country where ownership of large banks and industry is dependent on the patronage of the ruling bureaucracy (Russia); one still dominated by state industry and a ruling bureaucracy but where entrepreneurial ownership is encouraged and led by the state (China), and a minor relatively low-income imperialist power (South Africa)?

To be sure, the other side to the refusal to invest in capacity expanding plant in the imperialist centres has been the shift of production to cheap-labour processing zones. This has brought literally some tens of millions of new workers into the labour force - 150 million in China alone. This has increased the mass of surplus value and to some degree compensated for its falling rate. On the one hand the cost-cutting from the internationalisation of the vertical integration of the Multinational monopolies, and on the other the dramatic lowering of prices of imports most often produced by these self same MNCs in the processing zones. Price competition has therefore intensified.

The suggestion that China and other "emerging" Asian economies can become the motor-force of the world economy is without foundation. China has extremely high investment and relatively limited consumption in proportion to GDP. The share of investment in GDP rose from some 30% in 1978 to 45% in 2010. During this same period, consumption has progressively *decreased* as a share of GDP in the same time period from some 50% to 30% in 2010. Net exports of goods and services, which were negative for most of the 1980s, have been positive since 1990, except in 1993. Exports accounted for 26.6% in 2010. A re-balancing of this towards consumer spending is off the agenda.

Fig 7: Composition of Chinese GDP



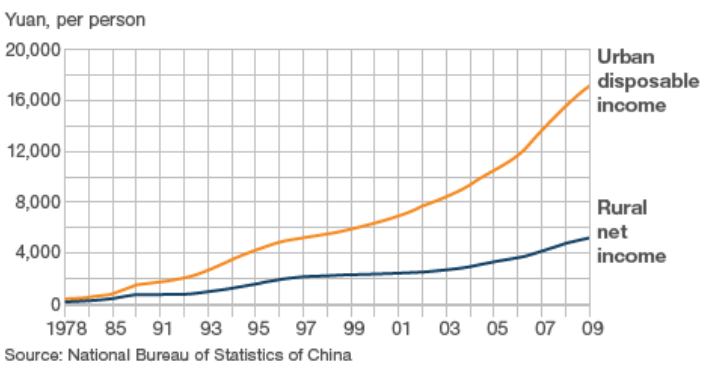
Source: Thompson Reuters; Datatstream; EIU (Financial Times 06-11)

It is the case that the state's share of industrial output by value fell from 49% to 27% between 1999 and 2009 (Unirule Institute of Economics 2011), and that in the same time period government-controlled firms ownership of of industrial capital had fallen from 69% to 41%. But the government still controls the largest companies. The fact is that the Chinese economy is not capitalist, albeit being guided in that direction by the Chinese bureaucracy (which is easier said than done). Neither is China an imperialist power, or a finance capital. It is impermissible to equate the inroads of the market in general with the specifically capitalist market, or Chinese overseas investment with imperialism. The capitalist law of value doesn't apply to simple commodity exchange. Failure (incapacity) to make this distinction was the fundamental error in projections related to the prospects for the ex-Soviet bloc countries. These are still in "transition" some 20 years after the event. By the same token, the nature of the "privatisations" in Russia is now more broadly appreciated. After the biggest privatisation in history some 70% of the economy was in private hands but this fell to 65% in 2005. Since 2005 renationalization of major companies. According to Anders Anslund and Andrew Kuuchins et al, the state now accounts for 83 percent of gas production and 45 percent of oil productio. On the other hand, it has been calculated that 30 oligarchs own firms amounting to 25% of GDP, 42% of employment, 39% of sales. They predominate in cars and natural resources (Aslund, A, 2007, Ch. 28 *passim*, Aslund, A.and Kuchins, A. 2009: 52).

China is somewhat different than Russia in that it was not an industrialised country before the major openings to market forces starting in 1978. Therefore, entrepreneurs play a much greater role – the real seedlings of capitalism and of the necessary material for the formation of a hereditary capitalist class. However, even to this day, much of industry is still state or quasi state owned. The financial system does not function as in a capitalist economy. The Shanghai and Shenzhen stock exchanges are little more than gambling dens. Whilst there are some 1,377 listed companies on the two exchanges, some two thirds of the equity is non-tradable. Government bonds are hardly traded at all. Accordingly, the stock market bubble has been driven mainly by pure speculation, including buying into IPOs, although often only a small percentage is floated in Shanghai.

Domestic funding for industry and other lending comes primarily from the (state owned or semi-state owned) banks. Lending is generally politically determined. Capitalist criteria of risk and return don't apply. Thus we see a phenomenon of over-investment and speculative investments generating an asset price bubble, including and importantly in the housing market. The unsustainability of many of the State owned enterprises (SOEs) saddles the banks with large-scale bad loans. In the face of the economic slowdown of 2008, outstanding loans increased by $1.4tr – up some 32%. In 2009, loans to the private sector, non-financial and local governments Special Investment Vehicles amounted to 160% of GDP versus 120% in 2000. This state of affairs has even begun to concern the Chinese regulators, not only in regards to the precarious real estate sector, but also in relation to the above mention local government SIVs, established to by-pass the prohibition on their raising loans directly from the capital markets. So the banking system is precarious. The ratings agency Fitch estimates that even a moderate economic slowdown would likely result in 10% of loans turning bad (figures from: China Banking Regulatory Commission, 2010; and Fitch Report, 23 June 2010).

Fig 8: Income in China: Urban v Rural



(BBC website: www.bbc.co.uk/news/business-13945072 accessed 26 June 2011)

A major motivation in the Chinese governments' managed exchange rate is its concern to find employment in their export industries for the estimated 150 million migrant workers in the urban centres - on pain of widespread social unrest. There is no social wage in China. Access to unemployment compensation, social welfare, education and health are enterprise based - either factories or rural communes. Once forced off the land, labourers have no choice but to migrate to the urban centres. With the privatisation of many SOEs, workers have lost their entitlements. Social polarisation is dire. The Gini coefficient in 2010 was 0.47 – 0.4. According to Damien Tobin a Gini-coefficient of 0.4 'is generally regarded as the international warning level for dangerous levels of inequality (www.bbc.co.uk/news/business-13945072). However, in the face of mass protests in the face of high inflation, food especially, the minimum wage has been raised variously to between RMB750 and RMB900 (£72 - £87).

As with previously much-touted miracle economies, supposedly about to take over the world, as with talk about S Korea two decades ago, workers are showing their propensity to organise and protest - pushing up wage rates and winning other concessions (re: S Korea see Krugman, J., 1994). As the capitalist law of value expands its domain in China, as the entrepreneurial class expands, class struggle will dramatically intensify. These workers are not suffering such conditions lying down. Protests and mass mobilisations – some of them bloody – are multiplying. Those in work feeling their strength as a result of employment are joining these. The government will not give provision of a real social wage *gratis*; it will have to be taken through struggle – something already beginning to happen, and something that will deepen.

Despite the non-capitalist nature of the Chinese economy, it is so integrated into the world economy that it cannot escape the business cycle. Sooner rather than later it will see an economic downturn. With investment at 45% of GDP, it is bound to face a crisis of overproduction. And this is true for the rest of the BRICS. In a series of key indicators the lead up to the present situation in Brazil, India and China looks eerily like that leading up to the financial and economic disaster of 2007 – 09 in the developed economies.

Table 1: Boom in BRICS v Selected Developed Countries

In per cent

	Real GDP growth	Inflation	Credit growth		Credit/ GDP	General govt fiscal balance/ GDP[1]	General govt structural fiscal balance/ potential GDP[1]	Public debt/ GDP[1]	House price growth	
	2010			2006–10 average	2010					2006–10 average
Brazil	7.5	5.0	26.0	24.7	53.4	–2.9	–3.0	66.1	…	…
India	10.4	9.6[2]	26.8	21.8	53.5	–9.4	–10.0	72.2	…	…
China	10.3	3.3	20.3	20.2	132.0	–2.6	–2.9	17.7	10.6	11.3
	2006			2002–06 average	2006					2002–06 average
Ireland	5.3	2.7	23.4	20.3	181.4	2.9	–4.2	24.8	13.6	10.7
Spain	4.0	3.6	24.3	19.2	167.2	2.0	0.7	39.6	10.4	15.0
United Kingdom	2.8	2.3	13.3	10.6	170.8	–2.6	–2.8	43.1	6.3	11.1
United States	2.7	3.2	9.6	8.3	58.9	–2.0	–2.0	61.1	7.1	8.1

[1] April 2011 estimate. [2] Wholesale prices.

Sources: IMF, Fiscal Monitor, World Economic Outlook; CEIC; national data (BIS 2011 Table II.2)

The dollar and the euro

The latest phase of finance capital's crisis is the unravelling of the euro project and the fractures in the European Union. It would be inappropriate to talk simply about a eurozone crisis, however, let alone a Greek or Southern Mediterranean crisis, not least because non-eurozone members of the European Union face similar problems with similar ramification. The crisis of the euro stems from and contributes further to the crisis of world capitalism. After all the foolish backslapping as the euro reached its 10th birthday in 2009, history has decided the issue as to whether the euro can replace the dollar.[17] There was never any chance that the euro could survive. What is surprising is not that it has been around for over a decade but the fact that it has stumbled in the face of its first real challenge. The eurozone comes nowhere near meeting the criteria of an optimal currency area (Manolopoulos, J: 2011). The imposition of a one-size-fits-all straightjacket was so designed to work to the advantage of the Franco-German axis in siphoning off surplus value from the rest of the euro zone – the major motivation for the accession of the countries of the east. However, as the world economy has deteriorated, competition increased between France and Germany over who would take the biggest slice of the cake at the expense of the weaker euro zone countries. Lacking in the most crucial criteria - that of a single government to back it - the euro was clearly dead in the water (Grogan, B., 2005).

This is the rub – fiat currencies are only as strong as the government that backs them. There is no single government to back the euro. The crisis of the euro is built into its very structure of independent governments, independent fiscal policies and independent bond-issuance. Fiscal free-riding is inevitable. The Stability and Growth Past was meant to take care of all that. But who was ever going to police (and pay for) this, and the arbitrary 3% ceiling on government deficits? It is not the countries of the Mediterranean south that are the main problem here. It is in the heart of zone: France and Germany. They connived in the blatant breech of the convergence criteria by many countries when the euro was established, and then with the accession of Greece 2 years later. The fiscal rules governing the Stability and Growth Pact were already summarily breeched by both the French and German governments in the face of the fall-out from the 2001-02 recession, well before the Greek crisis. It was Berlin and Paris that wantonly changed the rules allowing them to ignore the 3% fiscal deficit ceiling without retribution. But the consequence of this latter has meant the accrual of unsustainable national debt.

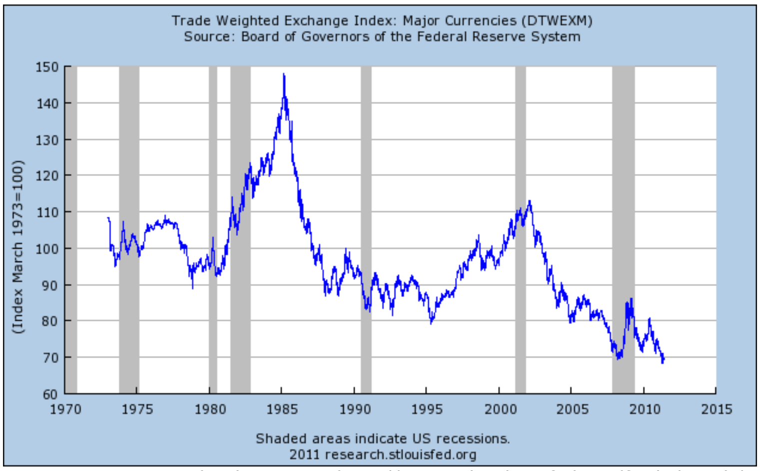
In the face of the Great Recession, governments around the world have applied Keynesian policies with a vengeance - the lessons that they themselves supposedly drew to avoid another Great Depression. That is, massively increased government spending and the slashing of official interest rates. In fact, with government bank bailouts, on a hitherto unimagined scale, and quantitative easing, they have gone way beyond anything that had been previously contemplated. But surely, it is a no-brainer to see that the scope of government spending in the context of secular sub-optimal growth would inevitably create unsustainable fiscal outcomes both in terms of budget deficits and stock of national debt. Finance capitalists (the "markets") are unforgiving. Interest on debt *must* be paid, one way or another. And any whiff that governments might default would push up the market cost of debt – the actual interest rate that working people and, indeed, big business have to pay. Thus it is, that a number of developed countries both in the eurozone, in the wider European Union and elsewhere in the world are now insolvent or close to it. It is not a question of *whether* Greece will default, but when. [18] The eurozone-IMF standby agreement, and the additional Eurozone facility in place to succeed it after 2013, is only a means of buying time, as is the decision of the ECB to purchase all and any euro bonds – a measure in breech of its own statutes. A new worldwide banking crisis is brewing. Hitherto the buyers of those insolvent southern rim governments bonds have been private banks, notably those of France and Germany. Of the 4 countries facing the biggest pressures (Greece, Ireland, Portugal and Spain), German banks held $493bn and French banks $465bn of sovereign debt at the end of 2009 (BIS, 2010 p.19). If we include eastern and central Europe, German banks in particular have an even greater exposure, and it would also pull Austrian and Swedish banks into the eye of the storm. Italian banks are also in deep trouble. For somewhat different reasons – the fall-out of the housing bust – the Spanish banking system is facing body blows, notably from the *cajas da ahorros* savings banks massively exposed to the busted property sector. But the problems of all of them are compounded by their exposure to non-performing loans, toxic and semi-toxic assets – such as Mortgage backed securities and covered bonds from the Spanish Cajas.[19] More a Greek default would bring down the Greek banking system. A number of big Greek banks are German or French owned.

Let's be clear: A banking crisis in the eurozone is a crisis for the world's financial system. The criss-cross and interlocking connections of the world's banking system has already been revealed in the first round. It is suggested that US banks have little exposure. The fact is however that US banks have insured Greek debt to the tune of $5bn – and a considerable amount more to other southern rim countries. This set of circumstances is one of the main reasons for the US's involvement in the Greek bailout (in the guise of the

IMF). It recognised the devastating impact another financial blowout would have not only on US banks, but also its multinationals in the European Union.[20]

But the euro's woes haven't done anything to stem the long-term weakening of the dollar. To repeat: Fiat currencies are only as strong as the governments that back them. The US is weaker than it has ever been since it became the hegemonic power in the aftermath of World War II. We might live in a unipolar world, but the US has proven incapable of creating, let alone stabilising a New World Order – it's hegemony long-gone. To the contrary, its determination to police the world is creating one crisis after another.

Fig 9: Dollar trade-weighted exchange rate: 1973-2011



Source: St. Louis Federal Reserve: http://research.stlouisfed.org/fred2/graph/?s[1][id]=DTWEXM

The more it wields its military and economic might, the more unstable the world becomes. There is no new hegemonic power on the horizon and no new currency waiting in the wings to take over from the US in the way that the US took over from Britain. The dollar is a destabilising force. The recognition of this lies behind the search for something else. The suggestion that Special Drawing Requirements could substitute is utopian in the extreme. Not only do SDRs lack a government to back it up, not only does it not manage any government financing, not only can it not provide liquidity, but it is dependent on the dollar anyway. For those that think that China will dominate the world in the next two decades, the suggestion is that the renminbi is a potential candidate to take over from the dollar is not serious. Even gold bullion is coming back into contention – would that it could. Just one concluding point: The issue is not just rivalling the dollar, but of displacing it. This requires the emergence of a new hegemonic power i.e. one that can put in in place a new world order. There is no chance of one.

Nonetheless, the US is politically weaker than it has ever been. Who now believes in the possibility of establishing a New World Order? No mere extrapolation from the "Golden Age" - when inter-imperialist collaboration was more prominent - will suffice. For unevenly developing nation-states to maintain shared objectives during that period required US hegemony to weld it together. This could only be achieved by the overweening economic power of the US and its military might propping up the shared ambition (the Cold War) of the other imperialist powers. This, in turn, rested on the rock of sustained world economic growth and stability. In the period of deepening world disorder, inter-imperialist rivalry will intensify. Moreover, there is now a new kid on the block – China. The US – after it's "war on terror" detour is re-orienting its military apparatus to prepare to take on China, which is expanding its military in line with its growing economic clout**.**

An Interim Conclusion.

It is short-sighted in the extreme to triumphantly proclaim that the anaemic end to the 2007-09 world recession signifies that capitalism has avoided a new depression. The present depression in terms of its longevity is likely to be more akin to that of the latter part of the nineteenth century than that of the 1930s. However, in either case the context is quite different and the physiognomy will not be repeated. To that degree it is trivial to declare a new Great Depression *a la* the 1930s has been avoided. This is true but only in the sense that history never repeats itself. The US economy emerged from the 1929 recession in 1932, but this did not signal the end of the depression. This only definitively ended in 1942/5 on the basis of the most widespread destruction and devaluation of capital hitherto seen. Because of the way capitalism works, this time around an even more devastating destruction of capital would be required before a new period of impetuous capitalist development – a rising rate of profit - could even be contemplated. At least the Bank of International Settlement is honest in its proposals for what Paul Krugman has designated as "Hooverism"[21]: 'After a financial crisis, it takes longer for debt burdens to fall, balance sheets to be repaired, unproductive capital to be scrapped, and labour to be reallocated. Policymakers should not hinder this inevitable adjustment.' (BIS, 2011)' The present combination of elements completely rule out a new period of self-sustaining economic growth. Moreover, as against the period of the 1930s – let alone the late nineteenth century – the world is so integrated that no part of it will be spared.

The panic-stricken response by governments and central banks to extricate capitalism from the 2007-09 slump and financial crisis has led directly to fiscal deficits and levels of national debt that are unsustainable. These not only pose imminent sovereign default in some imperialist countries, but also promise a further crisis of the world financial system. And this is the rub: The experience of the Long Stagnation has consistently shown that the measures taken by governments and monetary authorities to mitigate the immediate effects of the monetary or/and fiscal policy to respond to the periodic crises have only prepared another, deeper one. The longer the effects of the crises are postponed by such measures, the more devastating the end game will be. This much can be predicted by the monetary and fiscal measures taken to soften the impact of the Great Recession.

However, capital is not a thing – "the market" - but a social relation. The necessary accompaniment to a broad ranging devaluation of capital would be the imposition of unprecedented levels of unemployment, destruction of living standards and dramatic diminution of the social wage of the working class, combined with devastation of small farmers and middle class layers. The inevitable determined resistance to this assault by the working class and its allies poses the question of socialist revolution rather than a new expanded period of capitalist expansion and prosperity. Of course there isn't any guaranteed victory in this upcoming showdown. Suffice it to say that the pre-conditions have not been more propitious since 1917. The biggest roadblock to victory in the 1930s – the Stalinist caste that dominated the Soviet Union and the Communist parties around the world looking to Moscow - have received a mortal blow with the collapse of the USSR.

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[1] Specifically the 1987 stock market crash which, amongst other factors, was a body blow to the imperialist bourgeoisie and their self confidence, and indicated the dead-end of Thatcherism and Reaganism (supply-side policies ("theories"). These latter were to get their full come-upance with the Great Recession and the associated financial near-meltdown.

[2] Marx put it this way: 'It is a pure tautology to say that crises are provoked by a lack of effective demand or effective consumption. The capitalist system does not recognise any forms of consumer other than those who can pay … . The fact that commodities are unsalable means no more than that that no effective buyers can be found for them, i.e. no consumers (no matter whether the commodities are ultimately sold to meet the needs of production or individual consumption)' (Marx 1978: 486-7).

[3] From a quite different perspective Radikha Desai has recently advanced a robust defence of Luxemburg' viewpoint, albeit eclectically combining Luxemburg's views with an idiosyncratic interpretation of Marx, the "real" Keynes and Robert Brenner (Desai, R., 2010). Desai correctly identifies Luxemburg's strengths, notably the inherent nature of capitalism as imperialist; and her trenchant attack on reformism, which in her time prominently included Eduard Bernstein and Otto Bauer. Desai's is correct to indict those that pose the crisis-prone character of capitalism simply at the level of production without considering the problem of realisation – what she terms "productionists". However, her effort ultimately fails being self-avowedly underconsumptionist - identifying the periodic breakdown of capitalism in a lack of effective demand. Moreover, her view of imperialism fails to identify the centrality of monopoly; and the specific characteristics of finance capital. And, unfortunately it isn't possible to get around Marx's own objection via an esoteric dissection of the meaning of "tautology".

[4] I have some reservations with Freeman's way of posing the matter. I will return to this under the discussion of finance capital below.

[5] Kondratiev, N. (1999). There are succinct summaries in Maddison. A. 1991; Mandel, E. 1985/1995; Lewis, W.A., 1978 and Day, R.B., 1976)

[6] I have generally followed the periodisation presented by Ernest Mandel, 1995, p. 82 – except for the final one which covers the period after Mandel was writing.

[7] Even here we have to be cautious. From a strictly scientific point of view, not all workers newly absorbed into industry in China are productive of surplus value. Whatever one thinks of the direction of the Chinese economy, it is not yet capitalist. China has made major strides towards developing a capitalist sector and has taken the first steps towards creating a hereditary capitalist class. This sector of the Chinese economy (somewhat in excess of 50% of value added) is productive of surplus value. But the commanding heights of industry are still in state hands, as is the banking and broader financial system. The state sector is not governed by the law of value and is not a source of surplus value.

[8] I say resurrect because this theory had already been propounded by Keynes in the 1930s and, in its Marxist guise, by Baran and Sweezy in the 1960s (Lapavitsas makes this point).

[9] Lapavistas is not as innovative as he seems to think in terms of the centrality of commercial capital. The role of the City of London (and by extension New York) as essentially commercial – and not a finance capital - was laid out by Geoffrey Ingham over 25 years ago (Ingham, I, 1984).

[10] John Weeks without directly elaborating on the financialisation theme and in his otherwise thought provoking piece on money as a commodity, proposes a similar solution to deal with supposedly errant banks (Weeks, J. 2010)

[11] In 2010 the notional value of OTC contracts amounted to a mind-boggling $600 trillion (www.bis.org), of which in excess of 60% will move to exchange trading.

[12] Whilst gaining some insights from Hobson's work, and more especially that of Hilferding neither Lenin or Bukharin shared either framework. Indeed, a pre-cursor of the Main St-Wall St split paradigm can be found in Hobson's classic study *Imperialism,* first published in 1902 (Hobson, J.A. 1902/1965). This was his defining difference with Lenin. Analogous to today's orthodoxy (which actually passes through Karl Kautsky), he drew from his analysis the view that imperialism was the policy of a "military industrial complex". The task of liberals like himself, therefore, was to remove the latter's hands from the levers of power (see Cain, P.J., 1985).

[13] It could be noted that Lapavitsas totally misunderstands what Marxists mean by fictitious capital. He says: 'At core this is a technical idea amounting to net present value accounting, i.e. ideal sums of money that result through discounting streams of future payments attached to financial assets. These ideal sums correspond to financial prices, which can fluctuate independently of what has happened to the money capital originally expended to purchase a financial asset. In that obvious sense, financial prices, particularly those on the stock-market, represent fictitious capital.' (2010a: 11). Fictitious capital does not derive its definition from discounted present values of financial paper nor fluctuating prices of the same. The issue is one of simultaneously counting paper contracts that simply represent

claims on future income streams derived from productive investment, with those same funds that have really been invested. The first are fictitious.

[14] Note the terminology: the use of "transnational companies" (World Bank), and "Multinational Companies" (IMF), I consider to be politically loaded. For obvious reasons, I prefer the latter.

[15] Susan Strange *et al* are just following earlier Marxisant *de facto* defenders of Kautsky. In the period before the ending of the post-war boom, a number of authors elaborated the notion of supra-imperialism which judged the US to be so powerful - and would grow ever more so - that serious inter-imperialist competition was ruled out (Magdoff, H, 1966; Baran, PA and Sweezy, PM, 1966).

[16] It should be noted in passing that even those that profess to be within the Leninist tradition narrow Lenin's and/or Bukharin's view to simply imperialist competition and the role of the state in supporting their monopolies. Thus Alex Callincos writes: 'Stated most rigorously by Bukharin, what I henceforth call the classical Marxist theory of imperialism affirms that capitalism in its imperialist stage is defined by two potentially conflicting tendencies: (1) the internationalisation of production, circulation and investment and (2) the interpenetration of private capital and the nation-state. In consequence, an increasingly integrated world economy becomes the arena for competition among capitals that tends now to take the form of geopolitical conflict among states' (Callinicos 2005: 1). A fuller synopsis by Lenin completely contradicts this reading:

'The supplanting of free competition by monopoly is the fundamental economic feature, the *quintessence* of imperialism. Monopoly presents itself in five principle forms:

(1) cartels, syndicates and trusts - the concentration of production has reached a degree which gives rise to these monopolistic associations of capitalists;

(2) the monopolistic position of the big banks - three, four or five giant banks manipulate the economic life of America, France, Germany;

(3) seizure of the sources of *raw material* by the trusts and the financial oligarchy (finance capital is monopoly industrial capital merged with bank capital);

(4) the (economic) partition of the world by the international cartels has begun. There is already over *one hundred* such international cartels, which command the *entire* world market and divide it "amicably" among themselves - until war *divides* it. The export of capital, as distinct from the export of commodities under non-monopoly capitalism, is a highly characteristic phenomenon and is closely linked with the economic territorial-political partition of the world;

(5) the territorial partition of the world (colonies) is completed' (Lenin, V.I., 1916b)

[17] Jean-Claude Trichet remarked in 2009: 'The main achievement can be summarised in a single sentence: the euro is a very stable currency and all the institutional requirements are in place to preserve its solidity in the future. This is what defines success in monetary affairs' (www.ecb.int/press/key/date/2009/html/sp090713.en.html, accessed 22 May 2010).

[18] Greek government debt stood at some $385 billion in mid-2010, on which it pays on average some 5% interest - some $19 billion per year. Greek GDP in 2009 was $342 billion and Greek government revenues were about $115 billion. Therefore the Greek government is currently forced to pay about 20% of its annual revenues as interest on debt per year. The eurozone-IMF standby loan means debt interest will be financed by NEW debt. A debt-interest spiral is therefore inevitable. It is a Ponzi scheme, and like all such schemes will collapse. Hence the government's swinging austerity measures - promoted using the fig leaf of the eurozone-IMF conditionality demands. Another alternative, of course, is a repudiation of the debt, exit from the eurozone and a substantial devaluation of the New drachma. This course would demand even more onerous austerity. This latter proposal is advocated by Nouriel Roubini – his "Plan B". Unfortunately some Left radicals are advocating a similar pro-capitalist course albeit framed as 'a "progressive exit" from the eurozone, that is, exit conditional on radical restructuring of economy and society'. The radical change proposed amounts to nationalisation of the banks and (some) utilities. The history of nationalisation in the UK should be proof enough that there isn't anything 'socialist' or particularly progressive about government ownership. Under the dictatorship of capital it is simply one way that the bourgeoisie decides to organise its property – nothing more. Moreover, Greek exports to counties outside the eurozone amount to only 4% of GDP. So exiting the eurozone would do little to boost the Greek economy. By the same token devaluation of the euro aids Germany disproportionately as extra greater-eurozone exports amount to 27% of GDP (with France at a lowly 10% of GDP) (Kirkigaard J, 2010).

[19] The ECB estimates that eurozone banks ¢123bn in write downs in 2010 alone www.ecb.int/pub/pdf/other/financialstabilityreview201006en.pdf p88).

[20] The other key reason was to use the crisis to further bolster its position as the major economic power inside the European Union.

[21] This is in reference t the policy pursued by the Hoover administration in the in the early period of the 1930s depression. It was summed up in the following terms in an oft-quoted statement, the then US Treasury Secretary Andrew Mellon was reported as telling President Hoover in 1931 that the cure for the 1930s depression was: 'Liquidate labour, liquidate stocks, liquidate the farmers, and liquidate real estate. It will purge the rottenness out of the system. High costs of living and high living will come down. People will work harder, live a more moral life. Values will be adjusted, and enterprising people will pick up the wrecks from less competent people' (Hoover, H., 1952: 30).