

# A Marxist Political Economy of Capitalist Instability and the Current Crisis

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*The article considers whether there are limits to capitalist strategies for survival. It argues that the present downturn represents a crisis in the capitalist system itself, in that the mediating forms by which it could maintain control and grow have reached their limits. As there is no working class opposition or any socialist opposition worth the name, capitalism is not in danger of overthrow, but low growth or stagnation and disintegration are possibilities. In brief, the article argues that capitalism has used imperialism, war, and the welfare state as successful mediations in the contradictions of capitalism. However, Stalinism played the crucial role through the Cold War, controlling the left, ruining Marxism and providing the basis for an anti-communist ideology. In the last period, finance capital played a particular role of control which, in the end, became cannibalistic in that it was using and devouring itself. With the end Stalinism and of the Cold War, the implosion of finance capital, the failure of the present wars and the limited welfare state, there is one alternative—to go for growth and reflate, as in the immediate post-war period. However, capital would find that too dangerous, as it risks a repeat of the militancy of the 1960s and 1970s.*

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## Introduction

The spectacular events of August to October 2008 in which the ruling class appeared to believe that there was a real possibility that the system could go into ‘meltdown’ have altered the economic history of capitalism forever. The ‘credit crunch’ and its sequel—the recession, as they are quaintly termed by economists and economic journalists—are providing a rich source for Marxists to develop the Marxist theory of crisis and test their own theories against reality. This paper argues that the mediating forms by which capitalist crisis was overcome in the post-war period have reached their limits, resulting in the present crisis. The real discussion ought to be whether

there is an alternative form by which capitalism can restore its equilibrium. It is obvious that capitalism will not be overthrown in the present period, but the issue is whether capitalism has now be so weakened that it has no political economic strategy for survival. Systems can continue in a state of decline and disintegration for long periods.

Capitalism has begun to be questioned because of the ongoing disequilibrium in the financial, commodity and industrial sectors.<sup>1</sup> However, this is the first time since the Second World War that such questioning has begun to look serious. This paper will look at the sources of instability at the present time. This necessarily involves considering the previous forms of stability. The paper, therefore, begins by discussing the political economic forms of control inherent in the political economy of capitalism. It then goes to consider the way in which capitalism coped once those had been fractured. The demise of the succeeding methods, in their turn, is then discussed. Finally, it looks at the period since the 1970s, when finance capital and its political economy ruled, in order to consider whether the ruling class can salvage anything from the contemporary wreckage. The policy of finance capital is often called 'neo-liberalism', as if there is a coherent modern liberal philosophy involved. In reality, the policy of finance capital has involved a series of pragmatic measures designed to ensure that its aims are carried out. Unsurprisingly, it required as little interference or regulation as possible in order to pursue its goal of maximum profit over the minimum possible time.

Marxism argues that it is distinguished from utopianism in that it isolates the laws and tendencies of capitalism in order to understand the direction of movement of capitalism itself, where movement involves birth, maturity, decline and death. In this way, it is able to describe the nature of the successor society and the transition to that society. Capitalism, from this point of view, enters a period of inherent instability when it starts to decline. For those Marxists for whom decline does not enter their vocabulary, capitalism has periodic crises, which threaten the system.

It is clear that Marx and Engels in the period 1848–1857 anticipated a major crisis, which would threaten the survival of the capitalist system. In the 1890s, Engels spoke of successive crises becoming deeper. Since the 1960s, many Marxists have abandoned both the concept of crisis and the theory of decline. Some Marxists have clung dogmatically to the view that there will be a capitalist crisis, which will prepare the way for the working class to take power. In contrast, the view that capitalism can always re-invent itself, much like Dr Who, assuming a new form from time to time, has almost become orthodoxy among both liberals and parts of the left.

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<sup>1</sup> In an article devoted to a survey of attitudes to the current crisis, based on a FT/Harris Poll, the author argues that the poll indicates most people do not blame capitalism itself, rather than abuses of capitalism. However, the poll shows that 30 per cent of Germans do blame the 'failures of capitalism', as do about 11–12 per cent of British, and around 17 per cent of French. As no one has been blaming capitalism in the media, one could argue that it is interesting that there are figures of this size. He quotes the Ralph Atkins article, 'Europeans Blame Bankers Rather than Capitalism for Turmoil', *Financial Times*, 20 October 2008, p. 6.

Any reading of Marx and Marxist literature has to come to the conclusion that capitalism will only be replaced when the working class takes power, but that capitalism itself has only very limited solutions to its own contradictions. Systemic crises are inherent in the system itself. If Marxism is correct, therefore, the issue turns into a search for the reasons why capitalism survives.

This paper, therefore, argues that the concepts of decline and crisis are integral to a Marxist conception of capitalism. If they are wrong, so is Marxism. It holds that there is a Marxist conception of stability, and so instability of capitalism and that elucidation of the forms of stability, both long and short term, provides an understanding of the contemporary forms of capitalism, including the contemporary crisis. A series of mediating forms have stabilised capitalism in the period up to the present day but those forms have now been so weakened that the present crisis has broken out. As there is no prospect of the working class taking power in the near future, a new equilibrium will be established but no one, left or right, has provided any indication of its form or its long-term viability.

### **Stability Under Mature Capitalism**

Unlike feudalism or the ancient mode of production, the capitalist system of control is integrated into the form by which the surplus product is extracted. In previous modes of production, the everyday use of force was essential to the maintenance of the economy. In capitalism, the extraction of surplus value itself establishes control over labour power, both physically and ideologically. Force only appears at times of crisis for the mature system, where the system is directly threatened. The form of extraction of the surplus product under capitalism—value—requires a particular transformation of labour in order to function. Labour becomes abstract labour, a homogenised form, in which the product only matters in so far as it creates particular quantities for sale. In order to become abstract labour, however, workers are subject to the particular needs of production and hence the necessary stresses which ensure that they are alienated and estranged from their product and labour process. On the one hand, quantity is what matters, but on the other, such quantities can only be obtained through forms of control that are both particular to the production of the commodity but also universal within capitalism. Competition is the mode of enforcement of the law of value and hence the need to reduce labour to its abstract form.

### **Commodity Fetishism**

The commodity itself stands over the unit of production and so over the worker. In turn, the cult of the commodity with its derivative, money, the universal equivalent, becomes the all-consuming goal of production. Everyone is bound within it. Those who abandon the fetish of the commodity are marginalised in society. Along with real subjection to the commodity goes an ideology of submission to the commodity and so value and its self-expanding form-capital. Religion plays a subordinate role.

Capitalism, however, calls into being its opposite—and its opposition. Capital at one and the same time needs to exploit the worker to the full, as a thing engaged in production, but yet also needs the worker's humanity in order to ensure the necessarily skills, with quality of production, and innovation, as well as the continuity of the worker. In other words, the abstract labourer contradicts the concrete labourer. With the increase in the complexity and depth of capital, incentive becomes more important. Capital, therefore, has to be both inhuman and humane and its dual personality shows itself both in one capitalist and in capitalism as a whole. For the workers, the imposition of machine-like controls compels them to find a mode of opposition and resistance. As far as this resistance coincides with the interest of the capitalist class as a whole, as in limiting the number of hours worked, the capitalist class concedes. As far as it threatens profits, it can be intransigent.

In short, commodity fetishism controls the worker, but the progress of capitalism itself undermines it. It undermines it through both the formation of economic and political opposition movements and the need for socio-economic controls over capital itself, in order to ensure its progress or its stability. At the present time, the nationalisation, regulation and subsidisation of finance capital make it clear that inequality of control and wealth are socially determined, so making the argument that control from below is both possible and necessary. As governments assume limited control over finance capital, the balance of power between capital and labour is rendered less stable. Both ideologically and in reality the power of capital is challenged, however weakly it may appear to those under its yoke.

## **Unemployment**

The second feature of capitalism, which establishes control over the worker, is the reserve army of labour. This is a complex concept not reducible to unemployment, which is the central aspect but not the only one. The worker in the economy competes with other workers for jobs in the market. He is an atomised provider of labour power to the employer who pays him a wage or salary. In a truly atomised workforce, the worker has little or no bargaining power, given the existence of large numbers of other workers, who are unemployed and seeking work. His wage will therefore be reduced to the minimum consistent with his ability to sustain his physical well-being. For a capitalist with a short-termist perspective of getting the maximum profit in the minimum period of time, there is no reason why he should not pay less than that minimum, even if such workers become ill or die, because they can be replaced. It is clear that in parts of Asia, including China, this is the case. However, this is not the way to ensure high productivity or reliable products, both of which are necessary in modern high technology. A computer chip that breaks down is no use at all, whereas a pullover which develops a hole over time can still be worn.

In developed economies, the reserve army of labour is limited in its operation. The welfare state ensures that the unemployed receive a regular allowance, at least for a period. Higher education and pensions ensure that the cohort of workers is less than

the numbers technically capable of being in the workforce. Limits on mobility among countries and among regions also restrict the size of the reserve army. The higher level of education and specialisation required for many if not most jobs also means that competition is limited.

### **The Role of Unions**

In reality, trade unions and even company unions have limited some of the worst excesses of capitalism, most particularly in the post-war period. The fact that the numbers in trade unions have gone down in the high period of finance capital—1980 to 2008—does not alter this fact. It is not necessary for there to be more than a minimum number of workers in trade unions for their demands to resound throughout the economy. Employers do not want to lose workers to competitors giving higher wages. Even where they are insulated from such concerns, they prefer to stave off demands for a trade union or a more militant trade union by paying the going rate, or even more, than in the enterprises with trade unions. Those employers who hold out, usually pay a penalty over time. Productivity may be lower, through the reduced incentive effect, turnover may be higher, quality of production can be lower, and their intransigence can have a political effect making it difficult for them to expand. There are always sectors which pay below the value of labour power, but they are subsidiary to the major firms which are crucial to the economy.

The essential point is that the stability of capitalism rested on its control over labour power and that in turn depended on commodity fetishism and the reserve army of labour. There are some who argue that force is the crucial determinant. Anarchism and its various descendants, such as the autonomists, have held such a viewpoint. In contrast, I have been arguing that capitalism is unique in its ability to control the population as a function of the form by which it extracts the surplus product from the direct producer and that force is secondary and subordinated to these derivative aspects. The point of the above and what follows is to argue that these means of control and stability have lost their pristine role with the decline of capitalism. The increased socialisation of production, a feature of the decline of capitalism, and hence of capital and of labour, have created limits to their power. This argument is more developed in my articles on decline.<sup>2</sup>

### **Consciousness**

The Russian Revolution of October 1917 defines our epoch. It established the fact that capitalism could be overthrown. Up to that time, it was taken as axiomatic that the market was eternal. A modern variant of commodity fetishism would argue that the market is indeed eternal, but that does not mean that there might not be foolish and perhaps even criminal attempts to overthrow it. They will last only a short

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<sup>2</sup> Hillel Ticktin, 'Decline as a Concept and its Consequences,' *Critique* 39, 34:2 (2006).

historical time, however, as they are necessarily inefficient and dictatorial. Any socialist, therefore, has to establish two things. First, that capitalism is itself declining and secondly, that its successor can and will be more efficient and more democratic. The two points are obviously connected. The fact that a system is in decline implies that it is less stable than in its mature form. In my view, capitalism has appeared stable only because it has found a series of interlocking methods of neutralising its fundamental problems, but these strategies have come to a head.

It is often argued that capitalism has ensured its stability by so befuddling the population that it has no consciousness of the real possibilities. Certainly if there is no apparent alternative, or people are in despair over failed attempts to change reality, then society might appear stable. However, I would then argue that we have to look at the material reasons for that consciousness. I have also written on the question of consciousness at the present time, in a previous issue of *Critique*.<sup>3</sup>

In principle, therefore, commodity fetishism as an ideology has been penetrated through and through, and survives in a limited form, partly through surrogates. We have to look at those surrogates and other reasons for the continued survival of capitalism.

Why then does capitalism survive if its means of control over the workforce and hence over the population has been reduced in its potency? One answer could be that the population is held down by force, but that is patently untrue for most countries. Marx argued that capitalism was a form of economic force, but that was based on the above arguments not on the use of direct and naked violence. Another argument is that capitalism has delivered a higher standard of living for substantial sections of the population and no alternative appears in sight. That would not have been true before the Second World War and it is less true of the period from the mid 1970s onwards. If anything, the contrast in the developed countries between the period 1945 to around 1975 and the subsequent 35 years might lead to increased unrest, given the static or declining standard of living for the majority in the United States and in parts of Western Europe. While both force and a welfare state might act as a background to acceptance of the status quo, they are not enough to explain it. This is even truer of the underdeveloped countries where unemployment is often astronomical and the standard of living very low.

### Theories of Stability

Historically, theorists and left political workers have argued that the capitalist class has adopted a series of strategies and tactics to contain the working class, without making concessions to the class itself or through direct repression. They can be classified into three features: 1. division of the class, 2. reducing polarisation with a so-called middle class, and promoting social mobility into that grouping and 3. supporting small and medium-size businesses as a mode of control. Since all these

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<sup>3</sup> Hillel Ticktin, 'Political Consciousness and its Conditions at the Present Time', *Critique* 38, 34:1 (2006).

methods run directly contrary to maintenance of abstract labour, through the reduction in homogenisation of labour time, and thus flexibility and so interchangeability of labour time they are not preferred by the capitalist class itself, and are only accepted in order to render the social order more stable, reflecting the real decline of capitalism itself.

Racism, sexism, homophobia, ageism, regionalism, nationalism and xenophobia have divided the working class at various times in various countries and continue to do so. Nonetheless, developed countries generally have laws prohibiting discrimination on these grounds, partly under political pressure from the left and from liberals, but also because it is not in the long-run interests of the capitalist class itself. It may assist them to win particular battles, but it is otherwise destructive of the substance of value itself. Globalisation and the modern international division of labour effectively reduce some of the most blatant forms of these divisions. The fact that they were used in the past is another story, which has more to do with distorted and obnoxious forms of defence used by sections of the proletariat or lumpen layers thereof, and then accepted by the employers. Casualisation of labour, divisions between temporary and long-term workers and between mental and manual workers, etc., have been used and continue to be used as means of separating workers. Any differences that lend themselves to such use always have the potential to be so employed. It is clear that there is unlikely to be a time when workers are not divided or fragmented in these ways. The question is whether there are not such forces that they can overcome these divisive forms.

While unemployment and the threat of unemployment atomises workers and forces them into competition, relative security of employment, with persistent threats of redundancy and wage cuts, has a more complex effect.

### **The Middle Class**

The question of the growth of a 'middle class' was first raised in the socialist movement, as is well known by Eduard Bernstein, when he argued that Marx was wrong because polarisation was being lessened and the middle class was growing. In fact, we can now see that this was a very specific phenomenon, correctly understood at the time by various theorists as a result of imperialism. The latter, however, did stabilise capitalism along those lines but only through the extraction of tribute accompanied by war.

The military Keynesian or welfare state period down to the mid 1970s did in fact build up a middle layer of professionals and managers, but the subsequent period when the concessions were withdrawn meant that the natural tendency of capitalism to proletarianise all except those who either own capital or control capital has shown itself. In other words, we have witnessed the decline of the so-called middle class in three forms. The first form is through the proletarianisation of their work, as in having to clock in from nine to five, in order to demonstrate the value produced. They are also placed on a hierarchical structure, which ultimately imitates that of

capital itself. Secondly, incomes for this layer have been relatively and sometimes absolutely reduced to a proletarian level. Thirdly, they have lost their job security, so that they have to compete on a permanent basis.

There has been a rise of managerial professionals, of course, who, at the higher levels, receive huge salaries, which puts them into the bourgeoisie itself. The special role now given to higher management can only be seen as a deliberate absorption of management itself into the capitalist class. Under conditions where managers get a salary that is a fraction of what goes to the direct owner, there is a conflict over control. The managers have direct, immediate control but they can be dismissed at any time, and without rewards relating to the funds involved they can work perfunctorily. As a result, they have been absorbed fully into the capitalist class itself. While middle management is not in that category, it stands in an intermediate category that is upwardly mobile and therefore stands with capital itself.

A downturn threatens the old middle class but it is already moving into the proletariat. The intermediate group which is most threatened is the middle managerial group. This is obvious if we look at the numbers who are being dismissed in the City of London or in Wall Street and the threat over various industrial and service companies. The period from the 1970s has seen a vast expansion of business schools precisely to provide a method of inducting graduates into finance capital itself. Clearly, there is no educational content involved. A downturn will create considerable discontent in this grouping. Given the transitory nature of the finance capitalist stage, it seems unlikely that this layer will offset the continued polarisation of the society.

How could the 'middle class' play the role of stabilisation at all? In an earlier period, stability had more to do with the relative quiescence of the working class organisations in the developed countries, compared to their ostensible aims. That, in turn, had something to do with the concessions made to the working class, which were made at the time, combined with rising employment and standard of living. The usual explanation, as mentioned, had to do with imperialism, whether we argue in terms of an aristocracy of labour, as did Lenin, or in terms of the whole class being better off.

In other words, the 'middle class' played a very particular role when the movement of society was in their favour. They were able to inculcate the authoritarian ethos coming from the top of the society into all ranks of the society. The academics, the lawyers, the teachers, the doctors and the bank managers and the writers and journalists played a crucial ideological role as well as a structural one. In the years after World War Two, this layer continued its role but in a very special way. The 'middle class' in this period consisted of the same professions but much expanded, while the lower ranks were proletarianised, as the white collar group became increasingly dominant among the working class. The public sector came to employ a considerable section of this 'middle class'. The welfare state/Keynesian compromise effectively nationalised a substantial sector of this middle class. Just as the Fabians



supported imperialism and its racism, so too did the Social Democrats and Stalinists support the status quo.

The end of the Cold War and the restoration of finance capital struck both an ideological and a structural blow at this 'middle class', which has been adrift ever since. Now their proletarianisation is hitting them hard.

In 'Critique Notes',<sup>4</sup> we cited a prominent fund manager, Bill Gross, pointing out that a polarised society was not sustainable. It is clear that a society with a small number of very rich people, who control the surplus product, standing above and over the rest of the society, is in itself unstable in an industrialised capitalism, particularly since the Russian Revolution and the subsequent concessionary measures, which include the full franchise and democratic legislatures.

The political-legal forms of political control include particular forms of recruitment of the civil service or bureaucracy, the control over the publicly controlled forms of communication, the filtering of political news through privately owned media, with their own agendas, and the multitude of forms of economic pressure over individuals. From this point of view, the UK, for example, can be said to have a highly authoritarian political economic system hidden under formal democracy. Heads of universities, bank managers, judges, chairpersons of companies do not need to be ordered what to do. They are consulted and understand what is best for the system. The odd maverick pays a penalty over time. The close relationship between the different components of the system from Eton and the public schools, the secret services, finance capital and government has ensured a unique stability.

Where, however, that grouping excludes recruits from the 'middle class' it becomes ossified both in its reach in the society and in its ability to understand change.

## Small Business

The second contemporary aspect of the drive to shore up the system is the attempt to maintain a thriving small business sector. Whereas the shift to finance capital undercut stability through polarisation, it was intended to bolster it through the build up of family and small enterprises. Instead of the public sector and professional middle class, there were supposed to be hundreds of thousands of small entrepreneurs either making themselves rich or at least on the ladder to wealth. When we look at the countries in so-called transition, we can see how it has failed. In fact, it has failed everywhere in those terms. Privatisation of public services has

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<sup>4</sup> 'Far better to recognize . . . that only twice before during the last century has such a high percentage of national income (5%) gone to the top .01% of American families. Far better to understand, to quote Buffett, that "society should place an initial emphasis on abundance but then should continuously strive to redistribute the abundance more equitably" . . . But when the fruits of society's labor become maldistributed, when the rich get richer and the middle and lower classes struggle to keep their heads above water as is clearly the case today, then the system ultimately breaks down; boats do not rise equally with the tide; the center cannot hold.' Bill Gross, 'Enough is Enough', *Investment Outlook*, August 2007, <http://www.pimco.com/LeftNav/Featured+Market+Commentary/IO/2007/IO+August+2007.htm>, accessed 3 November 2008. Critique Notes, *Critique* 45, 36:2 (2008).

indeed led to the emergence of a larger group of plumbers, electricians, builders, industrial cleaners and other contractors, many of whose functions would have been done in house.

The problem here is threefold. First, such firms depend very much on stability and predictability of the economy. As we can see, builders are in the gravest trouble in the crisis today, and with them many of the other trades. Secondly, there is a limited demand for such small enterprises, largely dependent, in fact, on the old 'middle class' since the rich would use more substantial firms and most workers would try to do the jobs themselves. The third problem is that small enterprises cannot compete with large industrial enterprises, which have the benefit of the economies of large-scale production, the stability and purchasing power of large financial resources. In reality, they become adjuncts to the large firms, or operate in a special but limited niche. The laws defending competition do not attempt to establish 19th-century levels of competition usually dreamed of by orthodox economists. Instead, we have oligopolies, monopolistic competition or, in Marxist terms, monopoly. The effect is that most small firms, including, most particularly, farmers, are dependent on the big firms for their inputs and the purchase of their outputs. Today this is most apparent in relation to supermarkets and the supply of food and clothing. However, it is similar in relation to the car industry or even the aircraft industry, where a small firm might produce specialised springs for planes or cars. In order to ensure safety, the buyer has to inspect the supplying firm and see to it that the quality of the inputs and work done conforms to specifications. Rejection of the order often means bankruptcy.

The point is that the polarisation, which we have witnessed, has been inherent in the nature of capitalism but has only become most obvious, with the restoration of finance capital and the end of the Cold War.

### **The Management of the Contradictions of Capitalism**

Much of Marxist political economy has been closer to economics than to political economy in that it has sought to explore detailed technical solutions to the fragility of capitalism rather than relate the contradictions of capitalism to the historical and social conditions of the time.<sup>5</sup> Marxist political economy must necessarily inter-relate the movement of categories with the class struggle and so with historical change. A simple explanation in terms of a declining rate of profit tells us very little, given that an actual fall in the rate of profit depends on historical circumstances and most particularly on the relative strengths of the classes, as well as the tendency of the rate of profit to fall.

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<sup>5</sup> There are, of course, exceptions to this general rule. For instance the article by Walden Bello, 'A Primer on Wall Street Meltdown', on the *Monthly Review* website, of 3 October 2008 does produce a straightforward and useful Marxist political economic/historical analysis, which, though different, has something in common with the argument in this article. See <http://www.mrzine.monthlyreview.org/bello031008.html>.

Capital's nemesis lies in the increasing socialisation of labour, and so production. This both destabilises the internal political economic categories of capitalism and extends and deepens the division of labour, so ultimately integrating the global labour force. This process, in itself, demands conscious organisation of the global political economy through genuine planning. The latter, in its turn, is only possible if the direct producer is involved, which is unacceptable to the system.

The capitalist class cannot accept its own expropriation and hence has employed its own strategies. These are largely strategies of delay because only a return to the 18th century would ensure an unchallenged capitalism. The intellectual nostrums and goals enunciated in the last, finance capitalist period, are reactionary utopias. An untrammelled, unregulated market cannot function successfully. Today such a statement is almost banal, given the daily wail about how the central banks and governments took their eyes off the ball.<sup>6</sup>

The accumulation of capital necessarily involves underconsumption, disproportionality between the producer goods sector and the consumer goods sector, and a falling rate of profit. These three aspects act together in that a change in one leads to a change in the other. A drop in the rate of profit, owing to a rise in the organic composition of capital, leads to pressure to both dismiss workers and lower their wages. Productivity rises and the capitalists increase rate of accumulation at the same time as workers wages have declined. Demand for producer goods increases while demand for consumer goods declines. Under conditions where there is a substantial relatively backward agricultural sector, it can act much like a punch bag, partly absorbing surplus capital and raising the rate of profit. In other words, in the mature period of capitalism, when the socialisation of production was less advanced, when competition was the norm, however defined, the growth of production with permanent innovation and rising productivity dominated. There were cyclical movements but they were not crises of the system. They were closer to disequilibria within the system.

### **Mediating Forms Employed to Stabilise Capitalism**

However, when the contradictions could no longer be contained in the spontaneous movement of capital accumulation, alternatives were needed to stabilise the system. The socialisation of capital led to large, managed agglomerations of capital that faced the same problems of finding profitable outlets, while the working class was becoming increasingly powerful.

Historically, capital has employed five solutions. The first was the turn to finance capital, so absorbing the surplus capital. This was combined with the second and third solutions: imperialism and war, with World War One being the ultimate result. In the post-World War Two period, war became permanent through the Cold War and the many smaller hot wars that took place. This was linked to concessions to the

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<sup>6</sup> For a short history of modern finance, see 'Link by Link', *The Economist*, 16 October 2008, pp. 96–98.

working class in the form of the welfare state, which was the fourth mediation, which prevented the poles of the contradictions from pulling apart. Stalinism, which formed the basis of the Cold War, was crucial in controlling the working class both in its economic militancy and in its political demands. Stalinism so changed Marxism and much of the left that it ceased to be a real threat. In addition, the horror of the USSR was such that socialism lost any attraction, so providing a real basis to anti-communist ideology. In a sense, Stalinism was the most potent of all bourgeois strategies in that it combined an apparently fatal blow at the concept of socialism with real control over the working class, the destruction of the only attempt to overthrow capitalism and the political economic stabilisation of the capitalist economy.

### **Limits to these Strategies**

Marxists, apart from Luxemburg and Sweezy, generally reject the view that underconsumption, in itself, can bring the system down. They do so because it is self-evident that capitalism can go for growth, as it did after the war. In other words, it can find a way of spending its money that does not threaten the system. However, the matter is not quite so simple. Private enterprise cannot grow when there is nowhere to invest profitably. If profits can be obtained only by threatening profits elsewhere in the system, as in raising wages or increasing taxes on the wealthy, then investment will be checked. Capital needs a form that allows it to increase growth and so demand without increasing wages, without nationalisations, and without increased taxes on itself.

In the postwar period, this miraculous form was found in the Cold War with a succession of numerous minor hot wars. Military Keynesianism proved a wonderful solution. War has played a crucial role in human history but it plays a very particular role in a declining capitalism. The military sector is nationalised, even though there are today aspects that are outsourced. That means it does not operate on the basis of profit. It can work, therefore, on the basis of need. Rockets can be built and discarded as rapidly as possible, provided there is sufficient money. Exchange value is therefore created directly through the production of use-values. That the use-value happens to be war is incidental to the strategy itself.

Some Marxists, like Kidron, have attempted to argue the case in terms of a higher rate of profit through the transformation problem but this is scholasticism and the theoretical underpinning is itself dubious. That is because it assumes a real separation out of a military sector in the economy, when many military firms are also civilian firms like Boeing, and when the suppliers to those firms are normally part of the civilian economy.

The rate of profit is usually raised but that is because military production is for a monopoly bureaucratic buyer who is often on the side of the seller. Halliburton is an obvious example. Furthermore, the creation of increased systemic demand allows a rise in the profit rate.

The added advantage of creating demand through the military lies in the way that part of its needs have become integral to the producer goods sector. As a result, the natural tendency of that sector, dept 1, producer goods, to overproduce in relation to the consumer goods sector is limited. One only has to think of the various modes of transport, plane, ship, tank, etc., to see this point through observing that such demand leads to increased production of machinery to make these commodities.

We should look at war under capitalism, therefore, as the ideal solution to the stability of capitalism. War is usually declared on a nationalist basis so providing a justification for aggression or defence. In other words, it provides a low-level ideology of its own kind.

War, therefore, deals with the political economic contradictions of capitalism directly and has the ideology to serve it and justify it. This was clearest during the period of the Cold War, where the anti-communist ideology was used to justify anti-union laws, a re-writing of history and the victimisation of the left.

### **Limits to the Mediating Forms**

Wars still have to be paid for, even if people consent to the payment. Being needs-based, it has to be 'planned' rather than left to the market. It is not an accident that input-output planning was invented by Leontief for the military. This provides a managerial basis and contrast with private enterprise. Furthermore, there is a tendency for any 'planned' sector to expand to ensure unity, predictability and efficiency. As a nationalised sector, there are tensions with private enterprise, even though it is also complementary to it in the ways described. The German capitalist class did not like the militarised economy under the Nazis and capitalists perceive themselves as being crowded out by the nationalised sector, even if it is military. The increased privatisation of the military today reflects this discontent. Whether a genuinely privatised military would function efficiently when at war with a nationalised equal is open to question.

The point of course is that there is a limit to the use of war. The Cold War was ideal because it allowed all the aspects of war to operate without actual war. In certain respects, it was superior to real war in that it was more controllable, it appeared permanent, and the expenditure was less subject to exposure since no one was actually affected by it, unlike the absence of meals contracted for in Iraq by Halliburton. However, it came to an end, as it had to. If the Soviet Union had not come to an end of itself, at some point the real charade would have ended. The Soviet Union could not last, in any case and no replacement is possible. The war in Iraq cannot now be repeated. In any case, the expenditure involved in the Iraq war was important in causing the USA to lose its international dominance. This it did, both through its negative effect on the balance of payments and through the boom which resulted in a price rise in commodities, which allowed the underdeveloped countries to pursue a more independent policy, as shown in the Doha failure.

The United States has, therefore, to balance its budget and balance of trade, and re-constitute its army if it wants to fight another war, under conditions where the population does not want to fight. Therefore, we can conclude that the long period of permanent warfare has reached a barrier, in which there will be a gradual retreat from Afghanistan as well as Iraq. It is interesting that the USA seems so keen on increasing tension with Russia, which is itself very unstable, in spite of the fact that it knows that Russia is still in 'transition' and it wants to push it further towards the market. This looks like yet another example of the need to have an external enemy. But this drive is irrational, makes no sense and will make even less sense as the price of raw materials continues to fall and the elite in Russia becomes more unstable.

While irrationality has been a feature of modern capitalism, the tension with Russia seems to show a degree of senility, as if the need for an ideology to justify permanent tension leads to the invention of enemies, who are friends. The war on terror has been increasingly put into perspective as a drawn-out global policing operation, conducted more by the secret police and special forces. It does not provide a justification for massive expenditure or for increased control over the population. The attempt to use it for the latter purpose and as a justification for current political economic policies also looks irrational.

Briefly, the Cold War has ended, and surrogates in the form of the war on terror, or Russia are not comparable and effective. If war has reached its limits, the finance capital strategy has manifestly reached a new low.

## **Finance Capital**

Finance capital is financial capital which has become dominant over the process of the accumulation of capital as abstract capital and so global capital.<sup>7</sup> It is inherently short-termist in its drive to extract maximum profits and by its nature unproductive of value. In its recrudescence, from the mid-1970s down to its implosion in 2008, it remodelled capitalism in its own image. Although only the Anglo-Saxon countries, particularly the USA and the UK, were wholly dominated by it, finance capital went global and exercised enormous influence over the world economy. The evolution of the various technical financial instruments in the form of derivatives to the point where they reached the sum of \$596 trillion at the end of 2007, with an underlying value of \$14 trillion, was very largely achieved in the years after the turn of the 21st century.

In its earlier incarnation, finance capital had spawned the export of capital and imperialism. In the present period, both forms were limited as means of enrichment. Asset stripping and property speculation were everyday forms of increasing profits, but they were insufficient receptacles for the huge levels of surplus capital available. Where did this capital come from? At a purely statistical level, there was a shift from

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<sup>7</sup> See my articles 'The Transitional Epoch, Finance Capital and Britain', in *Critique* 16 (1983) and 'Towards a Theory of Finance Capital', *Critique* 17 (1986), and 'Critique Notes', *Critique* 46, 36:3 (2008).

wages to profits over the period of finance capital dominance. In a sense, it was also an automatic consequence of the change of policy. Once industrial growth was limited, and the Cold War wound down, outlets for profitable investment were more restricted. The asset price inflation of the past period was an inevitable result.

A policy of more limited industrial growth had a series of corollaries—increasing unemployment, rising government expenditure on welfare, and growing budget deficits. The economic defeats suffered by the working class in this period were not pre-determined but highly likely, given the unpropitious conditions in which they were fighting. The abandonment of Keynesian prescriptions for a hardline approach of balancing budgets and so cutting welfare benefits were not just a result of the victory of the old pre-Great Depression economics of Milton Friedman and his co-thinkers. It followed from the ethos of finance capital eager to raise profits and so reduce all deductions from revenues like taxes and wages. This necessitated a reduction in staff in the public sector, restrictions on their salaries, cuts in all taxes and a need to balance the budget. In turn, this led to outsourcing of governmental functions because this could cut costs but also provide investment opportunities.

Put another way, the term neo-liberalism is no more than the policy of finance capital. A series of policies which appear to be a series of sensible pragmatic responses to economic events, in the eyes of finance capital, have been dignified with a name which implies a coherence which is not there. The essential point, however, is that these policies resulted in a series of tendencies that are now threatening the stability of the system. Polarisation of the classes, a dispersion of income unprecedented since the war,<sup>8</sup> high levels of unemployment disguised under various names such as ‘the economically inactive’, rising budget deficits following a period of balanced budgets, and in the case of the UK and USA, high balance of payments deficits, are not sustainable over the medium term. After a period of explosive bubbles in East Asia, Russia, the Long Term Capital Management Fund, and the dot-com bubble, the economy turned down. The area of investment into which surplus capital then flowed can only be called cannibalistic, as it went into finance capital itself. Private equity bought up entities in order to reduce wages, sell off profitable parts, like the property portfolio, and then offload the rest on the share market, all on huge loans from the banks or investment houses. Those same financial houses went into derivatives in a big way, thus expanding lending on a vast scale. This amounted to a pyramid scheme, which had to break, but we can understand it as a situation where finance capital was desperate to make higher profits, in as short a time as possible, after exhausting other alternatives. The vast scale of the operation was helped by the upturn in the global

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<sup>8</sup> John Plender, ‘Mind the Gap’, *Financial Times*, 7 April 2008. The author goes through a series of publications showing that income inequality in the USA, in particular, is the highest it has been since the war. See <http://www.ft.com/cms/s/0/d33af42a-04c7-11dd-a2f0-000077b07658.html>, accessed 2 November 2008. The OECD report, *Growing Unequal? Income Distribution and Poverty in OECD Countries*, published in October 2008, has been widely publicised and the summaries published in newspapers. The stress in the Plender article is different from that in these publications, which are concerned with the very wide gap between the very poor and the very rich. For this article, the argument is that the wealthy have become much wealthier, creating a much wider gap between themselves and those in skilled or relatively skilled jobs, whether white or blue collar.

economy, which was facilitated by the Iraq War. The US military budget almost doubled and the upturn in the USA economy sucked in imports from the rest of the world, so causing a global boom. The end of this short boom led to the sub-prime crisis and the toppling of the derivatives pyramid, and with it the end of the inflation of prices of all kinds of assets, from houses to shares. The Dow-Jones index had gone up seven times in a period of 20 years (1987–2007), while houses had doubled or trebled in a much shorter period. The so-called credit crunch was a deflation in the real economy taking the initial form of a financial crisis.

Without a war to fight, without an enemy to unite the population, asset prices in free fall, with finance capital in tatters and the policy prescriptions that flow from it, the question is whether there is an alternative strategy.

### **The Welfare State and Social Democracy**

During the Cold War, the policy of industrial growth was part of a more general Keynesian strategy of concessions to the working class. The welfare state was critical in ensuring stability in the immediate post-war period but it had reached its limits by the 1960s. Nationalised housing, utilities, and health, not to speak of a strong public sector, meant that the commodity did not rule the worker in the old way. The economy was politicised and the market was controlled. Without a reserve army of labour, with tenured rented accommodation, guaranteed employment and powerful unions, the working class demanded both more control and a greater share of the cake. It had become clear that the market had to be restored by reducing the rate of growth, and so restoring the labour market and with it commodity fetishism and the reserve army of labour. In reality, this could not be done to the degree required, and so finance capital replaced industrial capital as the dominant capitalist form most particularly in the USA and the UK. As the USA is the dominant world economic power, it meant that finance capital came to rule and it could then reduce the size and impact of the welfare state.

Social democracy is not an option for the capitalist class. It would threaten their rule. It would allow the working class, once again, to demand control and so an end to the rule of capital. This is not because the social democratic parties would support such demands. On the contrary, they have showed themselves, time and again, to be willing servants of their master, capital. In any case, the social democratic parties are now shadows of their former selves. The threat came in the 1960s from the working class itself and it is clear that the process would repeat itself given the right conditions. In other words, a reflation of the economy is ruled out.

At the present time, deflationary pressures are growing in importance and it is not impossible that the world faces a deflation as in the 1990s in Japan. While it is possible that governments will be forced to take measures to avoid such a contingency, there are strong pressures to avoid the necessary borrowing and balance the budget in the medium term, reflecting the economic philosophy of the last two paragraphs.



An ideological and economic blind alley have led to a long-term downturn. That is its logic. Can such a downturn serve the same purpose by disciplining the working class? Historically, it was the reserve army of labour combined with the fetishism of the commodity that played the role of control over the economy, as this article has argued. The market is more limited in its operation than in earlier periods, as shown by the readiness by which the US government bailed out or nationalised banks. The return to the market is, in some respects, more apparent than real, more form than substance. In the UK, regulators remain crucial for the utilities and governments exert pressure on firms to achieve national objectives. It is, today, politically unacceptable to maintain a large genuine reserve army of labour. Large-scale open unemployment of the central labour force would probably change the political structure of the country. Governments will be compelled to intervene with a more a system of public works more extensive than in the Great Depression.

A system in decline cannot remove the decline itself but it can delay its overthrow, though how it will now do so remains unknown.<sup>9</sup> Where forms of integration based on wars, repression or new forms of control are ruled out, disintegration sets in, as it already has to a limited degree, and it has to be said that disintegration can itself be a form of delay, even though a form which weakens the system itself over time. We can remain optimistic that the downturn or current depression will not serve the role of disciplining the working class; it is more likely to radicalise it by showing it the limits of the capitalist system, under conditions where Stalinism and social democracy can no longer contain it.

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<sup>9</sup> Martin Wolf of the *Financial Times* puts the issue differently: 'These are historic times. Given the origin of the crisis in the asset price bubble and consequent disintegration of the credit mechanism, the way the recession will evolve remains obscure.' 'What the British Authorities Should Try Now', *Financial Times*, 31 October 2008, p. 15.