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The Crisis and the Capitalist System Today

Hillel Ticktin

Capitalist crises are specific to the epoch in which we live. Today there is a huge surplus of capital unable to find investment outlets leading to asset inflation and the various bubbles. The downturn itself reduces that surplus, both in monetary and physical terms providing the basis for an upturn. However, the underlying basis for the surplus of capital remains. That reflects the contemporary ruling class strategy of turning to finance capital. However, that too is in crisis and is in process of being controlled and curtailed. A new strategy is needed because capitalism-as-a-system is in crisis, but none is available. Governments and big business/the capitalist class can control the level of investment to a considerable degree, in part through nationalisations and through monopoly control, over firms, and they are not prepared to reflate to the point of full employment. Their initial reaction has been pragmatic assuming that muddling through will work. However, that has been succeeded by demands for massive reductions in the public sector and a squeeze on the standard of living. If successful, which is highly unlikely, it will amount to a period of extreme reaction, and popular defeat, lasting a generation. If it is unsuccessful, it will train a generation in the art of militant and political opposition, threatening the system itself. Crises today do not operate automatically but are closely integrated with politics.

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Three Fold Nature of the Present Crisis

What is a crisis? Given the word's constant use in all media today it would appear obvious. On the other hand, it is equally obvious that the economy cannot be in perpetual crisis, unless the word is to mean very little. It is also true, on reflection, that the subject of the crisis is not just the economy. Although modern politicians are generally vapid, they often use phrases that reflect popular feeling, such as the British Conservative Party slogan 'a broken society'. There is no depth to this remark but it is

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symptomatic of the general unease of society towards changes taking place, often for the worse.

The present crisis partakes of three elements: first, a regular cyclical crisis like those of the post-war period. Second, there is a cyclical systemic crisis: and finally there is a long-term fundamental crisis of the system. All crises have a trigger, which in this case was the derivatives crash, but that is a superficial albeit crucial phenomenon.

Examples of the regular cyclical crises were those of the early to mid-seventies, that of the early Reagan presidency, and the 1989–1993 crisis. These cyclical downturns and upturns were usually at least partly engineered by governments, and they were not always global. Under conditions of full employment, inflation was controlled by fiscal and monetary policy. Inflation, in turn, was largely a euphemism for rising wages. These crises were predicated on the relative stability of the welfare state and the global Cold War. The periodical nature of the crisis lies in the unplanned nature of the economy and the tendency of accumulation therefore to exceed its limits, within the overall control exercised by large firms and by governments. In the last 30 years, the shift to finance capital has loosened the controls, allowing such upturns/downturns to be more spontaneous. However, the periodic element of over-production followed by monetary and physical destruction has continued within a more important form of strategic operation of the systems itself. At the present time, the downturn of 2007–2009 has been succeeded by a limited upturn, even though none of the fundamental issues have been solved, and there remains a threat of another downturn for individual countries and even a global double dip recession.

Second: many people of different viewpoints have argued that the present crisis is systemic, but they do not always mean that it is the capitalist system as such which is in trouble, so much as some aspect of it. That can mean the banking system, finance capital, globalisation, or whatever. What is really being talked about, however inchoately, is a failure of the strategy adopted as a reaction to the revolts, strikes and mass movements of the 1960s and the 1970s. That is often referred to as neo-liberalism, but such politics were, in fact, the counterpart of the subordination of capital as a whole to the leadership of finance capital.

I have discussed finance capitalism in two articles in earlier issues of *Critique* as well as in subsequent articles and will not repeat them here[1]. There are two special features of finance capital which are relevant in this context: its abstract nature and its short-termism. Finance capital is abstract capital in the sense that it abstracts from its context, its surroundings, and hence the particularity of means of production and labour force. It is money seeking to make money out of money. It is capital that seeks to make surplus value without extracting value from abstract labour. It is the financial part of circulating capital that establishes dominance over the whole of the process of movement of capital, subordinating productive capital to itself. It looks only to make

[1] H. Ticktin, 'The Transitional Epoch, Finance Capital and Britain', *Critique*, 16 (1983), pp. 23–42; H. Ticktin, 'Towards a Theory of Finance Capital', *Critique*, 17(1986), pp. 1–16. It is also discussed in recent issues on the crisis: H. Ticktin, 'A Marxist Theory of Capitalist Instability and the Current Crisis', *Critique*, 47 (2009), pp. 13–30; and in the *Critique* Notes over the last two years.

money within circulation. It is therefore highly mobile and necessarily global. Its short-termism means that it seeks to get the maximum return on capital invested as soon as possible. That leads to a change in the nature of industrial management, seeking to get the highest return from labour in the quickest time, irrespective of the consequences. Its logic is that of a large reserve army of labour combined with regular culls of the labour force. It demands an increasing share of government contracts and control over governmental operations. Since money cannot make money in itself, this period of a finance capitalist strategy had to end.

Third: there is a crisis comparable to previous crashes, or major downturns, like the 1930s, enmeshed in the present crisis. The fundamental basis of the present crisis is a basic disequilibrium in the capitalist system, for which there is no solution today. In Marxist terms, a crisis exists when the poles of the contradictions stand opposed one another instead of interpenetrating. Such is the case when we speak of sale standing opposed to purchase, or use-value from exchange value.[2] The same applies to consumption separating from production of consumer goods, or consumer goods from producer goods or more generally capital from labour. In principle, therefore, a crisis occurs at the point where the relationships within the capitalist economy and society can no longer be mediated in the old way.[3] In principle, the crisis can be resolved through a general collapse, through a long-term disintegration of the political economy of the society, or the implementation of new mediating forms. A partial and pragmatic solution amounts to a partial collapse, in which sufficient capital is destroyed and there is enough of a decrease in wages for the economy to resume its previous operations. We will consider these possibilities further in this article.

There is no commonly accepted Marxist theory of crisis. It is hard even to speak of a series of competing schools. Instead, different writers have produced a series of viewpoints, sometimes without a firm theoretical basis. At present, the dominant view is that crises are caused, either largely or solely, by a decline in the rate of profit brought on by a rising organic composition of capital. This paper rejects this simplistic approach, amplifying the reasons in the later part of this article, in terms of both methodology and argument. Instead, the paper tries to understand the different forces at work within crises, including movement of the rate of profit.

Crises Considered

A cyclical crisis is not strictly speaking a crisis at all, in that the cause lies in the anarchic nature of the market, which can be solved, albeit temporarily, until the next downturn by the market itself, albeit at the expense of the ordinary population plus a section of the capitalist class. It is not, therefore, a threat to the capitalist system,

[2] 'The possibility of a crisis lies solely in the separation of sale from purchase.' Karl Marx, *Theories of Surplus Value*, Vol 2, (Lawrence & Wishart, London, 1969), p. 508.

[3] Ibid p. 510: The world trade crises must be regarded as the real concentration and forcible adjustment of all the contradictions of a bourgeois economy.

unless it reinforces an existing crisis or for some reason brings on the crisis itself. At the time Marx was writing, he spoke of regular periodic crises but he did see them as crises of the system itself. Marx had put great store on the 1857 crisis as a threat to the capitalist system. Engels later spoke of the crises getting deeper. There is clearly an ambiguity in the writings of Marx and Engels on the subject, which may express the nature of reality, rather than a deficiency in their writings. In other words, temporary solutions reached their limits in the 19th century, as the periodic downturns became more threatening to the system itself, and Marx and Engels were optimistic over the possibility of change brought on by the crises.

Looked at from this point of view, the evolution of crises is part of the movement and change of the capitalist system itself, from maturity to a decline, in which it finds it progressively more difficult to produce mediations for its contradictions. In less dialectical language, capitalism finds it increasingly difficult to resolve its problems. These problems can never be regarded as entirely objective, but, in decline, the subjective becomes increasingly important. The working class plays an increasingly conscious role. As a result, its opposition comes to be incorporated into the operation of the capitalist system itself.

Evolution of Crises and Crisis Theory

At this point, one can note that different theoretical schools diverge. In the two extremes, some remain fixated on objective reality, as the falling rate of profit, while at the other extreme some stress the importance of the subjective battle between workers and capitalists, and the different strategies employed. It does not, of course, follow that the middle is correct. It does seem, however, odd for any theorist not to incorporate the real change to modern political economy induced by capitalist reaction to the state of the class struggle, and equally odd to deny the importance of the objective movement of the categories. Whether intentionally or not, many modern Marxists incorporate the objective and subjective changes into their understanding of contemporary reality.

The autonomist and regulation theory schools which stress so-called Fordism and post-Fordism, the introduction of mass production of consumer goods and the consequent changes in society, either leave out the titanic class battles in Russia and Eastern Europe which determined the nature of the epoch itself, and the nature of Stalinism itself in determining the epoch. In effect, they introduce a kind of semi-automatic individual capitalist response to limited class struggles and reject the existence of a real capitalist class, with its own consciousness and strategy. The reshaping of actually existing capitalism since the 1860s has created a global terrain somewhat different from that of classical capitalism. The form of every crisis is specific, with local and international aspects, but it is the global shape which is critical, and which, therefore, determines the particular strategy, concessions and forms of repression that are under challenge and stress in the crisis itself. The leadership in determining the overall strategy, though not necessarily in initiating or designing it, is necessarily possessed by the dominant political economic power, the United States.

We do not have to posit a conspiracy of big capitalists meeting at some unknown place, in order to reckon that there is a conscious conclusion as to strategies and forms of action. The move to war and imperialism in the late-19th and early-20th centuries were driven by a combination of historical circumstances, economic imperatives and pragmatic needs. However, all these aspects existed within the context of a capitalism needing to invest surplus capital, while the internal discontent was becoming increasingly organised with the rise of social democratic parties. Imperialism and war appeared necessary solutions.

The point can be put in another way. Under conditions of a rising and developing global capitalism, there are inherent reasons why capitalism can find forms of mediating its contradictions. When the system is in decline such mediations become more difficult, to the point where capitalism resorts to anti-human, or barbaric social forms, such as the savagery of imperialism and world war, both hot and cold. Decline must not be understood as a system in terminal crisis, but rather one in which it finds it increasingly difficult, but not impossible, to get the poles of the contradictions to interpenetrate, in order to return to the classical capitalist forms.

We know that contrary to Engels' statement on crisis, downturns in western Europe became less profound in the late 1990s down to the immediate period before the World War I. The relationship to imperialism is well-known and the relative mildness of the downturns was ascribed to imperialism by socialists. The period from 1939 through to the end of the Cold War, similarly, saw relatively short and less profound downturns, triggered by government action, of which that of the then US Federal Reserve Bank governor, Paul Volcker, in the early 1980s was particularly significant. It would seem that under conditions of capitalist stability, downturns are not of a systemic quality. The periods cited – imperialism, world war, the Cold War and its inherent basis, Stalinism – played crucial roles in ensuring capitalist equilibrium.

Crises are therefore a compound of the inherent contradictions of the system and the strategy or strategies adopted to maintain that system. In the article that I wrote on the present crisis,[4] I referred to these strategies, which were in historical order: finance capital, imperialism, war, welfare state and Stalinism/the Cold War. The shift to finance capital and the welfare state involved the introduction of a centralized administration to manage the economy and society. From this point of view, the role of mass production and consumerism, and the building of a 'middle class' and small enterprises, is an intended derivative of the larger strategies.

This article is therefore concerned with the way in which these 'strategies' interact and have interacted with the classical forms of crisis. In this respect, the interaction is two-fold – firstly the way in which it has changed the operation of the classical forces and secondly the way in which they operate within those forces themselves.

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[4] Hillel Ticktin, 'A Marxist Theory of Capitalist Instability and the Current Crisis', *Critique*, 47 (2009), pp. 13–30.

The Contemporary Crisis

However, before proceeding to the next step in the argument, it is as well to summarize my understanding as outlined in previous articles.[5] The essential feature of the ongoing crisis, which broke out in 2007, is the increasing level of surplus capital. In 2007 it had reached some US$18 trillion in terms of money held in banks, such as UBS and Barclays, the first of which held the highest sum in that year.[6] Institutions like pension funds, hedge funds, insurance companies, and so on were responsible for some US$110 trillion.[7] Global GDP is put at more than 54 trillion dollars in this period. The figures make it clear that it is not easy for money-capital to find profitable outlets. It was, therefore, not surprising that banks would compete for the money itself by promising higher returns, but find it difficult to justify those rates of interest they were paying. The fault, in other words, did not rest with the bankers, but with a system that had given rise to huge levels of surplus capital. The bankers then invented arcane monetary instruments, which yielded relatively high returns that could not be justified once the merry-go-round had stopped. The fact that they sold mortgages which could never be repaid was only their last resort, which quickly ended the charade.

Why then are there such enormous levels of surplus capital? In my view, it reflects the termination of the last strategy of the ruling class, turning to finance capital, away from industrial growth. They had consciously done so in the 1970s, given the industrial unrest and the overall challenge to the capitalist system. In theoretical terms, without a reserve army of labour and with diminished control provided by commodity fetishism, both as an ideology and in the form of the controlling instruments of the market, capital was threatened. Through the restoration of finance capital, they were able to substantially raise the level of unemployment and subject more of the economy and society to pseudo-market controls. This strategy worked politically in destroying what remained of social democracy and much of the trade union framework that had existed previously. It, however, relied on low home industrial growth and the export of capital to third world countries. The third world could, however, only take limited levels of capital import, given the stress on short-term returns. The inevitable result was a large and increasing level of surplus capital. At this point it makes no difference whether one argues that the surplus capital was due to the low rate of return, owing to a decline in the rate of profit, or because industrial investment was limited by demand, whether governmental, the producer goods sector or the consumer goods sector or all together. It should be noted, however, that the short-termist nature of finance capital would militate against long-term investment programmes and hence would tend to starve the producer goods

[5] See Footnote 1.

[6] The Scorpio Partnership, 'The Scorpio Partnership Global Private Banking Benchmark', London: The Scorpio Partnership Press Release, 2009, http://www.scorpiopartnership.com/pdf/scorpio-pr_benchmark2009_july2009.pdf (accessed on 28 August 2009), p. 3. For a discussion of this point in more detail see 'Critique Notes', *Critique*, 50, p. 504.

[7] Wikipedia, 'Investment Management', 2005, http://en.wikipedia.org/wiki/Investment_management.

sector, except insofar as the latter was sustained by the Cold War and various hot wars. However, the Cold War came to an end, and there was a deliberate demilitarising programme undertaken in the US as a result.

Finance capital wanted the highest possible return in as short a time as possible. It was, therefore, necessarily parasitic, as Lenin argued, and as a parasite tended to destroy its host. In the extreme, private equity bought up productive firms, sold off their property portfolios and other readily salable assets, and then returned the rest of the company to the stock market, insofar as there was one. In Russia, finance capital took it the absolute extreme in that they sold off all property and all physical assets, so destroying the company, even if it was otherwise viable. In more benign cases, they demanded high returns from industrial firms in which investment funds, whether insurance, pension or other funds, might have substantial holdings. Such industrial companies were forced to reduce research departments and increase surveillance and targeting of staff. While formal efficiency would improve, in fact employees would only perform, under stress, as far as they could be measured, so reducing long-term returns, as employees showed the consequences of their dissatisfaction in passive-aggressive action or, more often, non-action.

In short, such a strategy has a limited life on all fronts. Industrially, for individual firms, returns are bound to go down, after an initial rise. Overall, industrial investment would be limited insofar as profits were transferred to finance capital. At the same time, parts of the government sector were privatised and gave an immediate boost to private sector profits. Many of the firms tended to perform less efficiently in service provision, however, though not in profits, than when nationalised, so creating an extra burden for the economy, and ultimately the private sector itself. Returns from the third world have been important, but they too create a problem, as the profits sunk in the third world are repatriated; only a proportion are returned, particularly as the countries of the third world are generally regarded as unstable.

There were two consequences. First, since value is only provided by the productive sector, transfer of profits to finance capital could only mean a more limited source of value, even as finance capital assets tended to rise. Asset inflation would then become inevitable and persistent. A vicious circle developed in which rising levels of funds created a hothouse in which the increasingly risky investments spawned even more risky investments in the funds themselves, leading to various forms of derivatives formally serving the function of insurance, directly or indirectly. As the source of the problem remains, and has indeed worsened, further bubbles will tend to burst, unless the public sector provides the necessary industrial expansion.

Second, with limited re-investment in the economy, outside of finance capital, unemployment must rise, and wage levels remain relatively static, reducing the level of internal demand within economies. At the same time, the unproductive sector itself grows, with advertising, marketing, retailing and exchange generally increasing in extent. Huge resources go into the housing sector itself. Pay levels in these sectors and in finance capital, in general, rise. A segmented luxury goods sector, with its own pricing levels has been re-established. What, however, of the investment goods sector?

The public sector, which provided much of its demand through arms production or through infra-structure developments, has been reduced. As a result, its tendency to over-production tended to increase, and its companies had little choice but to turn to finance themselves. General Electric of the United States is an example of a producer goods industrial company, which turned to finance. In their 2009 company report they declared: ‘For the last decade, we have run the Company with, at times, more than half our earnings coming from financial services. As we grew, financial services became too big and added too much volatility. GE must be an industrial company first.’[8] In this report they show themselves as an infrastructure technology company with a large financial sector.[9] This highlights the nature of infrastructure development, crucial to production in general, but also closely related to governments, whether through ownership, control, regulation, financing or purchase.

Two other points are illustrated in that quote. First, it demonstrates the fact that the company can switch from industry to finance and back again, with relative ease, even if at some cost, given its huge size. Second, it provides an idea of one aspect of the alternative strategy to be adopted in the next period, as opposed to the emphasis on finance capital, at least at a formal level. Below, I argue that at a national level it is unlikely that a policy of re-industrialisation is introduced.

As an aside, one can also note that numerous people have challenged the concept of finance capital on the grounds that many companies have financial departments who use derivatives, among other financial instruments. Clearly, under the conditions prevailing in the last 30 years all companies of any size, particularly those who are international, have had to employ derivatives, at the very least those dealing with currencies, in order to protect themselves. The question is not whether they have financial departments but whether those departments are either dominant in the company or alternatively taking part in the overall dominance of finance capital over the economy. A firm, for instance, specialising in selling machine tools, buying raw materials for the purpose, would have to insure against change in currencies in the international market. That would not alter the nature of the firm or the economy. However, it is clear that General Electric had shifted the balance of its efforts towards finance so that it was both a finance capital and industrial firm, with an increasing bias towards the former, which it is now talking of remedying.

An Elementary Outline of the Contradictions of Capitalist Accumulation and its Consequences

How then do we fit this analysis into classical Marxist theory? Historically, Marxists have looked at crisis in terms of underconsumption, disproportionality and the falling rate of profit or the operation of all three combined. In principle, however, they have to be set within the context of the laws of operation of capital, as well as the

[8] General Electric, Annual Report, 2009, http://www.ge.com/ar2009/pdf/ge_ar_2009.pdf.
[9] Ibid.

particularities of the particular stage of capitalism in history, in order to provide an analysis of a crisis or crises. Without the historical dimension, abstract theorising becomes only a training or elucidating exercise. What follows is a simple illustrative outline, which by commission and omission provides a particular way of looking at the theory. There are today a whole series of different Marxist interpretations both of crisis theory and of the present crisis.[10]

In the embryonic forms of commodity production, where accumulation or re-investment was a sporadic excess of supply over demand, was always possible where workers' wages were below value produced, to allow for profit, where the profit was not consumed. However, in a developed capitalist economy profit is normally re-invested, so re-creating demand for the total product. The problem here is that investment in producer goods will tend to rise as the organic composition of capital (the capital to wages ratio) increases, which will itself raise productivity and so exacerbate that rise. The ideal capitalist economy, looked at from the point of view of the accumulation of industrial capital, would be the absurd one in which producer goods would be the only component produced. In other words, there is an in-built tendency for the capitalist economy to break down or stagnate, with the maturity of capitalism itself.

With the potential of a society where machines make machines and goods and services become effectively free to use, capitalism has served its historical purpose and reached its limits. The question of maturity and stagnation has, of course, been explored and can be part of a Keynesian analysis.[11] However, what is being argued here is not that capitalism will necessarily go this way, but that it is an inbuilt tendency. However, to the extent that capitalism has found pragmatic means of overcoming the problem, it has not stagnated in the way that might have been predicted, which illustrates the limitations of a technical economic analysis.

As the growth of production of producer goods, in value terms, will necessarily be faster than the demand from the consumer goods sector, periodic crises are inevitable, precisely because the society is anarchic and not planned. However, these periodic crises are relatively easily solved through the destruction of capital in the downturns, while the rate of profit can be raised through a decrease in wages paid. As long as there is an excess of labour in the society, of both the 'surplus population' (that is those without work for long periods) and the reserve army of labour (those who go in and out of work), wages are controlled and an increase in investment can be made without raising the productivity of the investment activlty itself. In other words, more workers are employed at constant rates over a period of time. When,

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[10] One of the most concise and useful outlines of the different views is given by Anwar Shaik, 'Economic Crisis', in Tom Bottomore (ed.) *Dictionary of Marxist Thought* (Oxford: Basil Blackwell, 1983), pp. 138–143. I differ from him in giving the concept of disproportionality its own importance (independent of consumption), in retaining the argument on monopoly as a separate feature of the declining stage of capitalism, and third in taking the view that capitalism is being managed and can only be managed without stabilising capitalism.

[11] See Andrew Killman, 'Marx and the Financial Crisis of 2008', blogspot.com, 2008, http://marxandthefinancialcrisisof2008.blogspot.com/2008/10/as-author-of-article-that-andrew-chitty.html.

however, full employment or nearly full employment is reached, this condition is breached. In that case, the organic composition of capital or the capital labour ratio will rise, and fewer workers will be employed, possibly at lower rates of pay. Under these conditions, profits will be restored and require re-investment, but at a higher organic composition of capital. There are three results of this elementary outline of the process. One is an inherent tendency to periodic breakdown and the second is a tendency for the value produced to decline, given the declining number of workers involved in production.

There is third result which is a derivative one. If the capitalist class reduces its investment below its profits, then producer goods will be limited and there will be less tendency for a mismatch between the sectors. At the same time, demand for goods and services will be limited. Some see this tendency to be one of underconsumption, although it arises from blocked investment rather than excess production of consumer goods.

Finally, if value produced is limited or declining in relation to capital invested, then profits will be squeezed, assuming that wages paid are constant, and capital invested is constant or rising. However, this is not an automatic result for all capitalists in any particular period, as it is dependent on the class struggle, and the pricing power of big capital, as well as the effects of innovation in raising productivity. In the long run, however, the expulsion of value from production is part of the process of capital accumulation itself. This is discussed below.

The Importance of Class

Keynesian arguments, and Keynesian type arguments among Marxists, leave out the class dimensions. In particular, they assume that the capitalist class is not a class but a series of individuals automatically driven by the compulsion to accumulate, without any understanding of history or time. This might have been true 200 years ago, but it is evidently not true today. Managers of the giant firms, for instance, which dominate the economy commonly move from firm to firm, ignoring differences in industry or product. They acquire a common approach for the particular period. In any case, there are clubs, conferences and regular meeting places where the wealthy meet and discuss. Where they consider it inappropriate to invest, they withdraw funds. This is normally talked of 'the markets' being worried, as if it they are an impersonal but somehow natural feature of the planet. Immediately after the indecisive UK elections of 2010, the population was told that the markets were concerned and would fall unless a government was formed quickly. There are, in fact, only a limited number of firms and individuals involved and it is obvious that they could have political worries, during a political economic crisis, which could cause them to disinvest in the UK. In Greece, the rich had withdrawn their money months earlier. In general, it is normal for the wealthy and the middle class to send money out of the country, given the instability of their countries.

In short, the capitalist class may or may not invest, depending on the state of the class struggle in a particular country. This clearly applies to government bonds in this instance but it is no different for direct investment in particular firms. To analyse the movement of capital as if it is an impersonal machine, without any conscious capitalist class, is to produce a fetishised analysis. Keynesian analysis is precisely of this kind, occasionally mentioning that the rich save more and the poor save less. The reality is that the wealthy control capital and therefore also the so-called savings required for investment.

The official arguments for the downturn, largely produced by economic journalists, runs along the lines of balance of payments disquilibria. It is argued that the Chinese save and the Americans dissave, leading to the Americans buying the goods made in China as a product of the savings invested. In turn, the Chinese then buy US bonds with the money so earned, rather than spending it, so propping up the US treasury. In fact, the total amount of Chinese held western bonds, securities and suchlike is estimated to be over two trillion dollars, which is a small fraction of the already mentioned 'savings' held in banks. The reason for the 2007 crash lies precisely in the huge global level of surplus capital, and it has nothing to do with the Chinese, who are themselves victims of the system.

Application of the Theory of Accumulation

It was no accident that Lenin, Trotsky and Luxemburg ignored the falling rate of profit in favour of more directly class orientated theory. At the time, crucial changes were taking place in capitalist society that needed to be analysed and understood. While some, perhaps most, Marxist analysts[12] reject the 'orthodox' Marxist theory of decline, and the rise of monopoly and dominance of finance capital, I would take the view that it is substantially, if not entirely, correct.

A capitalism where total value equals total price but price itself is arbitrarily set by the firm in order to produce either maximum or optimum return is able to raise profits through price rather than reducing wages. Although this form of inflation may be little more than a deceptive way of reducing wages, it distorts the operation of the law of value, allowing costs to play a secondary role to marketing, so raising surplus value though not always the immediate profits of the particular enterprise. In principle, one can imagine a capitalist economy where machines make machines and there is little value produced but control over firms allows arbitrary pricing. This would not be a stable economy, and would not last forever, but the point is that elements of this form already exist.

In particular, there is the role of finance capital in shifting profits away from industrial capital towards itself, and its effects, so graphically illustrated by the present crisis. In regard to value, there are two aspects of interest. From this point of view, we can regard sales efforts or marketing as an aspect of a stage of finance capital. From a

[12] Anwar Shaik, op. cit.

Marxist point of view, finance capital is unproductive of value but its operations increase the costs of modern enterprises directly and indirectly. At the same time, it is not easy to calculate the costs and profits of finance, partly because they are hidden from view, either to avoid or evade tax, or because they are so incorporated into the operations of the firm that they have to be detected by a forensic accountant. In the case of both finance and marketing, the accelerated use of depreciation acts as a means of increasing sales and profit, but only someone well versed with the firms operations can come to the judgment that depreciation was accelerated. Baran and Sweezy took the example of the automobile, in the case of marketing, where its constant reworking is not done out of necessity but in order to make it more attractive to purchasers.[13]

The point here is that it is hard to work out the real profit rate in Marxist terms. Unproductive expenditure comes out of surplus value and hence must be related to the rate of profit. If unproductive expenditure has risen, as it clearly has, then it is hard to talk of a falling rate of profit.[14] On the other hand, part of surplus value is being used to pay a considerable army of workers in finance, advertising, retailing, marketing and so on, most of whom are white-collar workers, who also exercise their ability to buy goods in the market place. This makes it clear that part of the surplus value is being siphoned off to workers, albeit in unproductive sectors.

In a parallel manner, the needs-based sectors in modern economies – education, health and the state apparatus: the police and army are unproductive but not governed, or not wholly governed, by the market – including employees that are part of a more general group of workers paid or subsidized by governments.

We can also add that the bureaucratic apparatus of the large private enterprise firms, which dominate the economies of the capitalist countries, are also not wholly governed by the market.

The overall effect has been to provide a limited modicum of stability over time, precisely because the economy is not governed wholly by the law of value, whether because of the nationalised sectors, government subsidies or the existence of dominant de facto monopoly type firms.

Both governments and large firms 'plan' their projects and the future of their workforces, altering the operation of the forces described above. It is not possible, therefore, to argue only in terms of the classic contradictions of capitalism. We have to allow for the operation of a managed capitalism, in which individual firms and governments organise the economy, and for the existence of a so-called middle class of bureaucrats, professionals and unproductive workers. However, these are largely paid out of surplus value and are partly dependent on an arbitrary pricing policy that

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[13] 'No-one doubts that a large part of the actual labor that goes into producing an automobile ... has the purpose not of making a more serviceable product but of making a more salable product.' Paul Baran and Paul Sweezy, *Monopoly Capital* (New York: Monthly Review Press, 1966), p. 133.

[14] This point is contested in that it is argued that unproductive expenditure is regarded as a cost and so a cause of the decline in profit. However, this is dubious as the expenditure itself comes out of surplus value, not out of necessary costs.

is itself unstable, an instability vividly displayed in very recent times. The increasing polarisation of society has seen white-collar workers and professionals like doctors, teachers, academics, and so on becoming increasingly proletarianised. Managerial layers have grown with the upper layer effectively joining the bourgeoisie. These social changes mirror those in the economy of which they are a consequence. On the one hand, the day-to-day economy is potentially less unstable, being managed by governments and large firms, while, on the other, the increasing marketisation following the switch to finance capital has altered the nature of both the nationalised sectors, and subordinated industrial capital to the vagaries of finance capital, so potentially destabilising the system. This is a toxic combination of a demand and expectation of stability with increasing instability.

Managed Capitalism and Crisis

It is clear that it is government demand which plays a crucial role in stabilising the economy, and that there are special areas judged as acceptable or less threatening to the future of capitalism, which help to ensure that stability.

Crucial to understanding the downturn is the more limited role played by the military within the United States since the late 1980s. When we look at the military sector we note that its special feature in this analysis is that it is nationalised and needs based, although the nationalisation is never discussed as such, because orthodox non-Marxist theorists regard it as acceptable under capitalism. The fact that a society needs a military sector and that its demands have generally to be met is taken for granted. The military sector is particularly important in the US and while it plays a role among developed countries, it is not as significant. In the UK, which is closely linked to the Unites States, the National Health Service is much bigger than the military in employment terms.

The military appear obviously acceptable because they seem to be a God-given necessity administered by the state over thousands of years and, therefore, does not threaten the form of capitalism. While there are private mercenary units, they are too small to conduct a major war. For the purpose of maintaining substantial expenditure on the military, there has to be an acceptable ideology, the production of which is itself an industry. The production of the weapons, if not the research, can be entirely privatised, even if under supervision. The extreme case is that of large-scale, all embracing war, involving total control of the economy. Governments manage a military apparatus by buying the equipment from privately owned firms, and financing and overseeing the armed forces. They, therefore, ensure a level of demand for both consumer and producer goods, though they are particular important for the latter. In fact, given a sufficiently all-embracing military presence as during the Cold War, the military plays an important role throughout society, through ideology, education, censorship, research, surveillance, and so forth, apart from the 'normal' forms, so that the government effectively ensures economic stability, even if there may be relatively minor recessions.

We have therefore argued that prices are manipulated, or exist only nominally within particular parts of the economy administered by governments and to a degree within monopolistic firms. The law of value, or the market, operates overall, even if it is increasingly dysfunctional. The result is complex. Put differently, in a declining capitalism its fundamental law must be in decline, otherwise there is no decline. This obviously makes mathematical precision impossible and the interchange between sectors and divisions of the economy cannot have an absolute balance.

To further complicate matters Germany and Japan have become the major sources of equipment for producer and consumer goods, with the United States still playing an important role. The effect is that there is now a limited geographical division between the sectors, partly showing itself in balance of payments, surpluses and deficits. Although the US is the controlling economic power, the economies are more integrated into a global form than formerly. In a sense, this has been true for over a century. The British Empire performed this operation earlier, followed by US global dominance. The difference lies in the increasingly integrated nature of the forces of production, combined with the nature of finance capital.

The Nature of Contradictions in a Declining Capitalism

With these concerns in mind, we may ask how the chief operating officer of a firm, the capitalist or the investor achieved returns on assets or investments in the past 40 years. In the period after the war there was some 20 to 30 years of re-industrialization, with the construction, automobiles, communications, pharmaceuticals and utilities industries all growing, and with them engineering of all kinds. By the late 1960s and the 1970s, this changed and money went into financial vehicles, so-called, which sought profitable opportunities in the Third World and in new technology.

The post-war period of reconstruction led to massive investment into both producer and consumer goods production but this came to an end as indicated above. Effectively, the capitalist class decided to rein in the working class by removing full employment and containing wages, in order to contain the increasing level of strikes and other kinds of working class action. The result was that producer goods production became even more dependent on the state sector – the military in particular – under conditions of the Cold War. However, investment in producer goods is long-term, sometimes as in the case of nuclear power stations that can be very long-term. This created an investment logjam that was dealt with by an intensified continuation of the Cold War with the Reagan squeeze, followed by capital going into South-East and East Asia. (The earlier 1970s investment in South America ended in a disaster.) However, the end of the Cold War led to a conscious US policy of a planned run-down of the military sector. Under conditions of static wages and investment problems, taxation for the military became more problematic. Hence the frenzied dot-com bubble, the March 2000 crash followed by the huge rise in asset values and inflated values of derivatives.

The essential point of this limited history is the difficulty in finding investment outlets. The goods producers limited their production, given the lack of demand. The effect was to create a huge and increasing level of surplus capital, made all the greater by the relative increase in profits in regard to wages. It is almost as if modern capitalism was determined to prove Edward Bernstein wrong and his opponents right that the there was a law of increasing relative misery, as Kautsky formulated it.

One can argue that the limits of profitability were reached, without increasing the rate of exploitation but it is hard to argue that the rate of profit has consistently fallen, owing to the rise in the organic composition, when in fact the ratio of wages to profits in value added is the lowest since World War II. If one rejects the schools of thought which have involved themselves with computerisation and mathematisation of Marxist political economy on the grounds that they have oversimplified the situation, particularly in relation to the calculation of unproductive labour and capital, and the arcane and obfuscated nature of modern profit taking, then it is hard to see how to calculate value based on non-value statistics. It seems safer to argue that since money cannot produce money and investment outlets reached a limit, that profits themselves reached a limit, established by the controls over investment itself.

When surplus value cannot go into producer goods then the counterpart of surplus capital has to be either surplus goods on the market, or decreasing utilisation of capacity. This is not underconsumption, although it can take that form, but disproportionality between the sectors.

In the end, it is the twin facts that the conscious understanding of the ruling class, and hence its strategy, plays an important role over the political economy of society and that the law of value itself is in decline that creates the complexity of modern crises.

Logically, this analysis leads in the same direction as that of Trotsky's conception of long waves, as long as we incorporate conscious strategy into those waves. In other words, as the bourgeoisie becomes more conscious of its collective interests and ways of maintaining them, it incorporates a medium- to long-term strategy of ensuring the continuity of capitalism. For this purpose, they can decide whether to invest or not invest and where and when to invest. They can also use different ways of investing. The export of capital, while starving the home country industries, has been used for over a century, first in the form of direct colonisation and then as neo-imperialism. After World War II, there was massive investment in order to reconstruct the world-damaged economies and build a welfare state, as well as conduct a series of wars. When the working class demanded more, they reversed themselves and went for a variation on the strategy before the War, that of finance capital. This time, however, concessions to the home working class were reduced, at the same time as capital was exported, particularly to China. They adopted a repressive economic policy for purposes of control. It has reached its limit.

We cannot look at the political economy of capitalism as an undirected entity in which the invisible hand guides the movement of capital, to repeat the point in another dimension. Given both the nature of the changes in capital itself, and the consciousness of working class opposition, capitalism has to be consciously run. The long-term nature of investment both because of the huge sums involved and because of the research required, demand predictability and stability. Furthermore, governments have to supply the infrastructure – in terms of communications, transport facilities, power and more – and they have to be funded. When one adds the welfare payments of pensions, disability, unemployment benefits, and so on, it is evident that contemporary capitalism has necessarily to be administered and managed. The result is a mixture of management and market or pseudo-planning and the law of value and the two forms do not necessarily blend together predictably or harmoniously, creating a demand for uniformity under the market, under conditions of increasing worker militancy.

It is clear that from the mid-1970s onwards the switch to finance capital involved an attempt to withdraw from controlling the economy, by various forms of privatisation and outsourcing. Governments tried to reduce tax, expenditure on the public sector and shift control of the economy from fiscal to monetary means.

As the United States economy has been and continues to be the dominant economy in the world capitalist system, its economy determines the ups and downs of the world economy. Hence the end of the Cold War and reduction in the role of the military – when added to the switch to finance capital – undid much, though not all, of the stability of the post-war years.

How then can we understand crisis under these circumstances? Modern crises in capitalism partly reflect a failure of strategic management and a conflict of interests in the ruling class and governments. That is not to say that they can avoid crises but that the nature and course of the crises are partly dependent on their decisions, which can be muddled or incorrect. The present crisis was predictable and was predicted by various individuals but the ruling bodies ignored the signs, and when the crisis did break out they held to market fundamentalism and allowed Lehman brothers to go bankrupt, so precipitating a meltdown of the whole system. The British government had its own version of this situation in that it took months to realise the gravity of the situation because they wanted to avoid so-called 'moral hazard'. The underlying fundamentals of the crisis could not have been prevented but the spectacular monetary form could have been avoided. On the other hand, governments successfully introduced Keynesian measures to prevent a repeat of 1929.

Even had the ruling class, and governments, understood their own interests and the working of the system better, they could not have avoided the crisis. Modern economies revolve to a considerable degree around the production of the means of transport, and the overcapacity in this sector, particularly in automobiles, is legendary. The bankruptcy of General Motors would have happened in any case, but they were fortunate that it occurred in the middle of what appeared to be a financial crisis, allowing them to benefit from a government bail-out. The asset inflation caused by the use of property as a means of investment for surplus capital had become an integral part of the reflation of the economy, with insufficient investment in industry.

It is particularly interesting that governments and the bourgeoisie itself appear irrational. Letting Lehman Brothers go bankrupt led to a global chain reaction that almost brought down the banking system, and created doubt in the strength of the capitalist system itself. It was obvious at the time, but current governmental ministers are educated in market fundamentalism and are afraid to tamper with the market, speaking of 'moral hazard'. In exactly the same way, the German government in February to May 2010 failed to act early to stem the Greek funding crisis, so precipitating a much larger crisis for a number of other eurozone countries as well as for the euro itself. A well managed and controlled capitalist economy would almost certainly cease to be capitalist, it would seem.

Crisis Now and Forever?

There is no obvious solution to the present crisis either in strategic terms or in the long-term. As indicated above, the muddled attempts to deal with the crisis include a shift back to industry, with the government acting as a backstop in financing new infrastructure developments. However, there are no genuine long-term plans to take this step, with all the financing and state involvement required. There are many statements and a multitude of wishes expressed but they are leading nowhere.

It is clear that the capitalist class does not want to reflate or return to full employment. They will not do it, because they do not wish to return to the situation that occurred during the 1960s and 1970s, precisely because they learned they could not contain a working class based on full employment and a rudimentary welfare state. They will not reflate in other words, which rules out a return to growth and re-industrialisation.

Under these circumstances, they have decided to go for austerity, and massive cuts in the public sector. This logic can only lead to increasing levels of discontent, as in Greece, the world over. In addition, it will further limit the opportunities for investment, so re-creating the conditions for another asset inflation and so-called bubble. The only difference will be that there will not be the same extreme gambling on particular derivatives. The fact that derivatives continue to be traded as before was brought out when Warren Buffett who had famously referred to them as 'financial agents of mass destruction' was revealed to own some US$63 billion himself and pushing for the amendment of the US Senate bill requiring that they be insured against loss.[15]

[15] 'The Senate Agriculture Committee inserted language into its derivatives bill last week at the request of Sen. Ben Nelson (D., Neb.) that would have exempted any existing derivatives contracts from new collateral requirements—the money set aside to cover potential losses.
Berkshire has $63 billion in derivatives contracts, and Mr Buffett has boasted he holds very little collateral against these products.
Mr Buffett's push was notable because he has warned of the potential dangers of derivatives, famously branding them "financial weapons of mass destruction." Rebel Traders, 'Senator Ben Nelson Votes To Protect Warren Buffett And His Shares?', 2010, http://www.istockanalyst.com/article/viewarticle/articleid/4065478.The *Washington Post* reported on the same point and brought out the way the attempts to regulate finance were being blocked, by the same senator, among others. Harold Myerson, 'Ben Nelson, the Nebraska Narcissist, is at it again', *Washington Post*, 2010, http://voices.washingtonpost.com/postpartisan/2010/04/ben_nelson_the_nebraska_narcis.html.

The logic of the situation seems to be one in which sections of capital have decided to fight to the bitter end in order to inflict an epoch making defeat of the working class. Other sections are afraid to do so, and regard it as counter-productive but have no alternative, leading to the muddle that we have seen. However, the scenario is not controllable, so that it can spiral out of the hands of capital itself.

However, one has to wonder whether the bourgeoisie has a death-wish; the decisions to cut public sector deficits and inflict pain on countries in the eurozone can only educate a whole new generation of the population of the need to change the capitalist system. In a sense, it makes no difference whether or not the authorities succeed in containing the mass demonstrations, strikes and other forms of militant and non-militant action for the time being. The contemporary form of the ideology of capitalism is now so threadbare that only a masochist can support it. The triumphalism at the end of the Stalinist Soviet Union as solidifying a permanent capitalist future now looks foolish, to put it in the best possible light.

It is not surprising that, in the UK, conservative columnists and editors of the *Financial Times*, such as Samuel Brittan,[16] should express doubts about the need to close the deficit so soon. Separately Lord Skidelsky,[17] biographer of Keynes and a one time Conservative peer, assembled some 100 economists to oppose such action. They appear to have lost the fight in the UK, while Merkel and the German government have also taken a hard line. Given that the Republican Party has taken an extremely hard line on the issue, there would appear to be a global agreement among one section of the right. Their pressure has been enough to ensure that governments of all persuasions are cutting the public sector.

If the working class is defeated at this stage, a disintegrative logic will set in. When the poles of a contradiction cannot interact then they pull apart. That is already apparent in the eurozone, where it is entirely possible that, after the failure to support the Mediterranean countries in time, the eurozone either will break up or be confined to an inner core of France, Germany and Benelux. The threat of such a change now hangs over the euro. The logic of the downturn and refusal to take stimulative measures leads to protectionism, already in action. In a crisis, short-term decisions are taken which have long-term effects. Paradoxically, Germany is the eurozone country that will lose the most by taking such draconian action, as it will lose a considerable part of its market, as well as the money owed to its banks. We may expect that the disintegration will cover all phases of the economy and society, unless the situation is contained.

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[16] 'The British political classes are going through one of their occasional bouts of masochism, with party leaders vying with each other on the theme of who can cut public spending faster and more effectively. Spice is added by talk of leaks and secret plans; and ideology by arguing about the balance between tax increases and spending curbs. My own bottom line is that all this is in response to a largely imaginary budget crisis. If we have a normal economic recovery the red ink will diminish remarkably quickly. If we don't, it won't and won't need to.' Samuel Brittan: 'A cool look at the current deficit hysteria', *Financial Times*, 1 October 2009, http://www.ft.com/cms/s/0/4679c2be-aed0-11de-96d7-00144feabdc0.html.

[17] Robert Skidelsky, 'Why market sentiment has no credibility', *Financial Times*, 22 December 2009, http://www.ft.com/cms/s/0/233e4d54-ef69-11de-86c4-00144feab49a.html.

Conclusion

In its decline, capitalism has moved towards its ultimate absurdity, where it proclaims the ability of money to make money from itself. Under conditions where it reached a limit to profitable investment particularly in producer goods, it preferred to switch to finance capital and accumulate finance capital rather than real capital. It moved wholesale into fictitious capital, which cannot produce value because it does not absorb abstract labour, and so imagined that money in itself would produce value. Accumulate, accumulate, that is the fundamental law of capitalism – so says Marx but accumulation of money is not accumulation of capital, which is self-expanding value, not money.

Capitalism moved away from production because it needed to retreat from the class struggle, and it will not return, unless it is certain that the conditions are ripe, which is an unlikely event. Hence, it has retreated into its own illusory forms.

Capitalism is inherently unstable, like all exploitative societies, but, as long as it had no competitor in performing the function of raising productivity for humankind, it had a rationale. Today there is in socialism an alternative, more humane and less costly way of raising productivity which does not involve long-term depressions, and capitalism is determined to put off the evil day. 'Whom the gods would destroy they first make mad' is a good description of the present stage of capitalism.