

The Myths of Crisis: A New Turning Point in History?

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The article argues that the crisis is continuing and will continue as long as surplus capital remains. The reason lies in the refusal of investors to invest their capital productively. They are afraid of the political consequences of expanding or substantially expanding the economy. They have run out of alternative modes of controlling capitalism. Historically the strategies used were imperialism, war, hot and cold, Stalinism, the welfare state/social democracy and finance capital. The problem is that these strategies are either defunct or a shadow of what they were. Most particularly, the last strategy, finance capital, embarked on for the second time in the late 1970s has now imploded. As a consequence of lacking an alternative, investors have turned to a utopian solution—that of classical or pristine capitalism. This goes considerably further than so-called neo-liberalism. It cannot work, except in distorted way, either technically or politically. It can only give rise to increasing class battles. In the long run the bourgeoisie can only lose as they are proposing a solution that is technically impossible and socially repugnant, but it may take some time to happen.

Keywords: Marxism; Crisis; Finance Capital; Bourgeois Strategy; Government Debt

Introduction and Summary

Today, there are a wide range of Marxist views on the crisis engulfing the capitalist system. On the one hand there are those who see it in terms of the natural cyclical rise and fall of the economy within capitalism, while on the other we have those who speak of a 'terminal crisis'. Most views lie between these two extremes of what might be termed the 'no change' and 'absolute change' attitudes to the crisis. There is another way of looking at the same question. Are we at the beginning of a new long wave or on the down cycle of an old long wave? Both views are held.

Thus Anwar Shaikh argues both that we are on a down cycle of a long wave, and that these cycles are natural features of capitalism.¹ In fact, the argument seems to be

¹ Anwar Shaikh, *The First Great Depression of the Twentieth Century* (London: The Socialist Register/Merlin Press, 2010), pp. 44–63.

a variant of Trotsky's conception of the long wave. His specific view is that the containment of workers' wages, while profits were increasing, led to the crisis. In contrast, Andrew Kliman and others, like the theorists of the British Socialist Workers' Party, argue that the rate of profit is, and has been, falling and was the specific cause of the crisis.

Many on the left are confused by the end of the Soviet Union and the Cold War. Although they may be critical of Stalinism, they have fallen for the reformed Stalinist view that we are living in a period of reaction, and that the best that can be expected is a defence of the public sector. For many others, the idea that capitalism would experience a repeat of the Great Depression was a fantasy that was disposed of in the 1960s and 1970s. Famously, the leadership of the Workers' Revolutionary Party had placed the prediction of a coming terminal crisis of capitalism at the centre of their analysis. Since, for 60 years it never arrived, more than one generation decided that the whole idea was wrong and with it Marxism, never mind the Workers' Revolutionary Party. The Stalinist version of Marxism taught in the USSR spoke of stages of a General Crisis of Capitalism. For them until the late 1970s, the standard of living in the West was constantly declining.

The Crisis

I am going to argue in this essay that capitalism is undergoing a classic crisis as defined by Marx, in terms of relations of production, on one plane. He famously said that 'The world trade crises must be regarded as the real concentration and forcible adjustment of all the contradictions of bourgeois economy'.² There is, however, no apparent end. In that sense, it is not a classic crisis, but more comparable to the Great Depression, in its longer-term extent and depth. This is where I part company with Anwar Shaikh. He argues that the depression only continued, for subjective reasons, in that President Roosevelt returned in his economic policy to the period before 1933 and that the subjective is not part of the crisis itself. However, he can only make that argument as long as he takes the view that the economy is separated from the subjective decision-making of the ruling class. The measures later taken during the Second World War, which increased the levels of employment, are then separated out from the War itself. However, one can argue that the ruling class only made those concessions precisely because of the War. In the *Critique* article on crisis,³ I made the point that crises do not operate solely through the objective forms. Some Marxist economists look at the question of crisis in a narrowly technical-economic plane, as opposed to a political-economic one. This point is made again below.

The crisis continues on a number of planes. At the level of the actual downturn/upturn, we have witnessed a huge level of surplus capital without an outlet, building up with the switch to finance capital at the end of the 1970s. The relative absence of

² Karl Marx, *Theories of Surplus Value*, Vol. 2 (London: Lawrence and Wishart, 1969/Moscow: Progress, 1968), p. 510.

³ Hillel Ticktin, 'The Crisis and the Capitalist System Today', *Critique*, 53 (August 2010), pp. 355–375.

investment outlets has led to a number of ‘bubbles’ since that time. In a sense the current crisis is the last such ‘bubble’. In my view, the reason for the absence of investment opportunities lies in the bourgeoisie/governments’ refusal to reflate and the turn away from industry in the home country. The export of capital to the third world, particularly China, has not compensated, however. This has led to a period of dominance by finance capital using its ability to squeeze higher returns as quickly as possible from the productive sector. The result has been the emergence of fictitious capital as the dominant sector of capital, even though as fictitious capital it prefers to invest in unproductive outlets, and so is not self-expanding value, and hence capital. This contradictory state of affairs ultimately led to the point where it became cannibalistic and began to devour itself, leading to the downturn emerging. The source of the downturn, however, does not lie in the ‘bubble’ but underlies that bubble. I have discussed the different elements in some detail, in my article referred to above.⁴ At this point, one has to note that an economy whose aim is the expansion of capital that is not capital is clearly in trouble.

The problem, however, remains. Reflation is ruled out and the surplus capital underlying the old crisis is increasing. The paradox is that the downturn led to the dismissal of workers, reduction in wages and a rise in productivity, and hence a rise in profits in spite of the decline in demand. As a result we have a return to the status quo ante, where there is a huge level of surplus capital, assisted by quantitative easing. The crisis, therefore, continues, and is being exacerbated by the refusal to allow governments to use that money in useful ways, like for health or infrastructure.

On another plane, I have argued that the crisis was not just the usual crisis of the pulling apart of the different parts of the economy. It is not just a question of sale standing opposed to purchase, as Marx puts it, and so of exchange value as opposed to use value. It is also a crisis of bourgeois strategy. In the modern era, with capitalism under threat, and in relative decline, the ruling class has had to be conscious of its role and of the threat to its existence. It has, therefore, had to consider ways in which capitalism can be maintained.

Bourgeois Strategy

Its battle is both conscious and unconscious. At the conscious level, we can consider the forms used to maintain the system, whether the bourgeoisie fully understood what it was doing or not. In other words, it has not always thought out its decisions and so fully comprehended the effects. Thus it has gone in for a large number of disastrous wars in the 19th and early to middle 20th centuries, which have had the effect of maintaining the system, but also bankrupting the main imperial power of the time, the UK. The United States has had a similar experience, although not quite so catastrophic. In the post-Second World War period, stability was maintained using the welfare state and the Cold War. Both were consciously introduced and developed.

⁴ Ibid.

Whether the leaders of the United States and the UK were as Machiavellian as implied is not clear, but it is difficult to interpret their actions in any other way. As time went along, the Cold War waned and came to an end, while the welfare state created its own problems. In the first place, it conflicted with the operation of capital itself in two ways. It restricted the reserve army of labour and it provided for free or subsidised goods in health, education, housing, utilities and transport, so limiting the operation of commodity fetishism. This was further diminished by the role of trade unions and the role of the public sector. The matter was exacerbated by the fact that the increased militancy of the working class, and the threat to capital itself, were clearly assisted by the welfare state in the ways described.

Hugo Radice ascribes the rise of what he calls 'neo-liberalism' to the need of the capitalist class to re-assert itself.⁵ He, therefore, takes the view that the present demand for balancing the budget and cutting government expenditure arises from this source. It is a continuation of the same process that arose in the 1970s. While his article makes its argument clearly, in my view he is ignoring two things. First, he elides the fact that so-called neo-liberalism is not an independent ideology, thought up by the ruling class, independent of its particular needs of the time. In other words, the reply to the 1960s and 1970s was not Thatcher, Reagan and the IMF's draconian third world policy, but the switch back to finance capital. The latter is short-termist, demanding of immediate high profits and ruthless. It is abstract capital and hence ruthlessly destroys productive capital after it has provided the capital it wants. The effect is that it looks for the cheapest labour force on the planet, and soullessly destroys it before finding another that is still cheaper. It does not understand itself, as fictitious capital, capital that does not create value and so is not capital. Its capital is created by productive capital, but its use is not productive, so it is destructive of capital. The irrationality of capital that is not capital infects the reasoning of its human forms. That capitalism has an element of irrationality in its declining phase has almost become a cliché, when one looks back at the 20th century as well as contemporary phenomena, not least modern politics.

The application of the policy of finance capital has required that governments reduce taxes on capital, and consequently reduce expenditure on the needs of the population. The welfare has had to be cut back. However, it goes further as higher profits require greater so-called efficiency at the productive level, and hence work has had to be intensified and pay limited, in order to increase profits. For this purpose, a reserve army of labour is needed and unemployment has risen considerably, although it is doubtful if a reserve army has actually been re-created. At the same time, the provision of state benefits has had to be reduced. The fact that the removal of the welfare state and the restoration of commodity fetishism disciplines the population is welcomed by finance capital. The irrationality of capital is shown in the fact that it ignores the political effect.

⁵ Hugo Radice, 'Cutting Government Deficits: Economic Science or Class War', *Capital and Class*, 35 (February 2011), pp. 125–137.

The New Strategy

The downturn of 2007 and its continuation have forced a new turn in policy. It is clear that finance capital is in trouble and the forms introduced to control the population are insufficient. This is where I disagree with those, including Hugo Radice, who look at the new policy of cuts, destroying much if not all of the welfare state, as a continuation of the old 'neo-liberal' policy.⁶ The fact is that the policy has not hitherto actually eliminated welfare and it has not intended to do so, even if it has limited it. The new measures being taken in the UK, proposed for the United States and in train for other countries in Europe go much further. They are cutting the public sector very substantially, reducing pensions and removing sufficient benefits from workers to the point where the Victorian workhouse and Church-run hospitals would not be out of place. Liberals in the 19th century fought against many of the measures that will logically be re-imposed if the governments are consistent. The political irrationality is further shown by the blanket imposition of repressive economic measures on all sections of the population other than the rich. In earlier periods, divide and rule was the ruling class motto.

We have seen in Wisconsin the open face of modern policy. The problem is that finance capital has imploded, and although it has survived, it cannot provide the necessary basis of continued rule. In fact, there is no alternative. More and more wars are ruled out. The population will not stand for it. Imperialism has reached its limits. Stalinism is no more and the attempt to use the War on Terror for the same purpose has failed. The ruling class is afraid to reflate, it is afraid to maintain the welfare state, it cannot go for a global war without destroying itself, and it is afraid to return to the pristine form of finance capital. There is no new policy for capital. It has reached an impasse.

In other words, the present crisis is not just one more downturn/upturn in the history of capitalism. Quite apart from the obvious factual differences discussed below, there is a life and death issue confronting the bourgeoisie at the present time. It has presented itself throughout what Trotsky called the transition period, during which time capital has had to confront the reality that it was being phased out of history. However, the crisis of 2007 onwards has marked a turning point. Hugo Radice has also raised the issue of the origins of the ruling class policy, as indicated above, but he sees the present phase as a continuation of the period following the militancy of the 1960s and 1970s. In arguing against that view, I have to explain not just the differences, and the need for a new approach, but its likely success or failure.

There are only a limited number of options for the ruling class at any particular period, and when they are exhausted it can only fall back on pristine capitalism, or its essence. Here the problem is that it is impossible to return to the past in historical terms, and any attempt to re-establish the core nature of capitalism is doomed. It is not possible to have a genuine competitive framework with a large number of firms

⁶ Ibid.

too small to influence the price. Whatever the number of small firms in an industry, the large firms necessarily dominate, both nationally and globally. The role of finance capital has been diminished but it is not abolished, and no government can do so without tackling the vast disparities in income such that the rich need financial institutions to maintain their wealth. Abstract labour itself is less than it was, and that is in the nature of modern work. It is not possible to control workers in the same way. Increasingly sophisticated work, the shift to white collar as opposed to blue collar work and the resistance of workers make it difficult to impose old style controls, without negative consequences like high turnover, strikes and atomized go-slows. While increased surveillance can increase output for a time, the stress and tension involved ultimately degrade the work atmosphere and lead to forms of resistance, which can threaten the firm itself. The return to 19th century commodity fetishism, with the atomized worker selling labour power, is impossible, but it would be the only way in which abstract labour could be re-enforced, even if partially, given the absence of other conditions. There is a series of ways derivative of the decline of the operation of the law of value, which reflect the decline of the conditions of abstract labour, but the detailed discussion of that issue is another article, on the nature of a declining capitalism.⁷ The essential point here is that the increasing socialization of production both limits abstract labour and makes a return to commodity fetishism partial, at the very most.

There is an underlying battle between governments and agencies of the bourgeoisie on the one hand and the demands of the economy and of the working class on the other. On the one hand, there is austerity, privatization, large-scale, long-term unemployment and commodity fetishism. On the other hand, objectively, there is a series of needs-based sectors requiring direct administration without the intervention of money in order to function efficiently, particularly education and health but also mass working class housing and the provision of utilities. In effect, there is a battle of the forces of value against the non-value needs of mankind, or more crudely between value and use-value. Furthermore, the subjective forces of the working class, however disorganized, cannot in fact be defeated in their defence of their immediate interests, given the real nature of the economy, some way down in its decline, and the transitional process away from capitalism.

The Ultimate Necessity of a New Political and Economic Utopian Strategy

The upshot of this argument is that the ruling class has used imperialism, war, Stalinism and the welfare state with social democracy and finally finance capital a second time and has no more alternatives other than the utopian solution of classical capitalism. It is irrational since they cannot succeed other than in a highly distorted form that will ultimately defeat their object. In this process, it is hard to see how they can fail to provide the basis for building an opposition, gaining strength as the crisis

⁷ Hillel Ticktin, 'Decline as a Concept and its Consequences', *Critique*, 39 (August 2006), pp. 145–162.

intensifies. This is not 'neo-liberalism' because it recognizes the latter's failure and goes much further, speeding up the proletarianization of the skilled white collar worker, reducing the middle class professions to the status of the latter, abolishing much if not all of welfare provision and subsidization of needs-based sectors, and attempting to get workers to accept their inferior place in society. This is the real meaning of the slogan of 'getting the government off people's back' or the reference in the UK to a 'nanny state'.

It is important to see that the ruling class does not see this as a choice, but as a necessity, if they are to preserve civilization as they understand it. No other strategy is possible, other than a negotiated surrender in which the rich accept their fate, by paying increasingly high taxes and death duties, with a shift to an industry based on need and ultimately the abolition of the market itself.

Radice is effectively arguing that the apparently social democratic/Keynesian solution to the crisis is compelling the ruling class to provide their alternative.⁸ It is true that government subsidies and bank rescues plus the provision of money for infrastructure are a social democratic alternative, but the implementation has been very limited, except in China. In itself, it does not constitute a threat to the system unless the ruling class is afraid of something worse. The government response and role in the economy is an integral part of any crisis and, even if some left economists have not understood that, the ruling class has. Their fear is not just 'economic'.

It is also political. They realize that the political economic crisis of the system is precipitating a political crisis, which has been slowly maturing. Furthermore, the contemporary ruling class is not what it was. The sections that remember the Depression, Fascism and the War have been replaced by finance capital, or new-style managers, who are placed there by finance capital. They have less understanding of the system, but given their unproductive nature, they are contemptuous of opposition and political compromise. The old parliamentary or republican structure, relating to the ruling class, has cracked. Politicians' promises which are turned into their opposites once in power, under the statement that 'tough choices have to be made', make a mockery of democracy. Politicians whose only aim is to secure a comfortable career irrespective of their political economic programmes are anything but attractive. A system where the two/three main parties agree on all fundamentals is no choice at all, particularly when the alternatives are never explored either in the media or in educational institutions. The retreat from support for 'bourgeois democracy' is shown in the high levels of abstention in voting. Even when voting, interest in the process is relatively low. The only real opposition is shown in demonstrations, which have reached considerable sizes, and in spontaneous riots, particularly by disadvantaged sections of the population. The continual demonstrations in Greece may be a world record for semi-permanent street opposition. The logical result of the crisis continuing over a long period of time is either disintegration or revolution.

⁸ Ibid.

Part 2: The Current Crisis as an Illustration of the thesis above

In what follows, I will illustrate the above argument both by discussing the on-going crisis and by pointing out how the ruling class is rejecting possible alternatives and their reasons. From the time that the orthodox economists and the media declared an end to the crisis, a new crisis in government finances was declared, so intensifying the actual crisis. This continues to be true of most developed countries, but is particularly so of the so called ‘piigs’—a series of European countries running through Greece, Ireland, Portugal, Spain and Italy. In the case, of the latter countries, the immediate problem is largely external, in that ‘foreign investors’ are worried about getting their money back, and consequently not providing the necessary money in exchange for government bonds. In the other countries, like the UK or United States, the borrowing for governmental finances is largely, though not entirely, internal. There would be nothing to stop the central bank issuing more money to finance the government, other than the fear of inflation, if there were not other considerations at work. As these countries’ industries are working below capacity and wages are contained, at least for a time, the fear of inflation is limited, at least for a period. In all cases, the official line is that the markets will not provide the necessary finance. Since Eurozone countries are not able to issue their own currency or set their own interest rates, they are rendered prisoners of the bond buyers.

What makes this scenario particularly difficult is that the German government is the decisive element in setting the conditions for Eurozone loans, while the German banks and other financial institutions are the main creditors of the countries involved. They are not the only creditors but they are usually the major, though not majority, creditor. The result is that the German government is setting the conditions to avoid a default by the borrower countries on the loans provided by German finance capital. In turn, there is an increasing realization that a partial default may be the only option. The actual source of supply of the German loans is quite complicated but the *Economist* has unravelled its nature.⁹ Although the total sum owed to banks and other institutions by governments is limited to 27 billion euros, and then mainly to the smaller banks, the Landesbanken, sovereign default could lead to native bank and corporate defaults. ‘German banks are owed twice as much by banks in the three bailed countries as they are by governments. Once corporate loans and other exposures are included, Germany’s vulnerability is clear: its banks are owed some 230 billion euros.’¹⁰ If Spain were to default, the figure would increase by another 75 per cent. As a result, the *Economist* concludes that the ‘rescuers need not be quite so sanctimonious’. Their investments in bailing out these countries, ‘look like excellent value.’¹¹ Clearly the result could be disastrous, and not for Germany alone. British interests are almost as large.

⁹ ‘Follow the Money’, *The Economist*, 16 April 2011, p. 80.

¹⁰ *Ibid.*

¹¹ *Ibid.*

As a result it would seem that, when Mario Soares, the former prime minister of Portugal, bitterly attacked Angela Merkel and through her the German government and bourgeoisie, he was expressing a viewpoint that is deeply held over much of Europe.¹² The threat to the Eurozone and the European project is clear. The same article indicates that the right to default on debts is now openly being discussed, if not demanded.¹³ Some people have long argued that the bailouts are not to save governments so much as to support the banks and other financial institutions in Europe. Already the far left has a definite presence in the parliamentary institutions of Ireland and Portugal and we may anticipate that its strength will grow, and with it a rejection of the terms of the loans. The refusal by the Icelandic government to pay the debts of its banks is a harbinger of what is to come.

The Eurozone remains in an apparently never-ending crisis, and the UK, outside the Eurozone, the former global imperial power, remains locked in a political and economic impasse. In a recent article, Wolfgang Munchau, who has consistently argued that the Eurozone authorities are ignoring reality, argues that Spain will certainly follow the path taken by Greece, Ireland and Portugal.¹⁴ When the defaults do occur the German government will be faced with the problem of dealing with the bankruptcy of its own banks and adding to its own national debt. It will effectively have to eat its own words. If the government allows depositors and bondholders to lose their money, let alone shareholders, the reverberations will be considerable.

The paradox that German capitalism has been rescued in the first instance by a country with *de facto* nationalized property, able to flood its economy with money and instruct firms to build the infrastructure, is important. Furthermore, it is impossible to ignore the impact of East German workers in West Germany, not to speak of the role of the low wages of the Eastern European workers, and not realize that the effects are limited in time. In other words, the German miracle is an offshoot of the end of Stalinism itself, or at least its disintegration. However, there is a limit to Chinese demand, as well as to the patience of the German working class.

The switch in control of the EU and Eurozone from social democracy to conservatism has altered the form in which the ruling class rules, bringing it into step with the US Republican line on the need for substantial cuts, both in the budget and in the national debt. The paradox is that the two countries that are nominally the wealthiest and apparently growing the fastest, the United States and Germany, are

¹² 'Nowadays all [EU member states] are more or less dominated by Germany and Chancellor Merkel who has forgotten what Germany owes to the European Community and now considers herself as the owner of Europe—supported by her helpful ally, President Sarkozy'. Ian Traynor: 'Portugal Bailout Terms must be Strict, EU Finance Ministers Warn', *Guardian*, 9 April 2011, p. 38; <http://www.guardian.co.uk/business/2011/apr/08/portugal-bailout-terms-must-be-strict-eu-finance-ministers> (accessed 10 April 2011).

¹³ 'After a decade of stagnation in western Europe's poorest country, the tough terms being pressed on Portugal look certain to prolong the agony and will spur mounting demands that the most vulnerable members of the Eurozone should be allowed to default on or restructure their debts, with investors for once being included among the losers from a rescheduling.' *Ibid.*

¹⁴ Wolfgang Munchau, 'Complacent Europe must realise Spain will be next', *Financial Times*, 11 April 2011, http://www.ft.com/cms/s/0/dc2955ea-63ab-11e0-bd7f-00144feab49a,dwp_uuid=79cadde4-5c1b-11df-95f9-00144feab49a.html#axzz1JGBUuNfl (accessed 11 April 2011).

calling for cuts in their and their partners' budgets, even though the effect on their own populations and those of their partners could be drastic.

Even more paradoxical, looked at from afar, sections of the population of the United States seem to be facing a far greater drop in income than most. One conservative commentator pointed to the very high levels of unemployed and underemployed as well as the real dependence of 14 per cent of the population on government hand-outs.¹⁵ In fact, his figures are the official unemployment ones, which always underestimate real unemployment, requiring possible doubling to get at the truth. The question, therefore, for those critical of capitalism is twofold. First, what are they trying to achieve, not just superficially, but in real underlying terms, and secondly why are they so desperate to achieve this objective? The word 'desperate' appears to be appropriate because these measures are directly contrary to what politicians need to be elected, and indeed to what is needed to avoid criticism of the capitalist system itself. Furthermore, the actual form and nature of the economic and political changes appear to lack subtlety and apply almost indiscriminately across the spectrum of the population below the so-called 'high net worth' individuals. When the Labour Party in the UK, in its pusillanimous opposition to the cuts, calls for less deep cuts spread over a longer period of time, they are expressing the intelligent approach to enforcing ruling class measures. Divide the population by supporting sections of the population and not others, and introduce the measures in a superficially balanced way, by protecting pensioners, the young, single families, and so on.

As indicated, the argument given is that the markets will not continue to buy government bonds. The statements of Bill Gross the chief executive of Pimco, the biggest bond trader in the world and controlling over US\$1.2 trillion value of bonds, have been wheeled out. He initially called British government bonds into question in January 2010,¹⁶ but then approved of the Conservative government measures.¹⁷ He

¹⁵ 'While the market cheered the recent rise in non-farm payrolls, the greater state of America is far from "recovery". There are still 24.4 million under-employed Americans (15.7 per cent of the workforce), including 13.5 million unemployed (8.8 per cent of the labour force) and another 10.9 million under-employed. The average duration of unemployment is running at a record 39 weeks, while 6.1 million Americans or 45 per cent of the total unemployed have been unemployed for 27 weeks for more. In the words of CLSA analyst Christopher Wood in his bulletin Greed & Fear last week: "In this respect, it continues to be both scary and politically relevant that government data shows that 44.2 million Americans and 20.7 million American households are now living on food stamps, accounting for 14 per cent of the total US population.'" Bill Jamieson, 'Why Biggest Debt Crisis Might be Yet to Come', *The Scotsman*, 11 April 2011, <http://news.scotsman.com/billjamieson/Bill-Jamieson-Why-biggest-debt.6749465.jp> (accessed 12 April 2011).

¹⁶ <http://ftalphaville.ft.com/blog/2010/01/26/134706/uk-gilts-resting-on-a-bed-of-nitroglycerine/> (accessed 18 April 2011). He said that UK gilts rested on a bed of nitroglycerine on 26 January 2011.

¹⁷ Mike Foster and Phil Craig, 'Pimco Reverses "Nitroglycerine" Stance on Gilts', 4 June 2010. 'Bill Gross, co-chief investment officer at Pimco, has become positive on prospects for UK government bonds—just months after declaring that "UK gilts rest on a bed of nitroglycerine". At least, for now'; <http://www.efinancialnews.com/story/2010-06-04/pimco-reverses-nitroglycerine-stance> (accessed 18 April 2011).

seems to be playing a similar role in relation to the US government.¹⁸ As he is a US liberal, and makes that clear in his reports, one might conclude that he is only looking at things financially or technically. That does not mean that the issue ends with him, as it were. However, his statements and his action in selling all US government debt seem to have helped precipitate the downgrading of US government debt. It is hard to believe that the whole argument is free of any political meaning. Bill Gross has declared that US government debt is US\$75 trillion, but he has to add social security, Medicare and Medicaid¹⁹ to that total and one wonders what would happen if there were similar additions to UK, French or German debt.

The stock response is to talk of the need for growth in providing the necessary taxes. Those on the left bring out the point that tax cuts ought to be reversed and the rich taxed more highly. The usual reply is that the rich will find ways of avoiding or evading tax, so that the net effect of raising taxes can be negative. What has not been sufficiently discussed is that the buyers of government bonds in the United States and the UK (largely citizens of the country involved) could be made to buy the bonds either through enticement by guaranteeing them against default, or by a compulsory levy on insurance and pension funds as well as on the rich. Stock arguments against such measures talk of squeezing out private enterprise and a revolt of the rich by leaving the country or taking other actions. There is some truth in these statements by the right, in that capitalism is an integral system and messing with parts of it does unbalance it. Government measures to expand or contract the supply of money and over the taxation or subsidization of companies, institutions and individuals alter the operation of the economy, requiring the government to take further steps to deal with the consequences, whether they are inflation/deflation, the redistribution of incomes or lack of control over the workforce. In short, the reduction in the role of commodity fetishism and the reserve army of labour threatens capitalism, even if not always in the short-term. In that sense, Bill Gross knows what he is talking about.

In other words, the issue is not as simple as the mealy-mouthed opposition in the UK parliament or in the US House of Representatives implies. The logic of the alternative is one that forces a shift to social democracy as in its incarnation after the Second World War, in which there is an emphasis on infrastructure, government housing and welfare benefits, with controls over the distribution of income, through taxation. That ensures both growth and more support from the majority. That in

¹⁸ <http://media.pimco.com/Documents/IO%20April%202011%20FINAL.pdf> (accessed 18 April 2011). Bill Gross in this speech, in April 2011, makes it clear that he thinks the government has to cut 'entitlements', which constitute 44 per cent of the total US budget. He declares that Pimco has sold its holding of US government debt, because he says that the government is bound to default, even if indirectly through such measures as inflation.

¹⁹ 'The U.S. has unrecorded debt of \$75 trillion, or close to 500 percent of gross domestic product, counting what it owes on its bonds plus obligations for Social Security, Medicare and Medicaid, Gross wrote in his monthly investment outlook. The U.S. will experience inflation, currency devaluation and low-to-negative interest rates after accounting for consumer-price gains if it doesn't reform its entitlement programs, he said.' Bloomberg Anywhere: <http://www.bloomberg.com/news/2011-03-31/bill-gross-says-u-s-debt-has-little-value-echoes-buffett-3-.html> (accessed 18 April 2011).

turn ultimately turned out to be unstable, as demonstrated in the 1960s and 1970s, so modern capitalism or the ruling class cannot accept that road, as we have argued above. In principle, the objective of returning to the status quo ante 2007 can be achieved by simply printing the money needed to finance the infrastructure, educational, health and welfare measures, as long as there is excess capacity in the economy. Inflation will then be limited.

One problem with all this is that the discussion is taking place at a very primitive level, whatever the complexity of the mathematics often used by orthodox economists. Indeed it is probably a rule that the more sophisticated the mathematics the more simplistic is the argument.

The first viewpoint is common among bourgeois economists and indeed to be expected. If one defines crisis in terms of negative GDP growth over two quarters, as they do, then their argument is not difficult to understand, but it is superficial and irrelevant. It is clear that the present crisis is global in a way that no other has been since the war and it is deeper and more profound for the United States, the anchor of world capital, than any since the great depression. If we define crisis in the way Marx did, then the approach is quite different. It is hard to look at the upturns and downturns of the post-War years up to March 2000 in the same way. By comparison they were relatively light in their impact, and normally limited to a part of the world. The US downturns were not always synchronized with those of Europe. The levels of unemployment were relatively low and peaks short lasting, until the advent of finance capital. Whatever Marxist optimists might have dreamed of, capitalism appeared intact.

In that period, the idea that capitalism was flexible became popular, particularly among sociologists and social democrats. They argued that capitalism could adjust its own mechanisms and assuage the discontent of the working class, while evolving a middle class, whose interests were aligned with those of capital. Those who used the concept of flexible capitalism did not look very closely at the political economy of capitalism. Instead they relied on the superficial insights of academic sociologists who spoke of consumerism, the psychology of happiness, the culture of shopping and the importance of a mass culture. To be fair they also discussed the atomization and individuation involved in the mass culture and these insights were added to with emphasis on the divisions in the population based on varieties of prejudice. Generally, the discipline accepted the precepts of social democracy, based on Bernstein and the Fabians, that the standard of living was rising and the middle class was expanding, playing an important balancing role. In the recent period, of course, capitalism has evolved in the opposite direction with the rich getting richer and the poor poorer. The polarity between the bourgeoisie and the proletariat has widened, but this has not led to any explanation for the emergence of reformism and its ultimate failure.

For Marxists the same question can be put in the form of an explanation of why capitalism survives today, almost 100 years since it was overthrown in the USSR. We can note that Piatakov foresaw the abyss into which the world had been thrown by

the defeat of that revolution by Stalinism. In 1927 Natalya Trotsky, waiting for her husband to return from a Politburo meeting, noted that 'Piatakov was pessimistic. He believed that a long period of reaction had started in Russia and the rest of the world, that the working class had come to the end of its tether, that the party had been throttled and that the Opposition had lost the battle.'²⁰ Trotsky was more optimistic but proved to be wrong. The idea that the world had been thrown back by the defeat of the Revolution in the form of Stalinism, was, of course, recognized by Western politicians and became the crucial form by which capitalism was able to survive. Consciously or unconsciously, it became the chief strategy of the bourgeoisie for the last century. That only provides part of the explanation.

The opposite concept used today is that of terminal capitalism. The category has the advantage that it points to a reality in which capital is at an impasse, which would appear to be the case. The problem with any such viewpoint, however, is that it requires arguing that there is a technical mechanism underlying capitalism, whose life is finished. This is a dubious viewpoint. There is no obvious reason why capitalism should not go on innovating and raising productivity until it is overthrown. It can be argued that ultimately machines will be making machines and no one will be involved in production and hence there will be no value produced. Since it is the law of value that governs capitalism, this implies that capitalism would be coming to an end. Clearly we are not yet at this point, although signs of its effects are already here. Even then, capitalism will not cease to exist until it is consciously overthrown by the working class, by the majority of the society. No technical change or absence of technical change will overthrow the society in itself. It requires that the social relations so evolve and the political consciousness with it to the point where the old society cannot survive and has to be removed in order to make way for the new.

Alternatively, it can be argued that capitalism is in decline and that the decline has reached a point where capitalism is bound to be overthrown. A socio-economic system is in decline when its mediations become increasingly difficult to find and operate. In the second place, it is a society in which the gap between what could be produced under socialism and what is produced under capitalism is growing. This concerns both the quality and quantity of product. In other words, the potential use values of socialism are superior to those under capitalism, quite apart from the quantity of goods and services. In the third place, the society is in decline when its form, its value in capitalism, increasingly malfunctions and is steadily replaced. All three conditions apply today, but decline can take a long time, and disintegration of the system and the society may be an alternative, at least for a period.

²⁰ Victor Serge and Natalya Sedova Trotsky, *The Life and Death of Leon Trotsky* (London: Wildwood House, 1973), p. 149.